

# *Determinants of the Effectiveness of the Size of the Audit Committee and Independent Commissioners Against Financial Distress*

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**Abstract—** The aim of the study is to analyze and describe the impact of the size of the audit committee and independent commissioners on financial distress with the addition of moderation, namely the effectiveness of the size of the audit committee. This study is quantitative research, using secondary data in the form of financial reports. The population of this study consists of 50 companies each year. The data analysis technique in this study uses the Altman model of discriminant analysis (z-score). with SPSS STATISTICS. on the Indonesian Stock Exchange during the period 2019-2022 . The findings of this study show that the test findings on the Independent Commissioner variable illustrate that this variable has an impact on financial distress and the test results on the Independent Commissioner variable Independent Commissioner .

**Keywords—** Audit Committee Size , Independent Commissioner Effectiveness Of Audit Committee , Financial Distress

## I. INTRODUCTION

It is imperative to get it that maintainability revelation has criteria that incorporate all of the company's social exercises, which isn't the same as displaying budgetary reports (Kalbuana et al., 2022) . Enormous or little businesses continuously take after a life cycle. Trade substances that can proceed to develop are trade substances that effectively overcome certain emergencies that moderate down their development. The board of chiefs contains a significant part in organizing organizational administration (Wu et al ., 2012) . Administration as an operator permits responsibility to shareholders (principals) within the frame of budgetary reports (Abbas et al., 2021) . The review committee and IAF are anticipated to closely screen administration exercises (Tumwebaze et al. , 2022) . Moreover, commerce substances that confront troubles and are incapable to recoup or make changes may confront troubles or indeed go bankrupt . (Wu et al ., 2012) Reports are a sort of correspondence that must be detailed formally for administration to do so remains dependable for taking care of owner's capital . (Damayanti & Rochmi, 2016) It is trusted that open reserves gotten from the IPO can be utilized to create and extend innovative associations, showcasing systems and numerous imaginative exercises to realize competitive preferences and trade improvement. This victory can essentially cause share values to be higher for a long period of time (Aminah Aminah, 2015) . Issue monetary trouble to the degree that organizational disappointments have long been the concern of financial analysts. (Hanifah & Purwanto, 2013) Moreover (Antikasari & Djuminah, 2017) found experimental prove that when the obligation proportion is huge, the rate of organizations

confronting money related trouble can also increment. This definition of money related hardship has been defined in numerous distinctive ways, but still alludes to the condition that a business entity is incapable to fulfill its duties when installments are due, whether for a brief to a long period of time . Be that as it may, a few companies have not been able to utilize the capital raised from the IPO, have not created an increment, and are likely to confront monetary troubles. In the event that this decrease proceeds, there will be a hazard of delisting or indeed insolvency (Indrayenti et al. , 2021) . The root of a financial emergency can come from the environment inside the organization or exterior the organization. Depicts commerce substances that have effectively developed and created until presently and have a energetic and money related life design willing to accept alter , a emergency circumstance could be a physiological circumstance that can be prepared by business substance administration . Troublesome circumstances confronted by organizations can ordinarily be settled. But there are organizations that cannot confront their issues, to the point of going bankrupt (HR et al. , 2022) . Troublesome circumstances confronted by companies can ordinarily be overcome, but numerous companies fail to overcome these challenges and conclusion up going bankrupt. Liquidation, as a result of disappointment, reflects a company's failure to meet its financial commitments as they come due, such as being incapable to pay bonds, making intemperate withdrawals from bank accounts, or coming up short to pay favored stock profits. Insolvency is considered a sign of financial and budgetary disappointment, and distinguishing companies encountering money related troubles can be an effective way to oversee hazard. Great budgetary announcing is budgetary detailing that has keenness when planning it (Sampurno et al., 2023) . Monetary trouble is closely related to the annihilation of a business substance since money related trouble may be a organize where an organization's money related condition faces a mishap some time recently annihilation (insolvency) happens (Yustika et al. , 2015) . The collapse of a company that loses its uncommon, steady and tall execution frequently shows that the company's administration and business strategy are confronting genuine issues. Due to changing worldwide money related conditions and progressively exacting consumer demands, commerce substances too confront furious competition and questionable working areas, making it troublesome to recognize monetary challenges and take activity within the early stages of insolvency. Hence, an early caution framework (early caution framework ) can work vitally to avoid the organization from collapsing. This is why it is exceptionally vital for commerce substances to create an early caution framework so that budgetary distress can be anticipated as early as conceivable, so that the information makes it simpler to overcome this issue. In arrange to track the organization's offers within the patterned customer industry , it is partitioned into sub-sectors: automobiles & components, family merchandise, recreation merchandise, attire & extravagance merchandise, buyer administrations, media & excitement, and retailing.

## **II. LITERATURE REVIEW**

### **Signaling Concept**

Issuing value is considered a technique to raise reserves from modern speculators, who in turn pick up voting rights as well as leftover claims to the company's benefits and development. On the other hand, in case a company chooses financing through the issuance of obligation or bonds, financial specialists tend to accept that the company incorporates a strong money related position and effectively look for development openings with lower financing costs compared to issuing offers (Hayes, 2020). Sukamulja (2017: 122 - 123) clarified that financing through obligation carries the result of a trade-off between the hazard of misfortune due to settled intrigued charges, which can cause budgetary trouble , and benefits within the frame of charge diminishment ( tax-shield ). The choice to utilize obligation remains productive as long as the assess benefits (tax-shield) are more prominent than the costs emerging from monetary trouble. Caution pointers, such as ruddy banners, are regularly utilized to caution financial specialists and examiners of potential future issues with respect to a company's accounts and wellbeing.

### **Financial distress**

Money related trouble could be a circumstance where the budgetary status of an organization is in a awful circumstance or is confronting challenges. Money related challenges have a solid association with organizational collapse, since for the most part trade substances encounter monetary troubles some time recently coming to the point of liquidation. Budgetary trouble emerges when a commerce substance faces challenges in assembly its monetary commitments. This wonder frequently leads to the liquidation of the company. Each company can encounter money related challenges that are affected by different components. Markers Variables that impact monetary trouble are productivity, liquidity and use (Nurdiawansyah et al., 2021).

### **Size of the Audit Committee**

The measure of the review committee is the full enrollment of the review committee in a commerce substance, a estimation scale that gives categorization or gathering of a subject (Gho Zali 2017:3 ). In understanding with office hypothesis, expansive review committees are less centered and take an interest less than littler review committees (Elhawary, 2021).

$$\text{Audit Committee Size} = \sum \text{Audit committee}$$

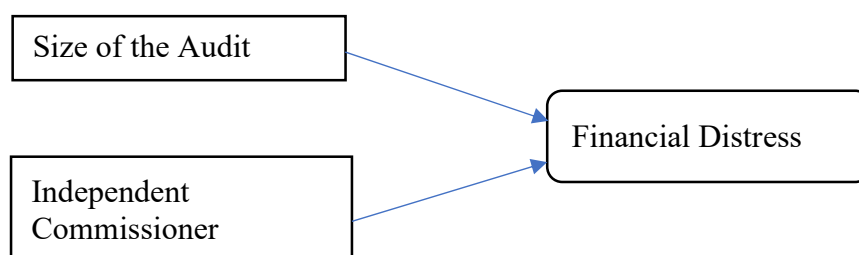
The adequacy of the review committee increments as the estimate of the review committee increments since more assets are accessible to bargain with the issues confronted by commerce substances (Khalid et al., 2020) . This think about employments budgetary trouble commerce substances as objects compared to non-financial trouble trade substances recorded on the IDX for the period 2021 - 2023. This time period was chosen since that year is the most recent time for investigate to be carried out.

### **Independent Commissioner**

Autonomous Commissioners are portion of the Board of Commissioners who don't have funds , administration, offers, or are related to the Board of Commissioners, Board of Commissioners, Chiefs or controlling financial specialists or other connections that may influence their capacity to act freely (Zulfikar et al., 2017) Independent commissioners don't have shares either straightforwardly or by implication within the organization (Chen & He, 2020).

## **III. RESEARCH METHODS**

from the clarification of the marvel and the definition of the issue so that the think about show can be depicted as takes after :



### **Hypothesis Formulation**

#### **Impact of Audit Committee Size on *Financial Distress***

In Indonesia, rules for making an viable review committee state that the least individuals of an review committee possessed by a commerce substance ought to be composed of at slightest 3 outside individuals who are autonomous from the company, and have an understanding and foundation within the areas of bookkeeping and back (National Committee for Administration Arrangement, 2002). The audit committee's capacity to function viably can be improved by expanding its estimate, as this gives the committee with more prominent assets to bargain with the different issues confronted by the trade substance. (Saeed et al. , 2022) . Autonomous sheets of commissioners generally have better supervision of administration so as to play down the hazard of false acts when showing money related detailing (Permatasari et al. , 2019) .

*H1: Audit committee size has a negative impact on financial distress*

#### **Impact of Independent Commissioners on Financial Distress**

The freedom of the board of commissioners can increment the believe of shareholders within the budgetary reports made by business entities in arrange to play down the organization's money related trouble within the taking after period (Ignasia Natania

Astria Gunawijaya, 2015) . Autonomous commissioners don't take sides with anybody and act dispassionately in all circumstances ( Dirman, 2020) . Autonomous commissioners have a noteworthy negative affect on monetary trouble (Ibrahim, 2019) . In some cases autonomous commissioners need freedom so their part is to oversee and give counsel (Nila, 2021).

*H<sub>2</sub> : Independent Commissioners have a negative impact on financial distress*

#### **IV. RESEARCH METHODOLOGY**

##### **Study Method**

auxiliary data beginning from the Indonesian stock trade . In this investigate , the subordinate component is money related trouble. This consider characterizes trade substances confronting budgetary trouble . This think about employments the altmanzscore demonstrate in open fabricating companies as in investigate (Pernamasari et al. , 2019) utilize discriminant examination Altman show (z-score) . The ponder investigates fabricating commerce substances go open in Indonesia through the utilize of 14 money related comparisons and chosen 3 monetary comparisons that are characteristic of organizations confronting budgetary issues trouble and not confront monetary trouble . This ponder is within the frame of a quantitative think about where the data starts within the frame of a monetary report from a commerce substance which can be seen on the IDX site. Investigation of this quantitative ponder can be analyzed utilizing program , specifically SPSS.

##### **Population and Sample**

significant members in this ponder are 50 companies covering all commerce substances within the foundation, utilities and transportation administrations divisions recorded on the Indonesia Stock Trade for the period 2019-2022. The protest determination prepare is carried out through purposive inspecting which decides certain necessities amid the protest determination arrange.

The following are the requirements used for selecting participants, namely:

1. Manufacturing business entities that are consistently listed on the IDX for the 2019-2022 period.
2. Manufacturing business entities that present financial reports for the financial year ending December 31
3. Business entities that publish financial reports for the period 2019-2022 at <https://www.idx.co.id>;
4. Manufacturing business entities that have detailed bookkeeping and annual *reports* .

##### **Information Collection Techniques**

In collecting data, the center is put on documentation information, where composed data is classified or given categories based on its relationship to the investigate issue. One of the information sources gotten to in this documentation think about is the yearly report on the Indonesia Stock Trade (BEI). This information was gotten through get to to the official IDX site at <https://www.idx.co.id> .

##### **Information Analysis Methods**

The data examination strategy in this consider employments quantitative examination strategies. Quantitative investigation is carried out through the capability organize of consider data in arrange to get the information required for data examination. This inquire about could be a calculated relapse investigation. Logit examination is utilized to degree quantitative data that appears 2 answers or is more often than not known as twofold calculated relapse . Calculated relapse is valuable in testing whether the likelihood of happening on a subordinate component can be evaluated through its free component. Calculated relapse examination was carried out utilizing the SPSS program program . The utilize of the relapse strategy does not require gauges of legitimacy, hence the estimation prepare will as it were comprise of graphic factual depictions and possible tests of the consider.

##### **TESTING THE STUDY HYPOTHESIS**

In testing the theory, this consider employments calculated relapse. This method may be a common straight fluctuation utilized in binomial relapse . More often than not considers utilize a centrality level of one percent, five percent, or ten percent. In a theory test, on the off chance that  $\alpha = 5\%$  is utilized, it can be translated that the analyst has certainty that out of 100 percent of

the objects, the likelihood of a test part not having the characteristics of the protest is 5%. From that concept, this test was carried out employing a importance level of 0.05 ( $\alpha=5\%$ ). The criteria for dismissing or tolerating the assumption are:

- a. If the significance number is  $<0.05$  then the hypothesis is accepted (significant regression coefficient). This means that the free element has a big impact on the bound element.
- b. If the significance number is  $\geq 0.05$ , the hypothesis is rejected (the regression coefficient is not large). This means that the free elements do not have a big impact on the bound elements.

#### **Measuring All Variance (*Overall Model Fit*)**

This factual test is to get it whether all the autonomous components in calculated relapse collectively or at the same time impact the subordinate components, such as the F test in straight relapse. The generally show fit test is based on factual numbers -2LL or LR numbers. The synchronous test of the calculated fluctuation relapse coefficient is surveyed through the contrast within the -2LL number between changes and is as it were composed of constants and fluctuations which are assessed to be composed of constants and autonomous components (Widarjono, 2010:141).

#### **Testing the Feasibility of the Regression Model**

The fittingness of the backslide alter was measured through Hosmer and Lemeshow's Goodness of Fit Test . Hosmer and Lemeshow's Goodness of Fit Test tests whether exploratory information is alter or fits the variance (there's no refinement between variance and information so that the alter can be called fit ). Within the occasion that the Hosmer and Lemeshow's Goodness of Fit Test real figures are over or underneath 0.05, at that point there's a critical differentiate between the change and the observed figures. In this way, the goodness of fit of the illustrate isn't extraordinary since the alter cannot evaluate the observed numbers.

In case the real figures for Hosmer and Lemeshow's Goodness of Fit Test are higher than 0.05, at that point the alter can evaluate the discernment figures or can be called commendable change since it matches the recognition information (Ghozali, 2009:80).

#### **Coefficient of Determination (*Nagelkerke R Square*)**

Distinctive backslide is based on a likelihood estimation method with a most noteworthy number underneath one, making it troublesome to interpret. The coefficient of confirmation can be deciphered, for outline, as the R2 number in several backslide , so Nagelkerke R Square is utilized . Nagelkerke's R Square is an progression of the Cox coefficient and Snell R Square to ensure that the numbers alter from zero to one. Ordinarily done by dividing the Cox and Snell R2 numbers by the foremost extraordinary number.

#### **Wald test**

Widarjono (2010:123) said, the Wald test in calculated relapse is utilized to survey the fractional centrality of the free variable on the subordinate variable. This handle includes comparing the esteem of the Wald measurement with a basic Chi-square esteem comparing to a degree of flexibility which is for the most part 1, showing a test of one relapse parameter. Particularly, the theories tried include:

Invalid theory (H0): No impact ( halfway relapse coefficient = 0). Elective theory (H1): There's an impact (fractional relapse coefficient  $\neq 0$ ). Choices are taken based on the p-value created by the Wald test. In the event that the p-value is less than the centrality level (ordinarily 0.05), at that point the invalid speculation is rejected, and it is concluded that there's a mostly critical impact of the autonomous variable on the subordinate variable. In other words, on the off chance that the p-value  $< 0.05$ , we have sufficient prove to state that at slightest one autonomous variable contains a critical impact on the subordinate variable within the calculated relapse show.

V. FINDING AND DISCUSSION

Overall Test

Omnibus Tests of Model Coefficients

		Chi-square	Df	Sig.
Step 1	Step	12,071	3	,007
	Block	12,071	3	,007
	Model	12,071	3	,007

Source: spss output version 17.00, 2023

Based on the comes about over, compare the numbers -2 Log probability which is composed of as it were constants (table 4.10) and -2 log probability which is composed of constants and free components. The proportion compares to the chi square dispersion. The chi square number is 12.071 with df 3. From the table over, the Sig number is gotten. The demonstrate is 0.07 since this figure is lower than 5 percent so that it can be concluded that the estimate of the review committee and the autonomy of the committee individuals have an affect on Monetary Trouble.

Coefficient of Determination

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	22,576 <sup>a</sup>	,371	,504

a. Estimation terminated at iteration number 3 because parameter estimates changed by less than .001.

The tall coefficient of assurance within the calculated relapse change is appeared from the Nagelkerke R Square figure . The Nagelkerke R Square figure is 0.5 04 , meaning that the changeability of the subordinate components that can be clarified by the free components is 29.5%, at that point the remaining 70.5% is clarified from other components exterior the think about change.

## Logistic Regression Coefficient Test Findings

## Variables in the Equation

	B	S.E.	Wald	Df	Sig.	Exp(B)	95% C.I. for EXP(B)	
							Lower	Upper
Step 1 <sup>a</sup> X1	2.492	1.224	4.141	1	.043	12.081	1.096	133.169
X2	-2.166	1.082	4.009	1	.115	.115	.014	.956
Constant	7.482	3.867	3.743	1	.053	.001		

a. Variable(s) entered on step 1: X1, X2

From the comes about over, a calculated relapse demonstrate can be shaped as takes after, with X1 as the variable "Estimate of the Review Committee" and X2 as the variable "Freedom of Review Committee Individuals" which appears importance. Within the moment case, the translation of the chances proportion esteem for each variable can be found within the "Factors within the Condition" table within the Exp(B) column. From the comes about of the picture over, it can be concluded that in this company, the likelihood of passing is around 12,081 times higher than in companies that don't pass. This shows that each one unit increment in company esteem will increment the likelihood of passing by 12.081 within the recruitment choice variable. Moreover, the likelihood of cooperation in company preparing giving a passing choice is 0.115 times compared to companies that don't participate in preparing. In this manner, it can be concluded that each one unit increment in interest in preparing will increment the probability of passing by 0.115 within the enlistment choice variable. So it can be concluded that each time you include 1 unit of company commitment you'll include as much as 0.115 to the choice components found. enrollment .

## Testing the Appropriateness of Regression Models

## Hosmer and Lemeshow Test

Step	Chi-square	Df	Sig.
1	2,750	7	,907

Source: spss output version 17.00, 2023

Based on the t table displayed, the Chi-square figure is 2.750 with a importance (p) of 0.907. From these discoveries, since the importance figure is higher than 0.05, the conclusion can be drawn that the change can be assessed from the perception figures or it can be said that the change is satisfactory since it is based on the perception data.



## Classification Matrix

Classification Table <sup>a</sup>

Observed			Predicted		
			Financial Distress		Percentage Correct
			Non Financial Distress	Financial Distress	
Step 1	Financial Distress	Non Financial Distress	70	8	81.3
		Financial Distress	64	8	70.0
Overall Percentage					76.9

a. The cut off value is ,500

uFrom the discoveries over, it was found that for comes about that did not pass, the rate of rightness was 81.3%, whereas for comes about that passed, the rate of rightness was 70.0%. This has an affect on the subordinate variable which takes after a steady parameter. It can be concluded that the prescient control or exactness of the show in classifying perceptions is 76.9%. Show elucidation can be done by watching the yield within the Demonstrate Outline table .

## Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	24,391 <sup>a</sup>	,326	,443

a. Estimation terminated at iteration number 3 because parameter estimates changed by less than .001.

From the findings above, it can be explained that the ability of independent elements ( size of the audit committee and independence of audit members ) can explain the dependent elements (recruitment findings elements) as much as 0.4 43 % into the variance and the remaining 95.57% is influenced by other elements in outside the variance of the phenomenon that has been measured, so that conclusions can be drawn if:

1. Through the use of the overall test, it can be concluded that the size of the audit committee and independent commissioners has an impact on *financial distress*
2. This committee can contribute to increasing the level of efficiency of its internal functions. Its significance is greater if the Board is large in size. Audit committees serve as the final entity that oversees the company's financial reporting process, and they have an impact on the policies the company adopts regarding the principles applied in financial reporting.
3. The presence of an Independent Commissioner has a positive impact on reducing *financial distress*

According to the table presented which uses a significance level of 0.05 ( $\alpha = 5\%$ ) it can be said that the elements of the size of the Board of Commissioners (X1), Independent Commissioners (X2 ) have an impact on the estimate of financial distress because the Sig. lower than 0.05, namely 0.043.

From the table, the Sig number for the Board of Commissioners Size element (X1) is  $0.155 \geq \alpha (0.05)$ . Therefore, it can be interpreted that the Board of Commissioners Size element (X1) does not have a major impact on the financial distress estimate . The



Sig number of the Independent Commissioner element (X2) is  $0.038 \leq \alpha (0.05)$ . So it can be said that the Independent Commissioner element (X2) has a crucial impact on financial distress estimates.

## **Discussion**

### **The Impact of Audit Committee Size on *Financial Distress***

The test findings on the Audit Committee Size element show that this element has an impact on financial stress. So presumption I (H1) is accepted which says that the size of the Audit Committee has an impact on financial stress. This shows that the more members of a company's audit committee, the greater the possibility of financial stress occurring. These findings indicate that the size of the audit committee tends to uphold conservatism as a company mechanism. Accounting conservatism has an important role. From the findings of the hypothesis test above, it can be concluded that the size of the Audit Committee has an impact on *Financial Distress*.

### **The Impact of Independent Commissioners on *Financial Distress***

deep testing The test results on the Independent Commissioner element show that this element has an impact on financial stress. So presumption II (H2) is accepted which states that the independence of the Board of Commissioners has a negative impact on financial distress. This illustrates that the greater independence can reduce the risk of financial distress in an organization. It is said that in the agency concept, independent commissioners are needed to maintain and control the directors' attitude regarding their opportunistic attitudes. The higher it is The authority of independent commissioners can also be more effective in carrying out their responsibilities in supervising and controlling the attitude of the executive director. The higher independence of the board of commissioners leads to the right to the presence of business entities.

## **VI. CONCLUSION**

After carrying out the information analysis using multiple linear regression, conclusions can be drawn, namely:

1. The size of the audit committee (X1) has an impact on financial distress (Y) for IDX business entities in Indonesia for the period 2019 - 2022
2. Independent Commissioners (X2) have an impact on Financial Distress (Y). BEI business entities in Indonesia for the period 2019 – 2022.

This means that if the number of audit committee meetings and the total number of audit committee members have a large number of economic insights, a business entity can avoid financial decline.

However, other characteristics, for example the size of the audit committee and independent auditors, have not been proven to have a negative impact on financial difficulties. So, the total number of audit committee members and the total number of independent audit committee members cannot provide guarantees for the business entity. not affected by the financial crisis.

## **VII. LIMITATIONS**

If the number of audit committee meetings and the total number of audit committee members who have financial insight is large, a business entity can avoid financial decline. However, other characteristics, for example the size of the audit committee and independent auditors, apparently do not have a negative impact on financial difficulties. This means that the total number of audit committee members is large Independent members of the audit committee cannot provide guarantees that the business entity will not be affected by the financial crisis.

## **VIII. SUGGESTIONS**

For the next study, it is hoped that to evaluate whether the business entity is facing financial difficulties or not, it is best to use z-score discriminant analysis. However, it needs to be matched to a z-score that corresponds to the sample period to be investigated. Apart from relying on annual reports, you can also use data from the Indonesian Audit Committee Association or contact the issuer directly. The control variables in this research should not only be limited to company size. It would be better if other variables were added such as external auditor reputation, leverage, liquidity and net profit margin. Meanwhile, for the commissioner variable, it is recommended to include variables for gender diversity and commitment of audit committee members to obtain more accurate research results regarding the independence of the audit committee.

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