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CORPORATE GOVERNANCE MECHANISMS AND FINANCIAL REPORTING QUALITY: THE ROLE OF AUDIT COMMITTEE MEETINGS AND INSTITUTIONAL OWNERSHIP IN INDONESIAN BANKS

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Abstract
This study aims to analyze the effect of audit committee meeting frequency and institutional ownership on earnings management in banking sector companies listed on the Indonesia Stock Exchange during the 2020–2024 period. This study employs a quantitative approach using secondary data obtained from the companies' annual reports and financial statements. The sample was determined using a purposive sampling technique, resulting in 16 companies with a total of 80 observations. Data analysis was conducted using panel data regression. The control variables used in this study were firm size, leverage, and profitability. The results indicate that institutional ownership has a significant negative effect on discretionary accruals, while profitability has a significant positive effect on discretionary accruals. Meanwhile, audit committee meeting frequency, firm size, and leverage have negative but statistically insignificant effects. Simultaneously, all independent variables significantly affect discretionary accruals. These findings suggest that corporate governance mechanisms, particularly institutional ownership, play a role in influencing earnings management practices in banking companies.

Keywords: Audit Committee Meeting Frequency, Institutional Ownership, Earnings Management, Discretionary Accruals, Corporate Governance.

1. Introduction

Financial reporting quality reflects the extent to which accounting information presented by a company is able to represent economic conditions in a relevant, reliable, and unbiased manner. High-quality financial reporting is characterized by information transparency, integrity in presentation, and compliance with applicable accounting principles, thereby enabling the financial statements to fairly represent the company's financial condition. From a corporate governance perspective, financial reporting quality serves a strategic function in reducing information asymmetry between management and investors while enhancing corporate accountability systems (Oktaviana & Paramitha, 2021). High-quality financial information also enhances corporate credibility and supports market efficiency by increasing investor confidence in published reports (Nellwan & Tansuria, 2019).

Financial reporting quality has become a strategic issue because financial statements function as the primary communication medium between management and shareholders. Transparent financial reporting plays an important role in reducing information asymmetry and strengthening investor confidence in the company. Within the framework of corporate governance, the effectiveness of oversight by the board of commissioners and audit committee is considered a prerequisite for minimizing earnings management

practices and maintaining the quality of financial information (Oktaviana & Paramitha, 2021).

The phenomenon of low financial reporting quality remains a serious issue in business practices and capital markets. In 2024, the Audit Board of the Republic of Indonesia (BPK) revealed indications of irregularities in the financial management of PT Indofarma Tbk and its subsidiaries, with potential state losses amounting to IDR 371.83 billion based on an investigative audit of financial statements for the 2020–2023 period (Audit Board of the Republic of Indonesia, 2024). Previously, the Wirecard AG scandal in 2020 revealed fictitious cash balances amounting to €1.9 billion, which ultimately led to the company's bankruptcy (Integrity Indonesia, 2025). In Indonesia, financial statement manipulation was also identified in PT Tiga Pilar Sejahtera Food Tbk (AISA) through the overstatement of receivables, inventories, and revenue recognition without adequate economic substance (Janah et al., 2025). These cases demonstrate that material misstatements and earnings management practices directly reduce financial reporting quality and undermine investor confidence.

Previous studies indicate that financial reporting quality is influenced by corporate governance mechanisms. The composition of the board of commissioners, the existence of an audit committee, and ownership structure are core elements of governance mechanisms that function to reduce incentives and opportunities for earnings management. Changes in these aspects may affect the effectiveness of corporate monitoring and determine the quality of financial information disclosed to the public (Oktaviana & Paramitha, 2021; Nellwan & Tansuria, 2019). At the international level, audit committee characteristics and audit quality have been proven to significantly influence earnings management practices (Amara et al., 2025; Nellwan & Tansuria, 2019). Based on the studies of Ali et al. (2024) and Azi and Akbar (2025), institutional ownership may influence earnings quality through more effective monitoring mechanisms.

The audit committee is an internal oversight mechanism responsible for supervising the financial reporting process and internal control systems (Ali et al., 2024; Azi & Akbar, 2025). The seriousness and intensity of oversight over management policies and decisions can be measured through the frequency of audit committee meetings (Anggraini et al., 2025). The higher the level of audit committee activity, the greater its ability to detect and limit earnings management practices, thereby contributing to improved credibility and quality of corporate financial reporting (Amara et al., 2025; Nellwan & Tansuria, 2019; Oktaviana & Paramitha, 2021).

Institutional ownership refers to the proportion of shares owned by financial institutions and professional investors. Institutional investors are considered to possess stronger monitoring capabilities than individual investors due to their greater resources, experience, and access to information (Maharani & Utami, 2019). Consistent with this argument, various empirical findings indicate that a higher proportion of institutional ownership is associated with lower discretionary accruals and improved financial reporting quality (Ali et al., 2024; Azi & Akbar, 2025).

Although conceptually audit committees and institutional ownership are considered mechanisms that may improve financial reporting quality, empirical evidence suggests that their effects remain inconsistent (Maharani & Utami, 2019). Differences in industrial context and corporate characteristics have created research gaps that require further examination, particularly in the banking sector, which operates under strict regulations

(Amara et al., 2025; Ali et al., 2024). Although governance mechanisms are believed to improve financial reporting quality, the effectiveness of each mechanism still shows mixed results across empirical studies.

Various studies reveal that audit committees contribute to improving financial reporting quality through their oversight function over management. Nellwan and Tansuria (2019) found that audit committee characteristics significantly reduce earnings management practices. These findings are supported by Amara et al. (2025), who demonstrated that audit committee effectiveness is closely associated with lower levels of earnings management. Audit committees influence the reliability of financial statements used as indicators of reporting quality. Conceptually, these findings are consistent with agency theory, which positions the audit committee as a control instrument to reduce conflicts of interest between management and company owners. However, existing empirical evidence has not shown full consistency. Nellwan and Tansuria (2019) found that meeting frequency does not always have a significant effect on discretionary accruals. Oktaviana and Paramitha (2021) also indicated that the existence of an audit committee does not automatically improve the integrity of financial statements when member competence and independence are inadequate. Furthermore, Amara et al. (2025) proved that the influence of various audit committee characteristics on earnings management is not always consistent. These inconsistent empirical findings indicate that audit committee meeting frequency, as a proxy for monitoring activity, still faces empirical challenges. Meetings may merely reflect formal intensity rather than actual effectiveness in limiting accrual manipulation practices. Therefore, the relationship between audit committee meeting frequency and financial reporting quality remains a topic requiring deeper academic exploration.

From the perspective of agency theory, institutional ownership is considered a monitoring mechanism capable of limiting opportunistic managerial behavior. Ali et al. (2024) found that institutional ownership is positively associated with improved earnings quality and negatively associated with discretionary accruals. Orbawan (2023) also revealed that institutional ownership negatively affects earnings management practices. In addition, Oktaviana and Paramitha (2021) demonstrated that ownership structure contributes to maintaining the integrity of financial statements. Nevertheless, empirical evidence shows inconsistency. Ali et al. (2024) found that the impact of institutional ownership is situational and depends on firm characteristics and existing ownership structures. Orbawan (2023) also revealed that the significance of institutional ownership is inconsistent across testing models. Several studies indicate that institutional investors may behave passively and do not always actively monitor financial reporting practices. This inconsistency demonstrates that institutional ownership does not automatically guarantee improved financial reporting quality, especially in the absence of adequate governance mechanisms.

Although numerous studies have examined the influence of audit committees and institutional ownership on financial reporting quality, the results remain inconsistent both nationally and internationally. In addition, most previous studies were conducted in the manufacturing sector or used periods prior to the pandemic, thereby failing to fully represent the characteristics of the banking sector, which operates under strict regulations and faces post-pandemic economic pressures. Research simultaneously examining the influence of audit committee meeting frequency and institutional ownership on financial reporting quality in banking companies listed on the Indonesia Stock Exchange during

2020–2024 remains limited. Therefore, this study is relevant in providing more contextual empirical evidence and addressing inconsistencies in previous findings within a sector characterized by more complex regulatory and risk conditions.

The banking sector was selected because it plays a strategic role in the national economy and operates under strict regulatory supervision. Public trust in the banking industry is highly dependent on the transparency and integrity of financial reporting (Financial Services Authority, 2024). In addition, previous studies indicate that governance mechanisms have significant implications in highly regulated sectors such as banking (Ali et al., 2024; Amara et al., 2025).

Theoretically, this study contributes to enriching the literature regarding the effectiveness of corporate governance mechanisms on financial reporting quality in the banking sector and extends empirical evidence concerning inconsistencies in previous findings (Ali et al., 2024; Amara et al., 2025; Azi & Akbar, 2025). Practically, the findings of this study are expected to serve as a consideration for regulators and banking management in designing more effective monitoring mechanisms to maintain the integrity and transparency of financial reporting (Oktaviana & Paramitha, 2021).

2. Theoretical Background

2.1 Agency Theory

Agency theory proposed by Michael C. Jensen and William H. Meckling (1976) explains the contractual relationship between principals (shareholders) and agents (management), in which company owners delegate managerial authority to management. This relationship may create conflicts of interest due to differences in objectives between shareholders and management, as well as the existence of information asymmetry. Management, as the party possessing broader access to information than shareholders, may behave opportunistically, including through the manipulation of accounting policies that can reduce the quality of financial reporting. In the context of financial reporting, agency conflicts are often reflected in earnings management practices, namely managerial actions in regulating accounting policies to achieve certain objectives. When corporate monitoring mechanisms do not function effectively, management has greater opportunities to manipulate financial information, causing financial statements to no longer fully reflect the company's actual economic condition and ultimately reducing the integrity and credibility of financial information for investors and stakeholders (Ali et al., 2024; Amara et al., 2025; Oktaviana & Paramitha, 2021; Nellwan & Tansuria, 2019; Orbawan, 2023).

Agency theory emphasizes the importance of implementing corporate governance mechanisms to minimize conflicts of interest, reduce agency costs, and enhance the effectiveness of managerial oversight (Jensen & Meckling, 1976; Sadjiarto et al., 2019; International Finance Corporation & Financial Services Authority, 2018). One of the internal monitoring mechanisms is the audit committee, which is responsible for overseeing the financial reporting process, ensuring compliance with accounting standards, and improving the effectiveness of internal control systems. The existence of an effective audit committee may help reduce earnings management practices and improve the quality of corporate financial information (Amara et al., 2025; Oktaviana & Paramitha, 2021; Imelda et al., 2025). In addition, institutional ownership also serves as an external monitoring mechanism because institutional investors generally possess greater resources, experience, and economic incentives to monitor managerial actions

compared to individual investors (Trinh et al., 2022; Sadjiarto et al., 2019). Therefore, the more effective the monitoring mechanisms over management, the lower the opportunity for accounting manipulation or earnings management practices, thereby improving the company's financial reporting quality (Ali et al., 2024; Amara et al., 2025; Oktaviana & Paramitha, 2021; Imelda et al., 2025).

2.2 Financial Reporting Quality

Financial reporting quality reflects the extent to which financial statements are able to present information that is relevant, reliable, transparent, and free from managerial bias, thereby fairly representing the company's economic condition and serving as an appropriate basis for economic decision-making by investors and stakeholders (Oktaviana & Paramitha, 2021; Ali et al., 2024; Amara et al., 2025; Awolola & Yahaya, 2024). High-quality information enables investors and stakeholders to make accurate economic decisions because it is based on transparent and non-misleading data. In accounting literature, financial reporting quality is often associated with the level of integrity and transparency of information presented in financial statements (Oktaviana & Paramitha, 2021; Ali et al., 2024; Amara et al., 2025). Conceptually, financial reporting quality possesses several main characteristics, namely relevance, reliability, and comparability. Relevance indicates that information has predictive and confirmatory value for users, reliability means that information is free from material misstatement and can be verified, while comparability allows users to compare company performance across periods and among companies (Nellwan & Tansuria, 2019; Ali et al., 2024; Orbawan, 2023).

Financial reporting quality is influenced by various factors, particularly corporate governance mechanisms that play a role in monitoring managerial actions. Monitoring structures such as audit committees and institutional ownership may limit earnings management practices and reduce information asymmetry between management and shareholders. In addition, internal corporate factors such as firm size, leverage, and profitability also influence managerial incentives in preparing financial statements. In empirical research, financial reporting quality is often proxied by discretionary accruals (DA), which reflect the accrual component influenced by managerial policies. Such accrual manipulation practices are generally associated with earnings management, namely managerial actions intended to influence financial statements in order to achieve certain objectives (Healy & Wahlen, 1999). High earnings quality indicates lower discretionary accruals and lower earnings management practices, meaning that earnings information more accurately reflects the company's actual economic condition (Awolola & Yahaya, 2024; Sadjiarto et al., 2019; Apridasari, 2022; Pratiwi, 2023). The measurement of discretionary accruals in this study employs the Modified Jones Model developed by Patricia Dechow, Richard Sloan, and Amy Sweeney (1995). Financial reporting quality is considered higher when discretionary accruals are relatively low, as this indicates minimal earnings manipulation practices (Ali et al., 2024; Amara et al., 2025; Nellwan & Tansuria, 2019). The integrity of financial statements is particularly important in the banking sector, which is highly dependent on public trust and financial information transparency (Rahman, 2024).

2.3 Audit Committee

The audit committee is part of the corporate governance mechanism responsible for assisting the board of commissioners in carrying out oversight functions related to the

financial reporting process, internal control systems, and the implementation of internal and external audits. The existence of the audit committee aims to ensure that financial statements are prepared in accordance with applicable accounting standards and are free from material misstatements. From the perspective of agency theory, the audit committee functions as an internal monitoring mechanism that can reduce conflicts of interest between management and shareholders and limit earnings management practices that may reduce financial reporting quality (Oktaviana & Paramitha, 2021; Nellwan & Tansuria, 2019; Amara et al., 2025). An effective audit committee is also capable of improving oversight quality over financial reporting processes, internal controls, and audit activities, thereby reducing the risk of financial statement manipulation through strengthening internal audit functions and monitoring mechanisms over management (Alzoubi, 2019; Awolola & Yahaya, 2024; Nguyen, 2022).

Conceptually, the effectiveness of the audit committee is influenced by several characteristics, such as member independence, expertise in accounting and finance, committee size, and monitoring activities conducted by the audit committee. These characteristics reflect the ability of the audit committee to perform monitoring functions over managerial policies and the financial reporting process. The activeness of the audit committee through adequate meeting intensity reflects the effectiveness of monitoring functions over financial reporting processes and corporate internal control systems. In addition, the accounting expertise of audit committee members plays an important role in detecting earnings management practices and ensuring that financial statements are prepared in accordance with applicable accounting standards (Anggraini et al., 2025; Imelda et al., 2025; Permatalia & Haryono, 2022; Yamin & Aryati, 2024). Empirical studies indicate that effective audit committees are associated with lower earnings management practices and higher financial reporting quality because stronger oversight can limit managerial intervention in financial information presentation and improve the effectiveness of corporate governance (Klein, 2002; Nellwan & Tansuria, 2019; Amara et al., 2025; Oktaviana & Paramitha, 2021; Pratiwi, 2023; Balagobei & Keerthana, 2024; Nguyen, 2022).

2.4 Institutional Ownership

Institutional ownership refers to the proportion of company shares owned by institutions such as investment companies, pension funds, banks, insurance companies, and other financial institutions. Institutional investors generally possess greater resources, analytical capacity, and access to information compared to individual investors, enabling them to perform stronger monitoring over management. From the perspective of agency theory, institutional ownership functions as an external monitoring mechanism that may reduce conflicts of interest between management and shareholders and limit opportunistic managerial behavior in the financial reporting process. Through this monitoring function, institutional investors may exert pressure on management to present transparent and accountable financial statements so that the information disclosed more fairly reflects the company's economic condition (Ali et al., 2024; Orbawan, 2023; Oktaviana & Paramitha, 2021). Institutional ownership is also regarded as an effective corporate governance mechanism because institutional investors possess stronger incentives and monitoring capabilities regarding corporate managerial policies (Trinh et al., 2022).

Empirical studies indicate that higher levels of institutional ownership are associated with improved earnings quality and lower discretionary accruals, indicating better

financial reporting quality. Institutional investors tend to possess stronger monitoring capabilities, thereby limiting opportunistic managerial practices in preparing financial statements and improving corporate earnings quality (Riani et al., 2022; Ali et al., 2024; Sadjiarto et al., 2019). Higher institutional ownership may also improve financial reporting quality through strengthening internal controls and reducing managerial opportunistic behavior (Azi & Akbar, 2025). However, the effectiveness of institutional ownership may also depend on ownership characteristics themselves, such as ownership concentration and institutional involvement in corporate decision-making processes. Under certain conditions, institutional investors may behave passively and fail to actively monitor management. Nevertheless, the literature generally indicates that institutional ownership strengthens corporate governance mechanisms and improves the integrity and transparency of corporate financial statements (Ali et al., 2024; Azi & Akbar, 2025; Orbawan, 2023; Oktaviana & Paramitha, 2021).

2.5 Previous Studies

Studies concerning the influence of corporate governance mechanisms on financial reporting quality have been widely conducted both nationally and internationally. Ali et al. (2024) found that institutional ownership positively affects earnings quality, as indicated by lower discretionary accruals. These findings suggest that institutional investors are capable of performing monitoring functions over management, thereby reducing accounting manipulation practices and improving financial reporting quality. Trinh et al. (2022) also stated that institutional ownership contributes to improving reporting quality through reducing information asymmetry and increasing managerial monitoring effectiveness.

These findings are consistent with the study of Azi and Akbar (2025), which demonstrated that institutional ownership positively affects financial reporting quality. The study explained that institutional investors possess stronger analytical capacity and resources to monitor managerial policies, thereby encouraging more transparent and accountable financial reporting. Furthermore, Sadjiarto et al. (2019) found that ownership structure, particularly institutional ownership, is associated with earnings management practices in Indonesian banking companies.

In the context of corporate governance mechanisms in general, Biao Xie et al. (2003) found that boards of commissioners and audit committees play important roles in limiting earnings management practices through enhancing managerial oversight functions. Consistent with these findings, Amara et al. (2025) found that audit committee characteristics and effectiveness affect the reduction of earnings management practices. Lower earnings management reflects improved financial reporting quality because the resulting financial statements more fairly represent the company's economic condition. These findings indicate that the audit committee plays an important role in improving financial reporting quality through monitoring functions over the financial reporting process. Awolola and Yahaya (2024) also demonstrated that audit committee effectiveness positively affects corporate earnings quality.

These findings are further supported by Nellwan and Tansuria (2019), who found that audit committee characteristics are negatively associated with earnings management practices. This negative relationship indicates that the more effective the role of the audit committee in conducting oversight, the lower the level of earnings manipulation performed by management, thereby improving financial reporting quality. Yamin and

Aryati (2024) also demonstrated that audit committee meeting frequency contributes to reducing information asymmetry and improving the effectiveness of oversight over corporate financial reporting.

In addition, Oktaviana and Paramitha (2021) found that audit committee characteristics influence the integrity of financial statements. The integrity of financial statements reflects high financial reporting quality because the information presented is more reliable and free from manipulation. Orbawan (2023) also showed that institutional ownership negatively affects earnings management practices. The reduction in earnings management practices indicates that institutional investors are capable of improving financial reporting quality through strengthening managerial monitoring functions. Riani et al. (2022) also demonstrated that institutional ownership and audit committees affect corporate earnings management.

Based on these studies, it may be concluded that audit committees and institutional ownership play important roles in improving financial reporting quality through strengthening monitoring mechanisms and limiting accounting manipulation practices. However, several previous studies still show inconsistent results; therefore, this study reexamines the influence of audit committees and institutional ownership on financial reporting quality in the banking sector.

2.6 Hypothesis Development

2.6.1 The Effect of Audit Committees on Financial Reporting Quality

From the perspective of agency theory, the audit committee functions as an internal monitoring mechanism intended to reduce conflicts of interest between management and shareholders. Such conflicts may arise when management has incentives to manipulate financial statements in order to achieve performance targets or certain interests. Under these conditions, the audit committee plays a role in ensuring that financial reporting processes are conducted in accordance with accounting standards and principles of transparency and accountability. Audit committee meeting frequency reflects the intensity of oversight over accounting policies and corporate internal control systems. The more frequently audit committee meetings are conducted, the greater the opportunity to detect and prevent financial statement manipulation practices that may reduce financial reporting quality (Amara et al., 2025; Nellwan & Tansuria, 2019; Oktaviana & Paramitha, 2021). The effectiveness of audit committees is also influenced by member independence, accounting and financial expertise, and monitoring activities performed by the committee (Nguyen, 2022; Awolola & Yahaya, 2024).

Empirically, several studies indicate that effective audit committee characteristics are associated with improved financial reporting quality. Amara et al. (2025) found that audit committee effectiveness significantly affects the reduction of earnings management practices, reflecting improved financial reporting quality. Nellwan and Tansuria (2019) also demonstrated that audit committee characteristics are capable of limiting earnings manipulation through strengthening managerial monitoring functions. In addition, Oktaviana and Paramitha (2021) found that the existence of an audit committee affects the integrity of corporate financial statements. Yamin and Aryati (2024) also showed that audit committee meeting frequency reduces information asymmetry through improving managerial oversight effectiveness, while Awolola and Yahaya (2024) found that audit committee effectiveness positively affects corporate earnings quality. Therefore, both theoretically and empirically, the more actively audit committees perform their

monitoring functions through adequate meeting intensity, the higher the quality of financial reporting produced by companies.

Based on the above arguments, the following hypothesis is formulated:

H_1: Audit committee meeting frequency has a positive effect on financial reporting quality.

2.6.2 The Effect of Institutional Ownership on Financial Reporting Quality

From the perspective of agency theory, institutional ownership is viewed as an external monitoring mechanism capable of reducing conflicts of interest between management and shareholders. Institutional investors generally possess greater resources, analytical capacity, and access to information compared to individual investors, enabling them to perform more effective monitoring over managerial policies. Higher institutional ownership may increase monitoring pressure on management to present transparent and accountable financial statements. Such oversight may limit accounting manipulation practices and improve the quality of information presented in corporate financial statements (Ali et al., 2024; Orbawan, 2023; Oktaviana & Paramitha, 2021). Institutional investors are also considered to possess stronger monitoring capabilities in reducing information asymmetry and limiting corporate earnings management practices (Trinh et al., 2022; Sadjiarto et al., 2019).

Several empirical studies support this relationship. Ali et al. (2024) found that institutional ownership is associated with improved earnings quality and lower discretionary accruals, reflecting better financial reporting quality. Azi and Akbar (2025) also demonstrated that institutional ownership strengthens internal control systems, thereby improving financial reporting transparency. In addition, Orbawan (2023) found that institutional ownership negatively affects earnings management practices, implicitly indicating improved financial reporting quality. Riani et al. (2022) also demonstrated that institutional ownership contributes to reducing corporate earnings management practices. Therefore, the higher the proportion of institutional ownership, the stronger the monitoring function over management, leading to improved corporate financial reporting quality.

Based on the above explanation, the following hypothesis is formulated:

H_2: Institutional ownership has a positive effect on financial reporting quality.

3. Methods

3.1 Research Desain

This study employs a quantitative approach with a causal research method to examine the effect of audit committees and institutional ownership on financial reporting quality. A quantitative approach is applied because this study analyzes numerical data processed using statistical analysis to test the formulated hypotheses (Sugiyono, 2019). This study utilizes secondary data obtained from companies' annual reports and financial statements accessed through the official website of the Indonesia Stock Exchange (https://www.idx.co.id).

The population of this study consists of all banking sector companies listed on the Indonesia Stock Exchange during the 2020–2024 period. The banking sector was selected because of its important role in the financial system and the high demand for transparency and financial reporting quality. The sampling technique employed in this study is purposive sampling, namely a sampling technique based on specific criteria adjusted to the research objectives. The sample criteria are as follows:

1) Banking sector companies listed on the Indonesia Stock Exchange during the 2020–2024 period.
2) Companies that published complete annual reports and financial statements during the research period.
3) Companies with complete data related to the research variables used in this study.

3.2 Variable Measurement

3.2.1 Financial Reporting Quality

Financial reporting quality in this study is proxied by discretionary accruals measured using the Modified Jones Model developed by Patricia Dechow, Richard Sloan, and Amy Sweeney (1995). This model is used to detect earnings management practices through accrual components in financial statements. The steps for calculating discretionary accruals are as follows:

Total accruals are calculated using the following formula:

$$TA_{it} = NI_{it} - CFO_{it}$$

Subsequently, total accruals ($\boldsymbol{TA_{it}}$) are estimated using the following multiple regression equation:

$$\frac{TA_{it}}{A_{it-1}} = \beta_1 \left(\frac{1}{A_{it-1}}\right) + \beta_2 \left(\frac{\Delta REV_{it}}{A_{it-1}}\right) + \beta_3 \left(\frac{PPE_{it}}{A_{it-1}}\right) + \varepsilon$$

Non-discretionary accruals are then calculated using the following formula:

$$NDA_{it} = \beta_1 \left(\frac{1}{A_{it-1}}\right) + \beta_2 \left(\frac{\Delta REV_{it} - \Delta REC_{it}}{A_{it-1}}\right) + \beta_3 \left(\frac{PPE_{it}}{A_{it-1}}\right)$$

Furthermore, discretionary accruals are calculated as follows:

$$DA_{it} = \frac{TA_{it}}{A_{it-1}} - NDA_{it}$$

The discretionary accruals value is obtained from the residual (ε) of the regression model. Lower discretionary accrual values indicate higher financial reporting quality.

Description:

DA_{it} = Discretionary accruals of company i in year t
NDA_{it} = Non-discretionary accruals of company i in year t
TA_{it} = Total accruals of company i in year t
NI_{it} = Net income of company i in year t
CFO_{it} = Cash flow from operations of company i in year t
A_{it-1} = Total assets of company i in the previous year
ΔREV_{it} = Change in revenue of company i in year t
ΔREC_{it} = Change in receivables of company i in year t
PPE_{it} = Property, plant, and equipment of company i in year t

3.2.2 Audit Committee

The audit committee is one of the corporate governance mechanisms that functions to assist the board of commissioners in overseeing the financial reporting process and the company's internal control systems. In this study, the audit committee is measured by the number of audit committee meetings conducted within one fiscal year. Audit committee meeting frequency reflects the intensity of monitoring activities over the company's financial reporting process.

3.2.1 Institutional Ownership

Institutional ownership refers to the proportion of company shares owned by institutions such as investment companies, pension funds, insurance companies, banks, and other financial institutions. Institutional ownership is measured using the percentage of shares owned by institutions relative to total outstanding shares, using the following formula:

$$INST = \frac{Institutional\ Shares}{Total\ Outstanding\ Shares}\ x\ 100\%$$

Higher institutional ownership is expected to improve the effectiveness of managerial monitoring, thereby enhancing financial reporting quality.

3.3 Control Variables

This study employs several control variables to improve the accuracy of the research model, namely firm size, leverage, and profitability.

Firm size is measured using the natural logarithm of total assets:

$$SIZE = ln\ (Total\ Assets)$$

Profitability is measured using Return on Assets (ROA), namely the ratio between net income and total assets:

$$ROA = \frac{Net\ Income}{Total\ Assets}$$

Leverage is measured using the ratio of total liabilities to total assets:

$$LEV = \frac{Total\ Liabilities}{Total\ Assets}$$

3.4 Data Analysis Method

Data analysis in this study is conducted using panel data regression, namely an analytical method that combines cross-sectional and time-series data. Data processing is performed using EViews software.

The stages of data analysis in this study include:

1) Descriptive statistics to describe the characteristics of the research data.
2) Panel data regression model estimation conducted through:
   a. Chow Test to determine the best model between the Common Effect Model (CEM) and Fixed Effect Model (FEM);
   b. Hausman Test to determine the best model between the Fixed Effect Model (FEM) and Random Effect Model (REM);
   c. Lagrange Multiplier Test to determine the best model between the Common Effect Model (CEM) and Random Effect Model (REM).
3) Classical assumption tests to ensure that the regression model satisfies the required assumptions so that the estimation results are more reliable.
4) Panel data regression testing to analyze the effect of independent variables on the dependent variable.
5) The regression model used in this study is formulated as follows:

$$DA_{it} = \alpha + \beta_1\ AC_{it} + \beta_2\ INST_{it} + \beta_3\ SIZE_{it} + \beta_4 ROA_{it} + \beta_5 LEV_{it}\ + \varepsilon_{it}$$

The regression model is used to examine the effect of audit committees and institutional ownership on financial reporting quality while considering the control variables applied in this study.

Description:
DA = Financial reporting quality (discretionary accruals)
α = Constant
$\beta 1 - \beta 5$ = Regression coefficients
AC = Audit committee
$INST$ = Institutional ownership
$SIZE$ = Firm size
LEV = Leverage
ROA = Profitability
ε = Error term
i = Company
t = Year

Hypothesis testing is conducted using the t-test to determine the partial effect of each independent variable on financial reporting quality, while the F-test is used to examine the simultaneous effect of independent variables. The coefficient of determination (R^2) is used to determine the model's ability to explain variations in the dependent variable.

4. Results and Discussion

4.1 Results

4.1.1 Descriptive Statistics

Descriptive statistics are used to provide a general overview of the characteristics of the research data through the mean, minimum value, maximum value, and standard deviation. This study uses 80 observations obtained from 16 companies during the 2020–2024 period.

Table 1. Descriptive Statistics

	AC = X1	INST = X2	SIZE = X3	ROA = X4	LEV = X5	DA = Y
Mean	12.02500	0.913804	31.88764	0.011816	0.755177	-0.015965
Median	12.00000	0.924700	32.37712	0.011872	0.787398	-0.011937
Maximum	28.00000	0.997500	33.64379	0.032508	0.891678	0.300521
Minimum	4.000000	0.615300	29.46762	-0.009618	0.233279	-0.302325
Std. Dev.	6.081670	0.075803	1.294266	0.008131	0.150101	0.127919
Observations	80	80	80	80	80	80

Source: EViews 14 Output, Processed by the Author (2026).

Based on Table 1, the total number of observations in this study is 80 company data observations during the 2020–2024 period. The discretionary accruals (DA) variable, used as a proxy for earnings management, has a mean value of -0.015965 with a standard deviation of 0.127919. This result indicates that earnings management practices among the sample companies tend to be relatively low.

The AC variable has a mean value of 12.02500 with a standard deviation of 6.081670, indicating relatively high data variation compared to the other variables. The INST variable has a mean value of 0.913804, indicating that the majority of company shares are institutionally owned. The SIZE variable has a mean value of 31.88764, indicating that the companies included in the sample are categorized as large firms.

The ROA variable has a mean value of 0.011816, indicating that the companies' profitability levels are relatively low. Meanwhile, the LEV variable has a mean value of 0.755177, indicating that the companies have relatively high leverage levels.

4.1.2 Panel Data Regression Model Selection

Table 2. Panel Data Regression Model Selection

Testing Aspect	Indicator	Value	Criteria	Decision
Chow Test	Cross-section F	2.606708	Prob. < 0,05	Meets the criteria
	Prob. Cross-section F	0.0046	0.0046 < 0,05	Fixed Effect Model (FEM) is selected
Hausman Test	Chi-Sq. Statistic	18.076869	Prob. < 0,05	Meets the criteria
	Prob. Chi-Sq.	0.0029	0.0029 < 0,05	Fixed Effect Model (FEM) is selected
Lagrange Multiplier (LM) Test	Breusch-Pagan	2.144129	Prob. > 0,05	Meets the criteria
	Prob. Breusch-Pagan	0.1431	0.1431 > 0,05	Common Effect Model (CEM) is preferred over REM
Conclusion of Model Selection: The selected model is the Fixed Effect Model (FEM). Based on the results of the Chow Test and Hausman Test, FEM is used as the panel data regression model.				

Source: EViews 14 Output, Processed by the Author (2026).

Based on the results of the Chow Test, the probability value is 0.0046, which is lower than 0.05; therefore, the selected model is the Fixed Effect Model (FEM). Furthermore, the results of the Hausman Test show a probability value of 0.0029, which is also lower than 0.05, indicating that the best model used in this study is the Fixed Effect Model (FEM). Meanwhile, the results of the Lagrange Multiplier Test show a probability value of 0.1431, which is greater than 0.05, indicating that the Common Effect Model (CEM) is preferred over the Random Effect Model (REM). However, based on the results of the Chow Test and Hausman Test, the model applied in this study is the Fixed Effect Model (FEM).

4.1.3 Classical Assumption Test and Panel Data Regression Analysis

Table 3. Summary of Classical Assumption Test and Regression Results

Test	Test Result	Decision
Normality Test (Jarque-Bera)	Probability = 0.293716	Residuals are normally distributed because the probability value is greater than 0.05.
Autocorrelation Test (Durbin-Watson)	DW = 2.214931	No autocorrelation exists because the DW value is close to 2.
Multicollinearity Test	AC: VIF = 1.306431	No multicollinearity exists because all VIF values are below 10.
	INST: VIF = 1.056533	
	SIZE: VIF = 1.283075	
	ROA: VIF = 1.159440	
	LEV: VIF = 1.079098	
AC = 0.1528		

Test	Test Result	Decision
Heteroscedasticity Test (Glejser)	INST = 0.2105	No heteroscedasticity exists because all significance values are greater than 0.05.
	SIZE = 0.9951	
	ROA = 0.4555	
	LEV = 0.4950	
Panel Regression (FEM)	DA = 2.458947 − 0.002540 AC − 0.657775 INST − 0.042901 SIZE + 8.198244 ROA − 0.757637 LEV	AC (−), INST (−), SIZE (−), ROA (+), LEV (−).

Source: EViews 14 Output, Processed by the Author (2026).

Based on the results of the normality test, the Jarque-Bera probability value is 0.293716, which is greater than 0.05, indicating that the residuals in the research model are normally distributed. Therefore, the regression model has fulfilled the normality assumption.

The results of the autocorrelation test show a Durbin-Watson value of 2.214931. Since the value is close to 2, it can be concluded that the regression model does not experience autocorrelation.

The multicollinearity test results indicate that all independent variables have centered VIF values below 10, meaning that there is no high correlation among the independent variables. Therefore, the research model is free from multicollinearity problems.

Furthermore, the heteroscedasticity test results show that all variables have probability values above 0.05, indicating that the regression model does not experience heteroscedasticity.

The panel data regression equation obtained is as follows:

$$DA = 2{,}4589 - 0{,}0025AC - 0{,}6577INST - 0{,}0429SIZE + 8{,}198ROA - 0{,}7576LEV$$

The equation indicates that ROA has a positive relationship with discretionary accruals, whereas AC, INST, SIZE, and LEV have negative relationships with discretionary accruals.

4.1.4 Hypothesis Testing

Table 4. Summary of F-Test, t-Test, and Coefficient of Determination (R^2) Results

Testing Aspect	Indicator	Value	Criteria	Decision
F-Test (Simultaneous)	F-statistic	3.924000	Prob(F) < 0,05	Meets the criteria
	Prob(F-statistic)	0.000022	0.000022 < 0,05	H_1 accepted
t-Test (Partial)	Constant (C)	p = 0.4186		Not significant
	AC	p = 0.5538	p > 0,05	Negative but insignificant effect
	INST	p = 0.0296	p < 0,05	Significant negative effect
	SIZE	p = 0.6580	p > 0,05	Negative but insignificant effect
	ROA	p = 0.0258	p < 0,05	Significant positive effect

Testing Aspect	Indicator	Value	Criteria	Decision
	LEV	p = 0.0534	p < 0,10	Significant negative effect (10% significance level)
Coefficient of Determination (R^2)	R-squared	0.570847	$0 \leq R^2 \leq 1$	The model explains 57.08% of the variation
	Adjusted R-squared	0.425371	Adj. $R^2 < R^2$	The explanatory power of the model is relatively good
Note: LEV is significant at the 10% significance level.				

Source: EViews 14 Output, Processed by the Author (2026).

Based on the F-test results, the Prob(F-statistic) value is 0.000022, which is lower than 0.05. Therefore, it can be concluded that the variables AC, INST, SIZE, ROA, and LEV simultaneously affect discretionary accruals.

Based on the t-test results, the INST variable has a significant negative effect and the LEV variable has a significant negative effect at the 10% significance level on discretionary accruals. The ROA variable shows a significant positive effect. Meanwhile, the AC and SIZE variables have negative directions of effect but are not statistically significant.

Furthermore, the coefficient of determination test shows an R-squared value of 0.570847, indicating that the independent variables in this study are able to explain 57.08% of the variation in discretionary accruals, while the remaining 42.92% is explained by other variables outside the research model.

4.2 Discussion

4.2.1 The Effect of AC on Discretionary Accruals

The AC variable has a negative effect on discretionary accruals as a proxy for earnings management; however, the effect is not statistically significant. This result indicates that the existence of the audit committee has not been effective in reducing earnings management practices. From the perspective of agency theory, the audit committee serves as an internal monitoring mechanism to reduce conflicts of interest between management and shareholders. Nevertheless, the effectiveness of the audit committee is determined not only by its formal existence but also by its independence, competence, and the quality of its supervision over financial reporting. Therefore, when the monitoring function has not operated optimally, the audit committee is unable to effectively limit discretionary accrual practices.

In several companies, the existence of the audit committee tends to be merely a formality to comply with corporate governance regulations without adequate supervisory effectiveness. Limited independence and weak monitoring reduce the audit committee's ability to minimize earnings management practices. The findings of this study are consistent with Amanda et al. (2024), who found that the audit committee does not significantly affect earnings management in non-financial companies in Indonesia. This finding is also supported by Surjandari et al. (2021), who stated that corporate governance mechanisms are not always effective in limiting opportunistic managerial behavior. Therefore, improving the quality and effectiveness of the audit committee is an important aspect of strengthening the monitoring function over earnings management practices,

particularly through enhancing independence, competence, meeting intensity, and the quality of financial reporting supervision.

4.2.2 The Effect of INST on Discretionary Accruals

The INST variable has a negative effect on discretionary accruals as a proxy for earnings management. This result indicates that institutional ownership is capable of strengthening the monitoring function over management, thereby reducing earnings management practices. From the perspective of agency theory, institutional ownership acts as an external monitoring mechanism that can reduce conflicts of interest between management and shareholders. Institutional investors generally possess greater resources, experience, and analytical capabilities compared to individual investors, enabling more effective supervision of corporate policies, including the preparation of financial statements.

An increase in institutional ownership also intensifies pressure on management to present high-quality and transparent financial statements. This condition limits management's opportunities to engage in discretionary accruals because opportunistic actions are more likely to be detected. The findings of this study are consistent with Mubtadi and Setiawan (2021), who stated that institutional ownership plays an important role in monitoring managerial actions and therefore influences earnings management practices. This finding is also supported by Nurhaliza et al. (2025), who showed that corporate monitoring mechanisms can reduce earnings management practices through improving the quality of managerial monitoring. Therefore, strengthening the role of institutional investors is an important aspect of improving supervisory effectiveness, which ultimately contributes to enhancing the quality of corporate financial reporting.

4.2.3 The Effect of SIZE on Discretionary Accruals (Control Variable)

The SIZE variable has a negative but insignificant effect on discretionary accruals. This result indicates that firm size is not statistically able to explain earnings management practices. The finding is consistent with Surjandari et al. (2021) and Angelina and Setijaningsih (2023), who stated that firm size does not consistently affect earnings management.

4.2.4 The Effect of ROA on Discretionary Accruals (Control Variable)

The ROA variable has a positive but insignificant effect on discretionary accruals. This result indicates that profitability is not statistically able to explain earnings management practices. The finding is consistent with Nurhaliza et al. (2025) and Koeshardjono et al. (2025), who found that profitability affects earnings management.

4.2.5 The Effect of LEV on Discretionary Accruals (Control Variable)

The LEV variable has a significant negative effect on discretionary accruals at the 10% significance level. This result indicates that higher leverage leads to stricter monitoring by creditors, thereby reducing discretionary accrual practices. The finding is consistent with Surjandari et al. (2021), Angelina and Setijaningsih (2023), and Koeshardjono et al. (2025), who stated that leverage is associated with earnings management.

Overall, the regression results indicate that the INST and LEV variables negatively affect discretionary accruals, while ROA positively affects discretionary accruals. Meanwhile, the AC and SIZE variables have negative effects on discretionary accruals but are not statistically significant.

5. Conclusion

Simultaneously, the variables audit committee (AC), institutional ownership (INST), firm size (SIZE), profitability (ROA), and leverage (LEV) affect discretionary accruals in banking sector companies listed on the Indonesia Stock Exchange during the 2020–2024 period.

1. The institutional ownership (INST) variable has a negative effect on discretionary accruals. This result indicates that institutional ownership is capable of enhancing managerial supervision, thereby reducing discretionary accrual practices.
2. The audit committee (AC) variable shows a negative direction of effect on discretionary accruals; however, the effect is not statistically significant. This finding indicates that the existence of the audit committee has not been fully effective in limiting discretionary accrual practices.
3. The profitability (ROA) variable has a positive effect on discretionary accruals. This result indicates that companies with high profitability tend to maintain earnings stability through discretionary accruals.
4. The leverage (LEV) variable has a significant negative effect on discretionary accruals at the 10% significance level. This finding indicates that creditor monitoring can limit management's opportunities to engage in discretionary accrual practices.
5. The firm size (SIZE) variable shows a negative direction of effect on discretionary accruals; however, the effect is not statistically significant. This result indicates that firm size does not always determine the level of discretionary accruals.

Companies are advised to improve the effectiveness of corporate governance, particularly by strengthening the functions of the audit committee and institutional monitoring in order to minimize discretionary accrual practices. In addition, companies should maintain stable financial conditions and improve the quality of financial reporting.

Future researchers are recommended to include additional variables, expand the research sector, and use different proxies for earnings management in order to obtain more comprehensive research results.

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