KnE Social Sciences

BESS 2023
The 3rd International Conference on Business, Economics, and Sustainability Science
Volume 2024

Research Article

Characteristics of the Audit Committee and the Environmental, Social, Governance (ESG) Performance in Indonesian Companies

Rieke Pernamasari* and Anis Chariri

Department of Accounting, Faculty of Economic dan Bussiness, Universitas Diponegoro

ORCID

Rieke Pernamasari: https://orcid.org/0009-0001-3422-1392

Abstract.
This study intends to experimentally demonstrate the impact of audit committee features on Environmental, Social, and Governance (ESG) performance in companies listed on the Indonesia Stock Exchange. The study specifically looks at how the number, tenure, independence, expertise, and frequency of audit committee meetings can impact ESG performance. A sample of the companies comprised in the Bloomberg database was used to gather information on the audit committee's composition and ESG performance. With a total of 288 observations covering the years 2018 to 2021, the sample consists of 72 firms. According to the study's conclusions, the size of audit committees and their level expertise have a positive impact on ESG performance. However, the length of the audit committee's term, independence, and the frequency of audit committee meetings do not significantly impact ESG performance. These findings highlight the critical oversight functions that audit committees perform in maintaining a company's commitment to all stakeholders and show that businesses typically follow social norms and international standards.

Keywords: audit committee characteristics, ESG performance, corporate governance

Corresponding Author: Rieke Pernamasari; email: riekepernamasari@students.undip.ac.id

Published 31 July 2024

Publishing services provided by Knowledge E

Selection and Peer-review under the responsibility of the BESS 2023 Conference Committee.

1. Introduction

The World Health Organization proclaimed COVID-19 a worldwide health emergency on January 30, 2020. As a result, nations put in place stringent controls to prevent the coronavirus from spreading, including travel bans, closures, and social isolation. Awareness of the dangers caused by systemic problems and current challenges, such as climate change and financial system stability, has increased as a result of the COVID-19 pandemic (Adams & Abhayawansa, 2022). According to Josua & Septiani, (2020), The pandemic has fascinating effects on sustainable investing instruments. These investment tools have expanded significantly despite difficult economic conditions. This is in response to requests from investors and securities regulators to improve the transparency, comparability, and consistency of data relating to Environmental, Social, and Governance (ESG) performance. Many businesses have learned from the mistakes of the corporations during the economic crises of 1997 and 2018 to enhance their corporate governance systems (Al Amosh & Khatib, 2023).

The majority of early definitions of sustainability centered on how corporate activities affected the environment, such as environmental context, environmental strategies, ecological sustainability, and sustaining centrism (Klassen & McLaughlin 1996 ; Russo 2003 ; Shrivastava 1995 ; Gladwin et al 1995). Consequently, the scope of sustainability reporting was expanded to include how company operations affect the social, economic, and environmental systems (Bansal, 2005). Sustainability has become a top priority for investors, necessitating the inclusion of ESG factors in portfolio construction to reduce environmental risk (particularly climate change), social risk (especially human rights), and governance risk that may potentially degrade long-term investment performance. ESG indicators, ratings, standards, and regulations all now take an ESG investment financial model approach into account (MacNeil & Esser, 2022).

The UN Global Compact's 2004 study "Who Cares Wins: Connecting Financial Markets to a Changing World" is when the phrase "environmental, social, and governance" (ESG) first appeared and was developed (Global Compact, 2004). The study provided recommendations and principles for incorporating ESG related risks and opportunities into investment analysis and financial markets in order to integrate ESG criteria into the financial industry. In other words, the study advocated for a deeper integration of financial research, asset management, and securities markets with regard to environmental, social, and governance issues.

Since non-financial reporting is now regarded as being just as significant as financial reporting, ERG reporting has gained appeal among stakeholders and organizations. High ESG value is thought to improve firm performance, reduce risks, increase returns, and ensure long-term sustainability for businesses (Shaikh, 2021 ; Zahroh & Hersugondo, 2021). Although the term "environmental, social, and governance" (ESG) has developed from the term "sustainability," its emphasis has switched from the external effects of corporate activities on society and the environment to the implications of risks and returns for financial investors (MacNeil & Esser, 2022; Delgado-Ceballos et al., 2022). Therefore, Al Amosh & Khatib, (2023) state that ESG performance is a crucial sign of how well businesses think through the ethical implications of their decisions at times of various crises.

The audit committee is a crucial component of corporate governance and has a responsibility to maintain and improve the effectiveness and caliber of non-financial reporting, particularly with regard to sustainability issues (Pozzoli et al., 2022). Since sustainability reporting helps the board of commissioners accomplish the Sustainable Development Goals (SDGs), the audit committee's responsibilities and activities as overseers and advisors must still be carried out in times of crisis like the epidemic (Tumwebaze et al. 2022). The audit committee is responsible for making sure the business complies with pertinent non-financial reporting standards and gives stakeholders accurate and transparent information.

Prior to the pandemic, research revealed that the audit committee is essential to improving the performance of sustainable reporting, which can affect ESG performance. Dwekat *et al* (2020) assert that an independent audit committee with adequate financial expertise is an important characteristic that can contribute to ESG performance. These conclusions are supported by additional study results, which demonstrate that the audit committee can be quite effective in enhancing the performance of sustainable reporting and ESG reporting (Appuhami & Tashakor, 2017; Arif et al., 2020; Josua & Septiani, 2020).

Although the majority of global corporate governance frameworks call for at least one audit committee member to have accounting and financial experience, research shows how crucial it is to have audit committee members with sufficient financial expertise for improving ESG disclosure. In light of this, governments could think about urging businesses to include more than one member on their audit committee who is competent in finance (Dwekat et al. 2020).

Research conducted by Appuhami & Tashakor (2017) shows that the quantity and quality of ESG performance are positively impacted by audit committee characteristics like the size of the committee and meeting frequency. These results underline the significance of a strong management control structure in the form of a responsive and independent audit committee for improving ESG performance. Josua & Septiani (2020) also found similar results, indicating that the size and the number of audit committee meeting positively impact sustainability disclosure as measured by ESG scores.

However, recent research by Pozzoli *et al* (2022) only the independence and knowledge of the audit committee have been proven to enhance a company's ESG performance in the context of the COVID-19 pandemic. The COVID-19 epidemic had little impact on a company's ESG performance during the audit committee's tenure. In order to effect ESG performance during the COVID-19 epidemic, the report advises taking other factors into account, such as the size of the audit committee's members and its tenure. These studies clearly highlight the critical role the audit committee plays in boosting ESG disclosure and business sustainability performance. Therefore, in order to improve ESG performance, businesses need to pay attention to the distinctive audit committee.

Pozzoli et al (2022) state that the increased investor interest on ESG during the pandemic indicates a growing recognition of the importance of ESG disclosure practices in measuring overall company performance, both from financial and non-financial aspects. The Financial Services Authority (OJK) as the regulator in Indonesia has taken this matter seriously by requiring issuers to provide sustainability reports to the public (Septiana & Puspawati, 2022). This aligns with the research by Khalid et al. (2022) emphasizing the importance of attention to corporate governance structures to achieve better ESG disclosure practices. Thus, stakeholders at both the national and companies' levels need to collaborate to achieve sustainability goals and enhance ESG disclosure practices for better performance.

The main this research are two; first, to provide an overview of ESG performance before and during the COVID-19 pandemic. Second, to empirically examine the influence of audit committee characteristic on ESG performance, pre and during COVID-19 pandemic.

This research has a relevant and significant focus in the context of corporate sustainability in Indonesia. Through the analysis of audit committee characteristic, this study can provide a better understanding of the factors that can affect to ESG performance of company, particularly in crisis scenarios like the COVID-19 pandemic. Furthermore, by promoting the uses of control systems and quality of ESG reporting in public companies in Indonesia, it can help enhance investor and public trust in those companies. Therefore, this research has important implications for managers, stakeholders, and regulators in promoting better sustainability practices in Indonesia.

2. Literature Review and Hypothesis Development

Agency theory highlights the potential moral dilemma between agents and principals that can result in agency costs (Jensen & Meckling, 1976). Agency costs arise due to conflicts of interest and information asymmetry between the principal and agent, providing opportunities for opportunistic behaviour by the agent. These agency costs include monitoring costs, bonding costs, and residual loss. Several strategies can be employed to minimize the issues of information asymmetry, such as increasing transparency, improving communication between principals and agents, and implementing strict monitoring and evaluation of agent performance.

This study utilizes agency theory to support the presence of audit committee in companies and discusses the potential conflicts of interest between shareholders and company management. Audit committee can enhance transparency and accountability within the company by overseeing financial and non-financial reporting practices and reducing the likelihood of information asymmetry between management and other stakeholders. The audit committee consists of independent members, which is expected to reduce the risk of misrepresentation and enhance investor confidence. Therefore, agency theory predicts that audit committee can be one way to address agency problems. Pozzoli et al., (2022) state that the described characteristics of audit committees, such as independence, size, meeting frequency, and financial expertise, can help ensure that the committee fulfills its duties effectively.

3. Hypothesis Development

3.1. The Size of Audit Committee and ESG Performance

An audit committee is a committee created by and answerable to the Board of Commissioners to aid in carrying out the tasks and activities of the Board of Commissioners, according to Financial Services Authority (OJK) regulation no. 55/PJOK.04/2015 in Indonesian. The function of the audit committee is to protect the interests of shareholders by monitoring financial and non-financial reporting, external auditing, and internal controls. Companies are requiring to have an audit committee with no fewer than three members. According to agency theory, the audit committee serves as a conduit between shareholders and management, thereby resolving agency issues. For shareholders and the general public to be informed about social, environmental, and corporate governance issues, corporations must take the audit committee into consideration. Consequently, the company's ESG disclosure will be higher the larger the audit committee. Appuhami & Tashakor, (2017) state that a larger audit committee has strength, diversity of expertise, and perspective to ensure proper monitoring, leading to CSR disclosure. The research finding of Josua & Septiani, (2020) and Mohammadi et al., (2021) indicate that the size of audit committee has a positive effect on sustainability reporting measured through ESG. Base on the above discussion, the following hypothesis is formulated:

H1: the size of audit committee has a positive influence on ESG Performance.

3.2. Tenure of audit committee and ESG performance

According to regulation no. 55/PJOK.04/2015 of the Financial Services Authority (OJK) in Indonesian, the tenure of the audit committee should not exceed the tenure of the board of commissioners as stipulated in the constitutional and can only be re-elected for the next 1 (one) period. From the agency theory perspective, Rutherford & Buchholtz, (2007) state that the vigilance of the audit committee will be associated with the quality of information obtained, so a longer tenure can increase the frequency of interaction and speed of information exchange from managers, thereby reducing information asymmetry and resulting in broader ESG disclosure. However, based on the available facts, the relationship between the tenure of the audit committee and ESG performance has not been found to be significant, indicating limited previous research on the topic. Pozzoli et al., (2022) say that a longer tenure can lead to a more familiar relationship, which can weaken control effectiveness, resulting in a negative influence of the tenure of the audit committee on ESG performance. Other studies have found a positive relationship between the tenure of the audit committee and the completeness and relevance of ESG (Bravo & Reguera-Alvarado, 2019). Therefore, it is accepted in this research that the audit committee will be more successful at providing oversight the longer its tenure, based on the limited research on the relationship between the audit committee's duration and ESG performance and from the perspective of agency theory. Based on the above discussion, the following hypothesis is formulated:

H2: The tenure of audit committee has a positive influence on ESG performance.

3.3. Independent Audit Committee and ESG Performance

The Financial Services Authority (OJK) of Indonesia's rule number. 55/PJOK.04/2015 states that the audit committee must have at least three members who are independent commissioners and external parties to the issuer of the firm. The audit committee is meant to improve the standard of monitoring in the organization while performing its duties and responsibilities. The cost of monitoring is one sort of agency cost in agency theory. To contribute their thoughts and opinions when evaluating managerial performance, the presence of external or independent parties is essential. Therefore, an independent audit committee is expected to provide protection and security for shareholders. According to Arif et al (2020), an independent audit committee has a significant on the quality and quantity of ESG reporting. Thus, the perception of independence is crucial, as stakeholders rely on financial and non-financial reports to make decisions. Septiana & Puspawati, (2022) Say that independent parties are considered more capable of assessing the concerns of the community and other stakeholders. Additionally, the results research by Pozzoli et al (2022) indicate that decision makes of companies operating in environmentally sensitive industries can enhance the legitimacy of their business operations by forming an independent and active audit committee that promotes ESG information disclosure. Therefore, an independent audit committee has a significant positive on the breadth of ESG disclosure. Other studies by Arif et al (2020) and Yadav & Prashar (2022) Show positive significant between an independent audit committee and ESG scores. Based on the aboce discussion, the following hypothesis is formulated:

H3: independent audit committee has positive influence on ESG performance.

3.4. Frequency meeting audit committee and ESG performance

The audit committee meets regularly, at least once every three months, in accordance with Financial Services Authority (OJK) rule no. 55/PJOK.04/2015 in Indonesian. The number of meetings the audit committee holds within a fiscal year is referred to as the frequency of audit committee meetings. In accordance with its responsibilities, the audit committee will analyze and advise the board of commissioners regarding the company's ESG reporting practices. Committee meetings can help identify inaccuracies. According to agency theory, audit committee meetings help and monitor the corporate governance process, hence reducing the likelihood of non-compliance and policy violations. The research of Arif et al (2020) show that audit committee activism (meeting frequency) has a significant positive effect on the quality and quantity of ESG reporting. Audit committee that meet more frequently throughout the year are more likely to identify discrepancies and ensure the reliability of social responsibility disclosure processes. Appuhami & Tashakor (2017) State that frequent meetings also help audit committee members stay informed and be proactive about issues related to sustainability reporting. Similarly Abbott et al (2004) argue that audit committees that hold frequent meetings can address disclosure issues related to accounting, auditing, and CSR in a timely manner. Therefore, based on the results of several studies, it can be concluded that the number of audit committee meetings has a positive significant on ESG performance. Based on above discussion, the following hypothesis is formulated:

H4: The frequency audit committee meetings have a positive influence on ESG performance.

3.5. Audit committee expertise and ESG performance

The Financial Services Authority's (OJK) regulation no. 55/PJOK.04/2015 states that the audit committee shall contain at least 1 (one) person who has a background in accounting and finance. Information asymmetry occurs in agency theory (Jensen & Meckling, 1976) as a result of the principal's limited access to information. An audit committee with backgrounds in accounting and finance will be better able to evaluate material on their own, identify potential issues, and act quickly to find solutions. Pozzoli et al (2022) Say that audit committee expertise can enhance ESG performance by reducing information asymmetry. The specialized knowledge acquired through experience increases the likelihood that the audit committee can detect errors in financial reporting and management operations. Other research findings also indicate that the financial expertise possessed by the audit committee can improve oversight efficiency and effectiveness (Arif et al, 2020; Buallay & Al-Ajmi, 2020; Velte, 2018). If audit committee members perform their tasks with financial expertise, the organization will improve corporate governance, but if they lack that experience, the audit committee will be dependent on the opinions of external auditors. This result is also supported by (Mohammadi et al., 2021), who found that an audit committee with accounting and finance expertise has a positive significant in CSR disclosure. Based on the above discussion, the following hypothesis is formulated:

H5: Audit committee expertise has a positive influence on ESG performance.

4. Methodology Research

The population for this study consists of Indonesia companies listed on the Indonesia Stock Exchange (BEI) that have ESG reports for two years before and during COVID-19 pandemic. The sampling technique uses is purposive sampling with the following criteria: 1) companies that have published complete annual reports during the period of 2018-2021, 2) companies that consistently disclose ESG scores in the Bloomberg database, 3) non-banking and non-financial companies, as there are industries have different evaluation parameters compared to other industries. Overall, there are 101 companies in Indonesia that have ESG reports. Based on the above criteria, 72 companies are including in the sample, resulting in a total of 288 observations.

Independent variable in this study focuses on the characteristics of audit committee, such as the size, independent, frequency meeting, tenure, and expertise of audit committee. The measurement methods for each characteristic can be seen in table 1.

Dependent variable in this study is the ESG reporting score reported by the Bloomberg ESG database, referred to as ESG score. A higher ESG score indicates that the company has disclosed more ESG dimensions. The ESG scores range from “0” to “100”, with “0” being the lowest score and “100” being the highest score.

The function of panel data regression is:

$$Y= \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \epsilon$$

Table 1: Operational Variables.

Variable	**Definition**	**Source**
ESG Scores	Based on the ESG scores displayed in the Bloomberg database, the scores range from 0 to 100	Bloomberg Data
Size of audit committee	The size of audit committee members is determined at the decision of Board of commissioners meeting.	(Arif et al., 2020)
Tenure of audit committee	The tenure of audit committee is determined by the board of commissioners meeting	(Pozzoli et al., 2022)
Independent of audit committee	The percentage of independent members of the Board of Commissioners who also serve as member of audit committee	(Pozzoli et al., 2022)
Audit committee meeting	Frequency of audit committee meeting in one period	(Arif et al., 2020)
Expertise of audit committee	The size of audit committee with accounting and finance expertise.	(Pozzoli et al., 2022)

5. Result and Discussion

Table 2: Result of Descriptive Statistic.

	ESG	Size_AC	Tenure _AC	Indp_AC	Frekmeet_AC	Expertise_AC
Mean	41.15	3.31	2.77	30.30	10.78	1.69
Maximum	70.24	5	5	66.67	77	3
Minimum	17.03	3	3	20	1	1
Std. Dev.	11.53	0.59	1.37	20.72	12.01	0.69
Observations	288	288	288	288	288	288

Source: data processing Eviews 12

Based on Table 2, the highest ESG score is held by PT Indon Tambangraya Megah at 70,24, and the lowest ESG score is held by PT ACE Hardware at 17,03 for the year 2019. This shows that ESG performance is still capable of achieving scores above 50 even in the face of the COVID-19 pandemic in 2021. This suggests that stakeholders and organizations are becoming more aware of and interested in ESG reporting.

The audit committee's size ranges from three to five, with an average of three. This shows that businesses in Indonesia have complied with OJK No. 55/PJOK.04/2015 regulation, which mandates the presence of a minimum of three audit committee members. Although the average tenure in listed firms conforms with OJK rules, table 2 shows that there are 72 companies where the duration of the audit committee is only one year. Members' performance might not be at its best as a result.

Average percentage for audit committee independent is 30%. This showed that businesses comply by the OJK regulations, which mandates a minimum of three members, including independent commissioners. Table 2 shows that while the average frequency of meetings for the audit committee conforms with the law, four organizations held only three meetings in a given time frame. The audit committee must meet regularly, at least once every three months, according to the regulation. According to the results for expertise, firms might have up to three members and as few as one. This indicates that the companies under study comply to regulations.

6. The result selection model

Based on the results of the model selection tests, including the chow test, Hausman test, and Lagrange test. The most appropriate model to use is the random effects model to determine the influence of audit committee characteristic on ESG performance. The results of random effects are as follows:

6.1. Hypothesis test

The results in table 3 show a coefficient of determination of 0,890453 or 89,05 %. This indicates that the independent variables can explain 89,04% of the dependent variable. the remaining 19,95 % is influenced by other variables non included in this study. For F-test bases has the probability value is 0,0000. This indicates that all independent variables collectively have and impact on ESG performance.

For t-test based, it can be concluded that the size audit committee has probability value < 10 %, specifically 0,0852, with a positive regression coefficient of 4,426435,

Table 3: Random Effect.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	20.01365	10.74542	1.862528	0.0639
Size _AC	4.426435	2.559858	1.729172	0.0852***
Tenure_AC	0.273328	1.176337	0.232355	0.8165
Indp_AC	0.000286	0.000443	0.646191	0.5189
Frekmeet_AC	0.041790	0.060973	0.685381	0.4939
Expertise_AC	2.582430	1.284686	2.010164	0.0457**
	Effects Specification			
Root MSE	3.810216	R-squared		0.890453
Mean dependent var	41.15934	Adjusted R-squared		0.850995
S.D. dependent var	11.53198	S.E. of regression		4.451482
Sum squared resid	4181.111	F-statistic		22.56720
Durbin-Watson stat	1.538999	Prob(F-statistic)		0.000000

** significant 5%, *** significant 10%

indicating that **H1 is accepted**. Expertise of audit committee has a probability value < 5 %, specifically 0,0457, with a positive regression coefficient of 2,582430, indicating that **H5 is accepted.** On the other hand, tenure of audit committee has a probability value > 10 %, specifically 0,18165 with a positive regression coefficient of 0,273328, indicating that **H2 is rejected**. Independent of audit committee has a probability value > 10 %, specifically 0,5189 with a positive regression coefficient of 0,000286, indicating that **H3 is rejected**. The frequency meeting of audit committee had a probability value > 10 %, specifically 0,4939 with a positive regression coefficient or 0,041790, indicating that **H4 is rejected.**

7. Discussion

7.1. The size of audit committee on ESG performance

A larger audit committee has the strength and expertise required to ensure proper monitoring and enhance ESG performance. The results show that the size of audit committee has a significant positive influence on ESG performance. The larger the number of audit committees, the more diverse their backgrounds will be, including expertise in environmental, social, or governance matters. This diversity can help the audit committee better understand the impacts and opportunities related to sustainability. Theoretically, corporate governance, including the size of the audit committee, is an essential component for ESG performance oriented, and this study supports that claim. The outcome additionally shows that a larger audit committee can improve the quality and transparency of non-financial reporting, especially ESG. These results are consistent with previous studies (Appuhami & Tashakor, 2017; Josua & Septiani, 2020; Mohammadi *et al*., 2021) that found the size of audit committee has a positive impact on ESG disclosure. However, Appuhami & Tashakor (2017) state that while the optimal size of audit committee may vary from company to company depending on factors such as size of company and operational nature, the audit committee size generally should not exceed five- or six-members National Association of Corporate Directors (NACD) 2000.

7.2. Tenure of audit committee on ESG performance

The findings indicate that ESG performance is unaffected by the audit committee's term. This suggests that a longer term has no bearing on the level of ESG disclosure. The audit committee may not perform as well as it should because there are 72 firms with one-year terms, and the emphasis on ESG disclosure or policies may not be completely fulfilled throughout their tenure. The results are in line with the few prior research, according to which there is no substantial association between the duration of the audit committee and ESG performance. The research by Pozzoli et al (2022) Say that longer tenure reduces attention to ESG activities as it generates familiarity that undermines control activities effectiveness. Similarly, the study by Yusof et al (2019) States that tenure has a negative significant with CSR performance.

7.3. Independence of audit committee on ESG performance

The result show that independence of audit committee does not affect ESG performance. This implies that the size of independence commissioners who also serve as audit committee does not have impact on the extent of ESG disclosure. Despite their status as independent commissioners, they may have limited roles in making day-to-day strategic decisions for the company. ESG performance often requires decisions and actions taken by the executive management and the board of directors as a whole. ESG performance is often linked to strategic decisions, resource allocation, and actions taken by the executive management and majority owners of the company. Independent commissioners may have little influence if executive management or majority owners have different priorities. These results contradict with the agency theory, where one type of agency cost is monitoring cost. Independence parties are needed to provide their perspectives and opinions to oversee management performance. This findings contradict Arif et al (2020), who state that independence of audit committee can enhance ESG reporting quality, thus contributing to improving the legitimacy of corporate operations.

7.4. Meeting of audit committee on ESG performance

The findings indicate that the audit committee's meeting frequency has no effect on ESG performance. The audit committee's main responsibilities often involve financial reporting, internal controls, and compliance issues. ESG performance, on the other hand, covers a wider variety of sustainability challenges outside of the financial realm. The audit committee's principal concern is not ESG performance, even though some ESG issues may have financial implications. This result may be due to ESG reporting still being voluntary and not a primary focus of discussion for the audit committee. There are four companies that hold three meeting per year, and there are 88 companies that hold four meeting per year. This frequency is considered very small for discussing the ESG performance reports of the company. These results are inconsistent with the opinion of Abbott *et al* (2004), where audit committee that hold frequent meeting can address disclosure issues related to accounting, auditing, and CSR in a timely manner. This finding contradicts the finding of Arif *et al* (2020) and Appuhami & Tashakor (2017).

7.5. Expertise of audit committee on ESG performance

The result show that expertise of audit committee has a significant positive impact on ESG performance. This indicates that accounting and finance experts on the audit committee contribute to improving ESG performance. Audit committee members with expertise in financial and accounting matters are often skilled at analyzing and interpreting data and metrics. This skillset can be valuable when it comes to understanding and evaluating ESG-related metrics and reports, which may include financial implications. In fact, according to agency theory (Jensen & Meckling, 1976), the study confirms that audit committee expertise enhances ESG performance by reducing information asymmetry and protecting stakeholders' interests in ESG performance. Considering the positive relationship between financial expertise and ESG performance, it suggests that the more financial experts there are on the audit committee, the better the ESG performance will be. This finding is consistent with the findings of Appuhami & Tashakor (2017), Pozzoli *et al* (2022), and Mohammadi *et al* (2021), which found that the presence of financial expertise in the audit committee ensures companies compliance with ethical principles and ESG disclosure. Mohammadi *et al* (2021) recommends establishing audit committee charter requirements that necessitate financial expertise for serving as the audit committee chair.

8. Conclusion

Based on research findings, this study provides insights into the influence of audit committee characteristics on ESG performance, which has become an important element. Additional analysis shows that only audit committee characteristic such as the size and expertise have a significant positive impact on ESG performance. On the other hand, other audit characteristics such as tenure, independence, and frequency meeting are not proven to affect ESG performance. Therefore, it can be concluded that the size of audit committee and presence of accounting and financial experts in audit committee result in greater effectiveness, ultimately enhancing ESG performance. Therefore, the board of directors and shareholders are recommended to employ accounting and financial experts in the audit committee to improve ESG disclosure and effectiveness.

This study has limitations. First, the research subjects are companies because not many companies disclose sustainability reports. This does not encompass all companies in the non-financial sector. Second, some data have extreme values, so data had to be discarded to meet classical assumptions. Based on the findings and limitations outlined, there are several suggestions for further research. For example, researchers can broaden their research subjects to include a wider region, such as Southeast Asia, to reduce the likelihood of extreme variable values. Second, it is hoped that the government will be stricter in imposing sanctions on companies that publish sustainability reports so that the sample size better reflects the overall population

9. Recommendations

Policy makers are advised to pay attention to corporate governance mechanisms such as an effective audit committee to enhance ESG performance. Considering the positive effects of audit committee characteristics such as size and expertise of audit committee in ESG performance, it is recommended for policy makers to form an audit committee with a larger member, but not exceeding five and sure financial expertise. Future research could explore additional audit committee characteristic such as the risk committee.

Acknowledgement

We highly appreciate the financial support from Pusat Layanan Pembiayaan Pendidikan (Puslapdik) Indonesia in through LPDP Scholarship.

References

[1] Abbott LJ, Parker S, Peters GF. Audit committee characteristics and restatements. Auditing. 2004;23(1):69–87.

[2] Adams CA, Abhayawansa S. Critical Perspectives on Accounting Connecting the COVID-19 pandemic, environmental, social and governance (ESG) investing and calls for ‘ harmonisation ’ of sustainability reporting. Crit Perspect Account. 2022;82:102309.

[3] Al Amosh H, Khatib SF. ESG performance in the time of COVID-19 pandemic: Cross-country evidence. Environ Sci Pollut Res Int. 2023;30(14):39978–93.

[4] Appuhami R, Tashakor S. The impact of audit committee characteristics on CSR disclosure: An dnalysis of Australian firms. Aust Account Rev. 2017;27(4):400–20.

[5] Arif M, Sajjad A, Farooq S, Abrar M, Joyo AS. The impact of audit committee attributes on the quality and quantity of environmental, social and governance (ESG) disclosures. Corp Gov (Bradford). 2020;21(3):497–514.

[6] Bansal P. Evolving sustainably: A longitudinal study of corporate sustainable development. Strateg Manage J. 2005;26(3):197–218.

[7] Bravo F, Reguera-Alvarado N. Sustainable development disclosure: Environmental, social, and governance reporting and gender diversity in the audit committee. Bus Strategy Environ. 2019;28(2):418–29.

[8] Buallay A, Al-Ajmi J. The role of audit committee attributes in corporate sustainability reporting: Evidence from banks in the Gulf Cooperation Council. Journal of Applied Accounting Research. 2020;21(2):249–64.

[9] Compact TG. (2004). Who cares wins: connecting financial markets to a changing world. In United Stated.

[10] Delgado-Ceballos J, Ortiz-De-Mandojana N, Antolín-López R, Montiel I. Connecting the Sustainable Development Goals to firm-level sustainability and ESG factors: The need for double materiality. BRQ Business Research Quarterly; 2022. https://doi.org/10.1177/23409444221140919.

[11] Fatemi A, Glaum M, Kaiser S. ESG performance and firm value: The moderating role of disclosure. Glob Finance J. 2018;38:45–64.

[12] Ghozali I, Ratmono D. (2017). Analisis Multivariat Dan Ekonometrika (Teori, Konsep, dan Aplikasi dengan Eviews 10). In Edisi 2 (2nd ed.). Badan Penerbit Universitas Diponegoro.

[13] Gladwin TN, Krause TS, Kennelly JJ. Beyond eco-efficiency: Towards socially sustainable business. Sustain Dev (Bradford). 1995;3(1):35–43.

[14] Jensen MC, Meckling WH. Theory of the firm: Managerial behavior, agency costs and ownership structure. J Financ Econ. 1976;3(4):305–60.

[15] Josua R, Septiani A. Analisis Pengaruh Karakteristik Komite Audit Terhadap Pengungkapan Laporan Keberlanjutan (Studi Empiris pada Perusahaan yang Terdaftar pada BEI Tahun 2015- 2018). Diponegoro Journal of Accounting. 2020;9(3):1–9.

[16] Khalid F, Razzaq A, Ming J, Razi U. Firm characteristics, governance mechanisms, and ESG disclosure: How caring about sustainable concerns? Environ Sci Pollut Res Int. 2022;29(54):82064–77.

[17] Klassen RD, McLaughlin CP. The impact of environmental management on firm performance. Manage Sci. 1996;42(8):1199–214.

[18] MacNeil I, Esser I. marié. (2022). From a financial to an entity model of ESG. In European Business Organization Law Review (Vol. 23, Issue 1). Springer International Publishing. https://doi.org/10.1007/s40804-021-00234-y.

[19] Marnilin F, Mulyadi JM, Darmansyah. Analisis Determinan Terhadap Persistensi Laba Pada Perusahaan Jasa Di Bei. Media Riset Akuntansi. Auditing & Informasi. 2017;15(1):89–102.

[20] Mohammadi S, Saeidi H, Naghshbandi N. The impact of board and audit committee characteristics on corporate social responsibility: Evidence from the Iranian stock exchange. Int J Prod Perform Manag. 2021;70(8):2207–36.

[21] Pozzoli M, Pagani A, Paolone F. The impact of audit committee characteristics on ESG performance in the European Union member states: Empirical evidence before and during the COVID-19 pandemic. J Clean Prod. 2022;371(August):133411.