

The Effect of Audit Committee and Board Independence in Determining Firm Value: Evidence from Maritime Companies in Indonesia

Audit Committee and Board Independence on Firm Value

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ABSTRACT

Corporate governance mechanisms, particularly the roles of the audit committee and independent commissioners, are increasingly examined in relation to their influence on firm value through the quality of financial reporting. This study aims to examine the effect of the audit committee and board independence on firm value through the mediating role of financial reporting quality. The study employs a quantitative explanatory design using secondary data from annual reports of maritime transport companies during 2020–2024. Samples were selected through purposive sampling, and data were analyzed using Structural Equation Modeling–Partial Least Squares (SEM-PLS) with SmartPLS 4.0. The results indicate that the audit committee has a positive and significant effect on firm value, while board independence has no significant impact. Financial reporting quality positively affects firm value but does not mediate the relationship between the audit committee or board independence and firm value. The study contributes theoretically to corporate governance literature and provides practical insights for public companies to strengthen audit functions and the reliability of financial reporting.

Keywords: *Audit Committee, Board Independence, Corporate Governance, Financial Reporting Quality, Firm Value.*

INTRODUCTION

Within an increasingly integrated global economy, corporate governance has become fundamental to ensuring transparency and accountability in business operations. The effectiveness of core governance bodies strongly shapes investor confidence and the credibility of financial information. Weak governance frameworks heighten the risk of financial misreporting, which can diminish firm value and undermine stakeholder trust (Majumder, 2025). In this context, high-quality financial reporting indicates how accurately financial statements portray a firm's actual economic condition and performance. International cases such as Enron and WorldCom, along with Indonesia's Garuda Indonesia scandal, show how inadequate internal oversight can severely damage corporate reputation and shareholder wealth (Burns et al., 2021; Reynaldi & Kuntadi, 2024). In an effective governance system, the audit committee safeguards the credibility of financial information, while the board of commissioners oversees management to ensure alignment with shareholders' interests (Wahyuningrum et al., 2023).

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In Indonesia, the importance of effective corporate governance is heightened by the rapid growth of listed firms and increasingly concentrated ownership structures, which can weaken board independence and audit committee effectiveness (Pardede & Annisa, 2023). Although the Indonesian Stock Exchange hosted over 900 listed companies with a market capitalization exceeding IDR 11,000 trillion in 2024, governance practices remain uneven. Studies by Leng (2020) and Sudjono and Setiawan (2024) show that independent and financially competent audit committees enhance the value relevance and credibility of financial reporting. However, other evidence suggests that committee characteristics do not always improve reporting quality (Inawati et al., 2021; Wijaya & Ratnasari, 2023). These mixed findings, influenced by institutional and regulatory contexts in emerging markets, indicate that the impact of governance mechanisms on financial reporting quality and firm value remains an open empirical issue (Hanjani & Kusumadewi, 2023; Majumder, 2025).

Independent commissioners and audit committees significantly affect firm value in Indonesia's banking sector. This underlines the strategic importance of oversight mechanisms in enhancing investor confidence and market valuation. Although the topic has attracted increasing scholarly interest, limited attention has been given to the indirect pathway through which audit committee performance and board independence affect firm value via financial reporting quality. Prior studies by Nurhayadi et al. (2024) show that they have largely concentrated on direct relationships, thereby neglecting the mechanisms that translate governance practices into market valuation. This gap underscores the importance of adopting an integrative perspective that treats financial reporting quality as an intervening variable connecting governance structures with firm outcomes. Positioning reporting quality in this mediating role offers deeper insight into how oversight bodies enhance corporate value by ensuring credible and transparent disclosures, highlighting financial reporting as a key conduit for signaling organizational integrity to the market.

However, other studies suggest that committee size alone does not necessarily improve reporting quality. According to the findings of Khan et al., (2024) and Nikmah and Hung, (2024) It was found that audit committee competence negatively influenced financial reporting quality, while board size exerted a positive effect. Such inconsistent evidence indicates that the role of governance mechanisms in shaping reporting quality continues to be an open empirical question. Furthermore, transparent reporting practices contribute to market efficiency. Reliable disclosures allow investors to make informed decisions, leading to fairer valuations and more efficient allocation of resources. This reinforces the economic significance of financial reporting quality as a determinant of firm value. At the macroeconomic level, improved governance and reporting quality strengthen financial system stability. Transparency reduces information asymmetry and moral hazard, while promoting equitable access to capital markets (Reynaldi & Kuntadi, 2024).

In Indonesia, this study aligns with broader societal values of accountability, collective responsibility, and trustworthiness (Guizani & Abdalkrim, 2021; Pardede & Annisa, 2023). This study contributes to the corporate governance literature in Indonesia and offers a reference for scholars and practitioners interested in the interplay between governance mechanisms and firm performance. Drawing on agency theory, which highlights conflicts between managers and shareholders, the audit committee and independent board are viewed as monitoring bodies that help alleviate agency problems (Jensen et al., 1976). Based on this framework, the study examines the impact of audit committee characteristics and board independence on firm value through the mediating role of financial reporting quality in Indonesian public firms from 2020 to 2024.

LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

The Effect of Audit Committee and Board Independence on Firm Value

The audit committee plays a key role in supervising financial reporting, assessing internal control systems, and ensuring compliance with accounting standards. Özcan (2021) found that independence and the frequency of audit committee meetings

significantly influence firm value. Tambunan and Rosharlianti (2023) revealed that active and competent audit committees enhance the reliability of financial information, creating positive investor perceptions. In the maritime transport sector, the audit committee is particularly important due to complex asset management and cost structures. Empirical findings by Hartati and Sukarmanto (2024) show that effective audit committees are strongly linked to improved reporting quality and firm valuation. Meanwhile, research by Lusy et al. (2025) shows a negative effect on firm value.

An independent board of commissioners ensures objective supervision and limits managerial opportunism. Laksana and Handayani, (2022) found that a higher proportion of independent commissioners improves monitoring effectiveness and reduces the risk of manipulation in financial reporting. Similarly, Putri (2024) confirmed that board independence significantly enhances corporate credibility and investor confidence. In the maritime industry, board independence helps maintain transparency and integrity amid economic fluctuations and high capital exposure. Zhang (2024) revealed that active and competent audit committees enhance the reliability of financial information, creating positive investor perceptions. Independent commissioners also contribute to stronger governance practices, which can increase firm reputation and investor trust (Alofaysan et al., 2024).

H1: The audit committee has a positive effect on firm value.

H2: Board independence has a positive effect on firm value.

The Effect of Financial Reporting Quality on Firm Value

Financial reporting quality reflects the extent to which accounting information is relevant, reliable, and free from bias, thereby enabling users to accurately evaluate a firm's financial condition and future prospects. High-quality reporting reduces information asymmetry and increases transparency, which in turn strengthens investor confidence and positively shapes market valuation. Reynaldi and Kuntadi (2024) further show that reliable financial disclosure reinforces the effectiveness of corporate governance mechanisms in improving firm performance. In the maritime transportation sector, where operations involve high capital intensity, complex asset valuation, volatile fuel prices, and exposure to international trade risks, accurate financial reporting is particularly critical for maintaining stakeholder trust and supporting sound investment decisions. An audit process conducted independently and professionally can enhance the supervisory role of the audit committee and improve the credibility and integrity of financial statements (Handayani et al., 2023; Chen & Dagestani, 2023).

Empirical findings reveal nuanced and sometimes contrasting relationships between financial reporting quality and firm value. Harjanto (2023) demonstrates that reporting quality, alongside leverage, firm size, and profitability, jointly exerts a significant influence on firm value, implying that transparent and dependable financial disclosures are rewarded by the market. In contrast, Siagian et al. (2013) identify a negative linkage between reporting quality and certain measures of firm value, indicating that investor reactions may differ according to how firm value is operationalized and the specific institutional or industry setting. Nonetheless, existing studies consistently underscore the pivotal role of financial reporting quality in shaping investor evaluations of risk, performance, and future growth, particularly in sectors marked by high uncertainty, such as maritime transportation.

H3: Financial reporting quality has a positive effect on firm value.

Mediating Effect of Financial Reporting Quality

Financial reporting quality is a crucial channel through which corporate governance mechanisms translate into market value. High-quality financial statements, characterized by relevance, reliability, and the absence of bias, reduce information asymmetry and enable investors to more accurately assess firm performance and risk (Reynaldi &

Kuntadi, 2024). In the context of the audit committee, effective supervision, independence, and professional judgment enhance the integrity of the reporting process, thereby strengthening the credibility of disclosed information. An independently conducted audit and a competent audit committee improve internal control and compliance with accounting standards, which ultimately lead to more transparent and trustworthy financial reports (Bratten et al., 2022; Handayani et al., 2023). As investors place greater confidence in firms that provide high-quality disclosures, market valuation tends to increase. This mechanism supports the argument that financial reporting quality mediates the relationship between the audit committee and firm value, transforming governance effectiveness into tangible economic outcomes.

Similarly, board independence contributes to firm value indirectly through its influence on financial reporting quality. Independent commissioners play a vital monitoring role by constraining managerial opportunism and ensuring objective oversight of financial disclosure processes (Laksana & Handayani, 2022; Ayu et al., 2025). In industries with high uncertainty and capital intensity, such as maritime transportation, transparent and reliable reporting is essential for maintaining investor trust and mitigating perceived risk. Reynaldi and Kuntadi (2024) show that strong governance structures enhance firm performance primarily when supported by credible financial information. Empirical evidence by Harjanto (2023) further indicates that reporting quality significantly contributes to firm value alongside key financial characteristics. Accordingly, board independence is expected to improve firm value through its positive effect on reporting quality, providing theoretical and empirical support for the mediating role of financial reporting quality in the governance–value relationship.

- H4: Financial reporting quality mediates the effect of the audit committee on firm value.
- H5: Financial reporting quality mediates the effect of board independence on firm value.

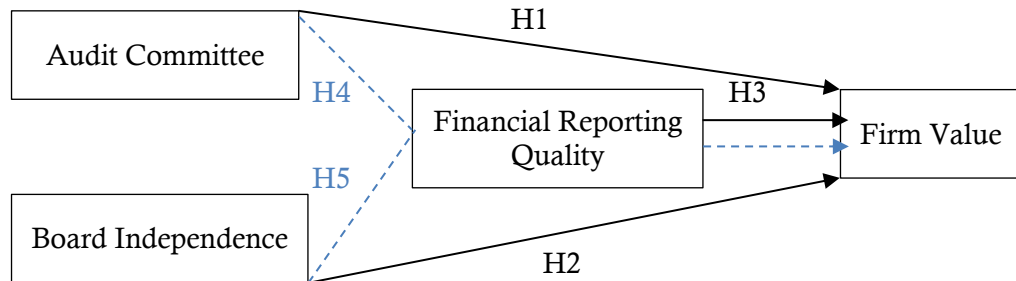


Figure 1. Research Framework

Figure 1 depicts the conceptual model outlining the interconnections among the audit committee, board independence, financial reporting quality, and firm value. The framework evaluates the direct effects of the audit committee on firm value (H1), the influence of board independence on firm value (H2), and the impact of financial reporting quality on firm value (H3). It also investigates the indirect pathways whereby the audit committee and board independence affect firm value through financial reporting quality as a mediating variable (H4 and H5). Anchored in agency theory, the model assumes that information asymmetry between shareholders (principals) and managers (agents) generates potential conflicts of interest. Therefore, robust oversight structures and transparent financial disclosures are required to curb opportunistic managerial behavior and to safeguard and enhance corporate value.

RESEARCH METHODS

This research adopts a quantitative associative design with a causal–correlational orientation to investigate how audit committee characteristics and board independence affect firm value, with financial reporting quality acting as a mediating variable, in

publicly listed maritime transportation firms on the Indonesia Stock Exchange (IDX). The analysis is based on secondary data drawn from audited annual reports and financial statements for the period 2020–2024, obtained from the official IDX portal and corporate disclosure systems. The use of archival, non-reactive data supports objectivity and facilitates replication, in line with the methodological guidance of Sekaran and Bougie (2016).

The population comprises all maritime transportation companies listed on the IDX during the study period. A purposive sampling method is applied, using criteria that include the availability of complete information on audit committee composition, the existence of independent commissioners, and the disclosure of firm value indicators such as Price-to-Book Value (PBV). Data were compiled using a structured coding instrument to operationalize governance and financial variables, such as audit committee size and meeting frequency, the proportion of independent board members, and proxies for financial reporting quality and firm value. To enhance reliability, the coding process was subjected to inter-coder checks, and the extracted information was cross-validated against multiple official sources, following the procedures recommended by Saunders et al. (2019).

The empirical analysis employed Partial Least Squares–Structural Equation Modeling (PLS-SEM) using SmartPLS 4.0, which enables the concurrent testing of direct effects and indirect (mediated) relationships among the research constructs. The analysis commenced with descriptive statistics to summarize the data profile, followed by an assessment of the measurement model to verify indicator validity and internal consistency through measures such as Average Variance Extracted (AVE) and Composite Reliability (CR). Subsequently, the structural model was evaluated by estimating path coefficients and coefficients of determination (R^2) to gauge the magnitude and explanatory capacity of the hypothesized links. Hypotheses were examined through a bootstrapping procedure at a 7% significance level ($\alpha = 0.07$) to obtain robust and reliable parameter estimates. This methodological approach aligns with the guidelines proposed by Hair et al. (2021), who highlight the suitability of PLS-SEM for predictive modeling and mediation analysis in corporate governance research. Through this approach, the study assesses how the effectiveness of audit committees and the independence of boards contribute to improved financial reporting quality and ultimately to higher firm value in the Indonesian maritime sector.

RESULTS

In Structural Equation Modeling (SEM), the measurement model is essential for assessing how well the observed indicators represent their corresponding latent variables, which cannot be measured directly. This evaluation concentrates on two key criteria: validity, which reflects the accuracy of indicators in capturing the intended construct, and reliability, which indicates the internal consistency of the indicators in measuring the same underlying concept. In PLS-SEM, the quality of the measurement model is commonly assessed through outer loadings, Average Variance Extracted (AVE), and Composite Reliability, ensuring that each construct meets acceptable statistical standards.

The SmartPLS output shown in Figure 2 depicts the measurement structure by linking latent constructs with their manifest indicators. The yellow rectangular shapes represent observable variables such as ROA, ROE, and PBV, while the directional arrows toward the latent constructs indicate a reflective measurement specification. The numerical values attached to these arrows correspond to the outer loadings, all of which are above the recommended cutoff of 0.70, confirming strong indicator reliability. The blue circular symbols display the coefficients of determination (R^2), showing that 37.7% of the variance in financial reporting quality and 13.3% of the variance in firm value are explained by the model. These results confirm adequate convergent validity and internal consistency, and indicate that the proposed PLS-SEM model explains a meaningful proportion of variance in the endogenous constructs.

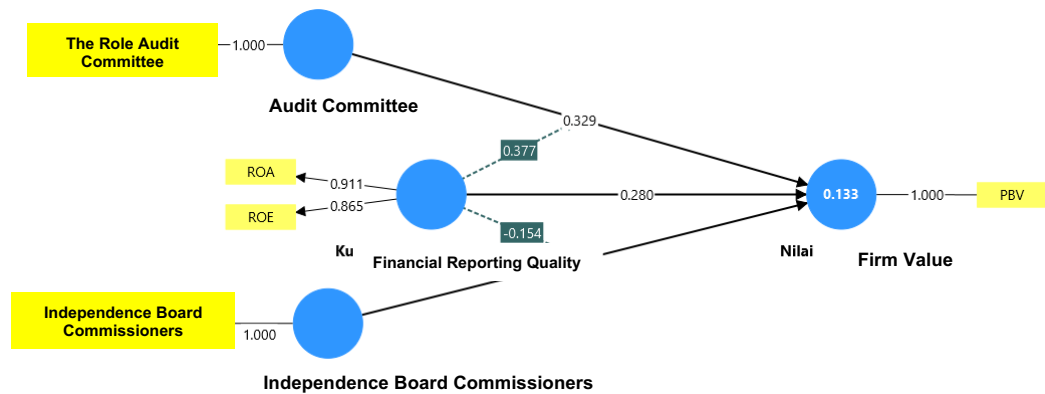


Figure 2. Measurement Model

Table 1. Convergent Validity

Variable	Item	Loading Factor	AVE
Committee Audit (X1)	CA	1.000	0.710
Independence Board Commissioners (X2)	IBC	1.000	0.702
Firm Value (Y)	PBV	1.000	0.756
Financial Reporting Quality (Z)	ROA	0.911	0.789
	ROE	0.865	0.775

According to Table 1, evaluation results of the outer model indicate that all indicators in this study have met the criteria for convergent validity. The AVE values for each construct are above 0.50, with the highest value found in the financial report quality construct at 0.789, followed by the audit committee at 0.710, the independent board of commissioners at 0.698, and firm value at 0.756. The loading factor values of all indicators are also above 0.70, indicating that these indicators have a strong contribution in explaining the measured latent variables.

Table 2. Discriminant Validity

Indicator	IBC	FRQ	FV	CA	FRQ X CA
Firm Value (FV)	0.029	0.259			
Financial Reporting Quality (FRQ)	0.055				
FRC X CA	0.202	0.121	0.156	0.396	
Committee Audit (CA)	0.264	0.035	0.185		
FRQ X IBC	0.394	0.270	0.027	0.219	0.171

Based on Table 2, discriminant validity was evaluated using the Fornell–Larcker approach, indicating that the square root of the AVE for each construct exceeds its correlations with the other constructs in the model. This is reinforced by the cross-loading analysis, which shows that each indicator loads more strongly on its corresponding latent variable than on any other construct. For instance, the correlation between financial reporting quality and firm value is moderate (0.259), as is the relationship between the audit committee and firm value (0.185), while the association between board independence and firm value is comparatively weak (0.029). These findings demonstrate that the constructs are clearly differentiated from one another and that multicollinearity is not a problem, thereby satisfying established criteria for discriminant validity.

Based on Table 3, reliability testing further confirms that the measurement model is robust. The composite reliability values exceed 0.70 for all constructs, implying that the latent variables consistently capture their respective items. Cronbach’s alpha values above 0.70 also reflect adequate internal reliability, ensuring the accuracy of data representation.

These findings suggest that the variables audit committee, independent board, financial reporting quality, and firm value can be analyzed confidently in the structural model.

Table 3. Reliability Test

Variable	Composite Reliability	Cronbach Alpha	Result
Committee Audit (X1)	0.877	0.791	Reliable
Independence Board Commissioners (X2)	0.811	0.784	Reliable
Firm Value (Y)	0.872	0.772	Reliable
Financial Reporting Quality (Z)	0.754	0.734	Reliable

As reported in Table 4, the evaluation of the structural (inner) model was performed to examine the causal relationships among the latent constructs. The findings indicate that, of the five hypotheses proposed, only two are supported by the data, while the remaining three are not. The path from the audit committee to firm value is positive and statistically significant, with a coefficient of 0.329, a t-statistic of 2.384, and a p-value of 0.017. This result implies that stronger audit committee performance in monitoring and internal control is associated with higher firm value. In contrast, the effect of board independence on firm value is negligible and insignificant, as reflected by a coefficient of 0.001 and a p-value of 0.997.

Table 4. Hypothesis Test

Hypothesis	Path Coefficient	t-statistic	p-value	Result
Committee Audit -> Firm Value	0.329	2.384	0.017	Accepted
Committee Audit -> Financial Reporting Quality -> Firm Value	0.377	1.868	0.062	Not Accepted
Independence Board Commissioners -> Firm Value	0.001	0.004	0.997	Not Accepted
Independence Board Commissioners -> Financial Reporting Quality -> Firm Value	-0.154	0.672	0.502	Not Accepted
Financial Reporting Quality -> Firm Value	0.280	2.255	0.024	Accepted

Furthermore, financial reporting quality exerts a significant positive influence on firm value, evidenced by a coefficient of 0.280, a t-statistic of 2.255, and a p-value of 0.024, suggesting that more reliable and transparent financial information enhances investors' valuation of the firm. However, its mediating role is not supported. The indirect effect of the audit committee on firm value through financial reporting quality is not significant ($\beta = 0.377$; $t = 1.868$; $p = 0.062$), nor is the indirect effect of board independence via financial reporting quality ($\beta = -0.154$; $t = 0.672$; $p = 0.502$).

DISCUSSION

The result suggests that greater effectiveness and independence of the audit committee in supervising financial reporting are associated with higher firm value. It is also in line with the findings of Özcan (2021), who reported that audit committees contribute substantially to improving the transparency of financial disclosures and strengthening investor trust. Accordingly, a well-functioning audit oversight mechanism enhances the firm's credibility and public image, which in turn is reflected in increased market valuation. Bakhtiar et al. (2021) stated that the audit committee has a very important and strategic role in maintaining the credibility of the financial reporting process, ensuring an adequate corporate oversight system, and implementing good corporate governance. However, this finding differs from Chrissyani et al. (2025), Suwandono and Sunarto (2025), and Pujakusuma et al. (2025), who observed that the presence of an audit committee does not automatically enhance firm value, particularly when its role is merely formal. In the maritime transport sector, for instance, the complexity and capital intensity of operations demand a more robust internal audit function to ensure effective oversight.

The results indicate that the audit committee affects firm value not only through financial outcomes but also via non-financial channels such as reputation and market perception. Agency theory suggests that reliable reporting mediates trust between agents and principals (Jensen et al., 1976), yet limited audit committee expertise or independence can weaken this effect. This contrasts with findings from Nurcahyati et al. (2025), Darmawati and Triyanto (2022), Ani et al. (2022), and Pardede and Annisa (2023), who show that independent audit committees enhance reporting integrity in healthcare and manufacturing sectors. Similarly, Putri et al. (2025) found that committee independence and size improve reporting quality in infrastructure firms. The weaker mediation in maritime companies may stem from operational volatility, complex revenue recognition, and inconsistent internal audit practices.

The findings show that independent commissioners do not significantly affect firm value, consistent with Rahmawati (2021), although prior evidence suggests a positive indirect effect through profitability (Afsari et al., 2025). This inconsistency may be explained by sectoral characteristics, as regulatory complexity and operational specificity in the maritime transport industry can limit the effectiveness of independent commissioners due to insufficient technical and accounting expertise. From an agency theory perspective, although independent commissioners are expected to reduce information asymmetry, limited competence and weak interaction with management may weaken their monitoring role. This is supported by Widijaya and Veronica (2022), who found stronger control from audit committees, and Ritonga et al. (2023), who showed that board independence enhances firm value mainly when supported by effective audit functions, indicating that weak coordination between governance mechanisms can undermine their impact on firm value.

From an agency theory perspective, high-quality financial reporting reduces information asymmetry between managers and shareholders by providing reliable and timely information that functions as an effective monitoring mechanism, thereby lowering agency conflicts and enhancing firm value (Jensen et al., 1976). This finding is consistent with Dimitropoulos (2025), who reported that financial reporting quality positively influences firm value, particularly when environmental uncertainty is high. The study emphasized that credible financial statements help investors make rational decisions amid economic volatility, acting as a stabilizing signal in uncertain market conditions (Souther, 2021). This finding is consistent with Santoso and Bimo (2023), who show that credible financial statements strengthen market valuation, particularly under high environmental uncertainty, by supporting rational investor decision-making. Similarly, Nurfajri et al. (2022) and Baihaqi (2023) report that transparent and reliable reporting reduces perceived risk, limits earnings manipulation, and improves market efficiency, ultimately reinforcing investor confidence and sustaining firm value. However, the result contrasts with Amaliyah (2021), who finds no significant effect in the trading sector, possibly due to differences in disclosure quality and accounting compliance. Moreover, Wardani and Dewanti (2022) suggest that the impact of reporting quality on firm value is stronger when accompanied by corporate social responsibility practices, indicating that financial transparency combined with ethical conduct contributes more effectively to long-term value creation.

CONCLUSION

Based on the hypothesis testing results, it can be concluded that only the audit committee and financial reporting quality have a significant direct effect on firm value, while the independence of the board of commissioners has no significant effect, either directly or through financial reporting quality as a mediating variable. Furthermore, financial reporting quality does not mediate the relationship between the audit committee and firm value, nor between the independence of the board of commissioners and firm value. These findings imply that the effectiveness of the audit committee and the improvement of financial reporting quality are key factors in enhancing investor confidence and firm value, whereas the role of independent commissioners needs to be

strengthened not only in a structural sense but also in their functional performance in order to contribute meaningfully to reporting quality and value creation.

Firms are likewise encouraged to appoint independent commissioners with industry-relevant experience and to involve them actively in strategic and oversight committees so that their supervisory role extends beyond procedural compliance. From a theoretical standpoint, the findings lend further support to agency theory by showing that robust monitoring structures can reduce information asymmetry and strengthen investor trust. In practical terms, Indonesian listed companies should prioritize strengthening the capability and independence of their audit committees while ensuring that boards of commissioners are substantively engaged in financial supervision. At the policy level, institutions such as the Financial Services Authority and the Indonesian Stock Exchange are advised to reinforce the implementation of good corporate governance standards to safeguard market integrity. Future studies may broaden the scope across industries and incorporate external factors, such as sectoral risk or the advancement of financial digitalization, to obtain a more comprehensive perspective.

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