


## THE EFFECT OF AUDIT COMMITTEE AND AUDIT INDEPENDENCE ON THE QUALITY OF FINANCIAL STATEMENTS WITH AUDIT QUALITY AS A MODERATING VARIABLE

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Article Info	ABSTRACT
<p><b>Article history:</b> Received Sep, 22 2024 Revised Sep, 25 2024 Accepted Sep, 30 2024</p> <p><b>Keywords:</b> Audit Committee, Audit Independence, Quality of Financial reports, Audit Quality</p>	<p><b>General Background:</b> The quality of financial statements is crucial for stakeholders to make informed decisions, and factors such as audit committees and audit independence play key roles in enhancing this quality. <b>Specific Background:</b> Previous studies have highlighted the importance of both an effective audit committee and independent auditing in maintaining the integrity of financial reporting. However, the extent to which these factors influence financial statement quality, especially in manufacturing firms in emerging markets, remains underexplored. <b>Knowledge Gap:</b> Additionally, the moderating role of audit quality, particularly from firms audited by Big Four firms, on the relationship between audit committees, audit independence, and financial statement quality has not been thoroughly examined. <b>Aims:</b> This study seeks to examine the impact of the audit committee and audit independence on the quality of financial statements, with audit quality as a moderating variable. <b>Results:</b> Based on a sample of 120 financial statements from manufacturing companies listed on the Indonesia Stock Exchange (IDX) between 2019 and 2023, this study found that both the audit committee and audit independence positively affect the quality of financial statements. However, audit quality does not moderate the effect of either the audit committee or audit independence on financial statement quality. <b>Novelty:</b> This research provides new insights into the limited role of audit quality as a moderating variable, suggesting that even audits by Big Four firms may not necessarily amplify the benefits of strong audit committees and audit independence. <b>Implications:</b> These findings imply that companies should focus on strengthening audit committee practices and enhancing auditor independence, regardless of whether they engage with Big Four auditors, to improve financial statement quality. Future research should explore additional variables that could influence or moderate this relationship.</p> <p>This is an open-access article under the <a href="#">CC-BY 4.0</a> license.</p> 

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## INTRODUCTION

A company's financial report is a document that presents the financial information of a company in a certain period adjusted from the company's policy, which includes profit and loss statements, cash flow statements, balance sheets, and statements of changes in equity. These reports are an important tool for various stakeholders, including management, investors, creditors, and regulators, to evaluate a company's financial performance and economic condition[1].

The income statement will show how the company's operational performance by detailing the revenue, costs, and profit or loss generated during the reporting period. The balance sheet describes the financial position of the company at the end of the reporting period, showing assets, liabilities, and equity[2]. The statement of cash flows outlines the cash inflows and outflows from operating, financing, and investing activities, providing an overview of the company's liquidity and solvency. Meanwhile, the statement of changes in equity displays the movement in equity components during the period. The preparation of financial statements must follow applicable accounting standards, such as International Financial Reporting Standards (IFRS) or Generally Accepted Accounting Principles (GAAP), which ensure consistency, transparency and comparability of financial information. The use of these standards also aims to increase the credibility and trust of stakeholders in the financial statements[3].

In previous studies, it was stated that the quality of financial statements is influenced by factors such as data accuracy, accounting process integrity, and auditor independence and competence[4]. Therefore, companies must ensure a strong internal control system and engage independent auditors to provide an objective opinion on their financial statements. High-quality financial statements not only reflect true financial performance, but also assist companies in making strategic decisions, attracting investment, and meeting regulatory requirements. As such, financial statements play an important role in the sustainability and growth of companies, as well as in maintaining market confidence and economic stability that is not only comprehensive but complete[5].

High-quality corporate financial statements are an important foundation for transparency and accountability in business. Financial statement quality is heavily impacted by a number of things, including audit committees and audit independence. By using audit quality as a moderating variable, research on the impact of audit committees and audit independence on the caliber of corporate financial statements seeks to elucidate the ways in which these elements support the development of dependable and credible financial statements.[6].

An effective audit committee is usually composed of members with expertise and experience in finance and accounting, and carries out their duties with a sense of responsibility and integrity[7]. This committee plays a role in overseeing the financial reporting process and ensuring compliance with applicable accounting standards. The high quality of the audit committee is believed to be able to detect and prevent errors or irregularities in the financial statements, thereby raising the quality of these reports[8]. In several studies, it is stated that the audit committee has an impact on the financial statements. Like previous research which states

that the audit committee has a positive effect on the quality of financial statements[9][10]. While in other studies, state the opposite[11].

Auditor independence is a key aspect in ensuring that auditors can provide an objective and unbiased opinion on the company's financial statements[12]. Independent auditors are free from management influence and can identify and report problems that may be missed by internal companies. This independence is very important to maintain the reliability and credibility of financial reports. In line with the explanation of independence is very important to maintain the credibility of financial statements. As the results of previous studies have concluded that audit independence has a positive effect on the quality of financial statements[13]. However, there are other studies that draw opposite conclusions[14].

Based on previous research on the relationship between independence and corporate governance on the integrity of financial statements that is inconsistent, the researchers added a moderating variable, namely audit quality[15]. Audit quality, which includes auditor competence, audit methodology used, and adherence to strict auditing standards, acts as a moderating variable that can strengthen or weaken the relationship between audit committee and audit independence with financial statement quality. High-quality audits can strengthen the positive influence of an effective audit committee and auditor independence on financial statement quality. With a quality audit, errors and irregularities are more likely to be detected and corrected, making the resulting financial statements more trustworthy[16].

This research develops previous research with the same two variables[15]. However, as an update from previous research, researchers add moderating variables that can strengthen or weaken the effect of audit committees and audit independence on financial report quality. This study will focus more on the relationship between three main elements in corporate governance, namely audit committee, audit independence, and audit quality. The findings of this study are expected to provide a more complete insight into how to improve the financial control and reporting system in companies, as well as provide practical guidance for companies to improve the quality of their financial statements through strengthening audit committees and audit independence, supported by high-quality audits. This research also contributes to the corporate governance literature by highlighting the importance of synergy between these factors in achieving optimal financial transparency and accountability.

In requiring this research, we as authors will carry the title The effect of the audit committee and audit independence on the quality of the company's financial statements is a crucial topic in the context of good corporate governance. The audit committee and audit independence have an important role in ensuring the integrity and reliability of financial statements, which in turn affects stakeholders' trust in the company. This study aims to explore more deeply how audit committees and audit independence affect the quality of financial statements, as well as the function of audit quality as a moderating factor. An audit committee is expected to be able to identify and address financial issues more effectively, thereby improving the quality of financial statements. On the other hand, audit independence refers to the extent to which auditors are free from management influence in carrying out their duties.

Independent auditors are more likely to provide objective and honest opinions, which in turn increases the credibility of financial statements.

This study also considers audit quality as a moderating variable, which serves to strengthen or weaken the relationship between the audit committee, audit independence, and financial statement quality. High audit quality can increase the effectiveness of audit committee oversight and strengthen the impact of auditor independence on financial statement quality. Thus, this research not only contributes to the theoretical understanding among the elements that affect the financial statement quality, but also provides practical implications for improving corporate governance through enhancing the role of audit committees and auditor independence.

## **HYPOTESIS DEVELOPMENT**

### **Audit Committee on the Quality of Financial Statements**

One theory that supports the audit committee's effect on the quality of financial statements is agency theory[17]. Because in agency theory it is stated that there are always conflicts of interest differences between principals and agents, so that auditor independence services are needed as mediators[18]. And also principals need reliable and relevant financial reports. To realise reliable and relevant financial statements, auditor independence is needed[19]. Because the audit committee is formed with the aim of increasing supervision of management which makes it possible to manipulate financial reports, thus having an effect on financial statements' quality[20].

In line with previous research which states that the audit committee has a significant effect on the quality of financial statements[21]. Because with the audit committee which acts as a supervisor who oversees management in presenting financial statements, the audit committee has a significant effect on the quality of financial statements[3], then the quality of the financial statements issued by the company will be more reliable and reliable. Based on the description above, the following hypothesis can be drawn

#### **H1 : *Audit Committee has an effect on the Quality of Financial Reporting***

### **Audit Independence on the Quality of Financial Statements**

The theory that supports audit independence to affect the financial statements quality is the theory of attitudes and behaviour. This theory of attitude and behaviour explains that an auditor who has an independent attitude in his appearance means that the auditor has an obligation to be honest and impartial to anyone[22]. Because independence means impartiality and not under the influence or pressure of certain parties when making decisions[23]. And the auditor's independence can be reduced when the relationship between the auditor and the client occurs over a long period of time. Because the auditor gradually adjusts to what the client or management wants. And the auditor's independence can be reduced when the relationship between the auditor and the client occurs over a long period of time. Because the auditor gradually adjusts to what the client or management wants[24].

Previous research states that audit independence has a significant effect on the quality of financial statements[25]. Based on the description above, the following hypothesis can be drawn

**H2 : *Audit independence affects the quality of financial statements*****Audit Committee on the Quality of Financial Statements with Audit Quality as a Moderating Variable**

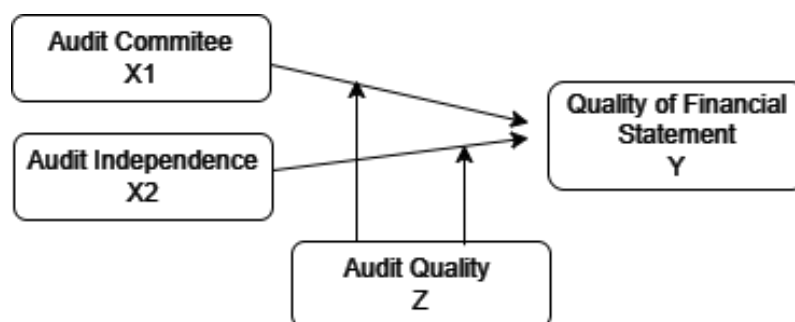
In the process of overseeing the financial statements, the audit committee should communicate frequently with the external auditors through regular meetings regarding accounting policies and practices[26]. The effectiveness of external auditors can be felt by the audit committee when dealing with management regarding the resolution of financial reporting issues, because with the support of qualified external auditors, they will have an understanding of these issues[27].

And also as previous research which states that audit quality can moderate the effect of the audit committee on financial reports[28]. Based on this description, the following hypothesis can be drawn

**H3 : *Audit quality moderates the effect of the Audit Committee on the Quality of Financial Reporting*****Audit Independence on the Quality of Financial Statements with Audit Quality as a Moderating Variable**

Good financial statements are financial statements that have reliability and relevance[29]. It is important for auditors to increase the reliability and relevance of financial statements in accordance with the responsibilities they carry. Therefore, not only armed with knowledge and experience, but the attitude of independence needs to be owned by each individual in carrying out the audit process[30]. Therefore, auditors must maintain their independence to produce quality audits[31].

Where, if the auditor maintains his independence and the quality of the audit produced by the auditor is of high quality, this will support the reliability and relevance of the financial statements for use. Based on the description above, the following hypothesis can be drawn

**H4 : *Audit quality moderates the effect of audit independence on financial statement quality*****Conceptual Framework****Figure 1. Conceptual Framework**

## METHODS

### Type of Research

This research uses quantitative methods, which use data in the form of numbers as a tool to analyse something that you want to know. This research is full of nuances of numbers in data collection techniques[32].

### Data types and sources

The type of data used in this study is quantitative data and the data source used is secondary data in the form of financial reports of manufacturing companies in 2019-2023.

### Population and sample

Population can be defined as all elements in research that include objects and subjects with certain characteristics[33]. The population in this study is a manufacturing company listed on the IDX in 2019-2023.

While the sample used is purposive sampling, where purposive sampling is a non-probability sampling technique where the researcher determines the criteria that match the research objectives[34].

**Table 1. Sample Selection Criteria**

No.	Criteria	Total Company
	Manufacturing companies listed on the Indonesia Stock Exchange in 2019-2023	166
1	Manufacturing companies engaged in the food and beverage subsector	(140)
2	Food and beverage subsector manufacturing companies that publish financial reports in 2019-2023	(1)
3	Food and beverage sector manufacturing companies that disclose NIO, DEP, CFO, and TA	(1)
Number of companies selected as research samples		24
Number of selected samples 24 x 5		120

Source: Summarized by Researcher

## Identification and Indicator Variables

**Table 2. Indicator Variables**

Variable	Indicator	Scale
Quality of Financial Statement (Y)	$CONACC = \frac{(NIO + DEP - CFO) \times (-1)}{TA}$ <p>Source: [35][21][36]</p>	Ratio
Audit Committee (X1)	<p>Audit Committee = <math>\Sigma</math> Audit Committee Members</p> <p>Source: [37][38]</p>	Ordinal
Audit Independence (X2)	<p>Audit Independence = there is a change of Auditor from the previous year</p> <p>1 is given if there is an auditor change 0 is given if there is no auditor change</p> <p>Source: [39]</p>	Dummy Variabel
Audit Quality (Z)	<p>Audit Quality = 1 is given if the company is audited by KAP Big Four, 0 otherwise</p> <p>KAP Big Four:</p> <ul style="list-style-type: none"> <li>• Ernst &amp; Young (EY)</li> <li>• Deloitte Touche Tohmatsu</li> <li>• Price Waterhouse Coopers (PWC)</li> <li>• KPMG Peat Marwick</li> </ul> <p>Source: [40]</p>	Dummy Variabel

## Data Collection Techniques

In this study, the data analysis technique used the Statistical Program for Special Science (SPSS). The methods used in analysing data and testing hypotheses are:

### 1. Statistics descriptif

This descriptive statistical test does not aim to test the hypothesis but only provides an overview of the data through the average value (mean), maximum value, standard deviation, and minimum value[41].

### 2. Classification Assumption Test

The Classical Assumption Test itself is divided into 4:

#### a. Data Normality Test

The data normality test aims to assess the distribution of data in a group of data or variables, whether the data distribution is normally distributed or not[42]. The data normality test in this study uses the Kolmogorov Smirnov test method, the variable is declared normally distributed if the significance value is more than 0.05. Conversely, if the significance value is less than 0.05, the variable is declared not normally distributed



**b. Multicollinearity Test**

The multicollinearity test aims to see if there is a correlation between the independent variables. Therefore, this test is intended for research that has more than one independent variable. A good regression model should not have a correlation between independent variables[25]. To determine the symptoms of multicollinearity, it can be seen from the Variance Inflation Factor (VIF) and Tolerance values. If the VIF value is less than 10 and the Tolerance value is more than 0.1, then it can be stated that multicollinearity does not occur between the independent variables[43].

**c. Heteroscedasticity Test**

This heteroscedasticity test has the aim of seeing whether there is a variance in the residuals for all observations in the regression model. How to do this heteroscedasticity test using the Glejser test[43]. A model can be declared to have no heteroscedasticity when it has a value of more than 0.05 on each probability value of each independent variable[44].

**d. Autocorrelation Test**

Regression models that work well shouldn't have autocorrelation. Because autocorrelation is a condition where there is a correlation between residuals in the current period and the previous period. This autocorrelation test can be done with the Durbin Watson (DW) test.

**3. Hypothesis Test****Test the coefficient of determination**

The determination coefficient test is a measure that shows how much variable X influences or contributes to variable Y. This test is used to determine the percentage contribution of the influence of the independent variable simultaneously on the dependent variable[43].

**Test T**

This test aims to determine whether the independent variable regression model partially affects the dependent variable[43]. Hypothesis as follows:

- e. Ho: there is no effect of X1, X2 partially on Y
- f. Ha: there is an effect of X1, X2 partially on Y

Decision making criteria

- Ho is accepted if significance is  $> 0.05$  (no effect)
- Ho is rejected if significance  $< 0.05$  (influential)

**Moderating Regression Analysis**

Moderating Regression Analysis (MRA) is an analysis model when the research has a moderating variable in addition to the independent variable and the dependent variable[44]. The Moderating Regression Analysis (MRA) equation in this study is as follows:

$$QFS = \alpha + \beta_1 AC + \beta_2 AI + \beta_3 AC * AQ + \beta_4 AI * AQ + e$$



## Description

QFS : Quality of Financial Statement

 $\alpha$  : Constant $\beta$  : Regression coefficient

AC : Audit Committee

AI : Audit Independence

AQ : Audit Quality

e : error

**RESULTS AND DISCUSSION****1. Statistics descriptif****Table 3. Descriptive Statistics Test Results**

	N	Minimum	Maximum	Mean	Std. Deviation
Audit Committee	120	2.00	3.00	2.9833	.1286
Audit Independence	120	.00	1.00	.4000	.4920
Quality of Financial Statement	120	-2.83	.18	-.2921	.2937
Audit Quality	120	.00	1.00	.4083	.4936
Valid N (listwise)	120				

Source: SPSS Output

**Audit Committee (X1)**

The distribution of audit committee variable data is shown in the table 3. The number of audit committee members in the company is used to measure this variable. With an average of 2.983 and a standard deviation of 0.128, the data distribution displays a minimum value of 2.00 and a maximum value of 3.00. Based on how close the average value is to the maximum value, the data indicates that company with three audit committee members are relatively large. Considering that the mean value and standard deviation are far apart, the data variance is quite high.

**Audit Independence (X2)**

The data distribution for the audit independence variable is displayed in the table 3. A dummy variable is used to measure this variable, 1 if the company changes the auditor from the previous year and 0 if the company does not change the auditor from the previous year. The data distribution has a standard deviation of 0.492, an average value of 0.400, a maximum value of 1.00, and a minimum value of 0.00. These findings suggest that the auditor change from the previous year was relatively small by looking at the proximity of the average value to

the minimum value. While the data variance is relatively small by looking at the proximity of the average value to the standard deviation.

### Quality of Financial Statement (Y)

The data distribution for the variable financial statements quality is displayed in the table 3. This variable's measurement is made using the conservatism formula of Givoly and Hayn (2000). The distribution of the data indicates a minimum value of -2.83, which means that in this study there are companies that have a conservatism value of -2.83, namely PT Prasidha Aneka Niaga Tbk in 2023. The maximum value of financial statement quality in this study is 0.18, which means that there are companies that have a conservatism value of 0.18, namely PT Prima Cakrawala Abadi Tbk in 2020. With an average value of -0.292 and a standard deviation of 0.294.

### Audit Quality

The data distribution for the audit quality variable is displayed in the table 3. When the company is audited by KAP Big Four, the variable is measured by a dummy variable that is set to 1. If not, it is set to 0. The data distribution is characterized by a standard deviation of 0.494, an average value of 0.408, a minimum value 0.00, and a maximum value of 1.00. The results show that, when comparing the proximity of the average value and minimum value, the companies audited by KAP Big Four are relatively tiny. By examining the distance between the average value and the standard deviation, the data variance is shown to be rather minimal.

## 2. Classification Assumption Test

### a. Data Normality Test

The results of the normality test through SPSS software are presented in the following table:

**Table 4. Normality Test Results**

		Unstandardized Residual
N		120
Normal Parameters <sup>a,b</sup>	Mean	.0000000
	Std. Deviation	.05302747
Most Extreme Differences	Absolute	.059
	Positive	.046
	Negative	-.059
Test Statistic		.059
Asymp. Sig. (2-tailed)		.200 <sup>d</sup>

Source: SPSS Output

Based on Table 4, it shows that the significance value is more than 0.05, so it can be concluded that the regression model has fulfilled the assumption of normality.

### b. Multicollinearity Test

The results of the multicollinearity test through SPSS software are presented in the following table:

**Table 5. Multicollinearity Test Result**

Model	Collinearity Statistics	
	Tolerance	VIF
1. (Constant)		
AC	.974	1.027
IA	.989	1.011
AQ	.971	1.030

Source: SPSS Output

Based on Table 5, the multicollinearity test observed from tolerance values and VIF can be seen that the Audit Committee variable (X1) has a tolerance value of 0.974 and the Audit Independence variable (X2) has a tolerance value of 0.989 while the Audit Quality variable (Z) has a tolerance value of 0.971. These results show that the calculation of tolerance values for all variables has a value of  $> 0.10$ , which means that there is no correlation between variables with a value of more than 90%. The calculation of the VIF value in Table 3 also shows that there are no variables in this study that have a VIF value of more than 10. Therefore, it can be concluded that there is no multicollinearity between variables in the regression model.

### c. Heteroscedasticity Test

The results of the heteroscedacity test through SPSS software are presented in the following table

**Table 6. Heteroscedasticity Test Result**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig
	B	Std. Error	Beta		
1. (Constant)	0,053	0,07		0,74	0,46
Audit Committee	-0,002	0,02	-0,01	-0,09	0,93
Audit Independence	0,01	0,01	0,09	0,73	0,47
Audit Quality	0,01	0,01	0,21	1,63	0,11

Source: SPSS Output

Based on Table 6. shows that both the value of the audit committee (X1), audit independence (X2), and the value of audit quality (Z) both show a significance value greater than 0.05. Therefore, it can be concluded that there are no symptoms of heteroscedasticity in the regression model. However, in the three variables there are symptoms of homoscedasticity.

**d. Autocorrelation Test**

The results of the autocorrelation test through SPSS software are presented in the following table

**Table 7. Autocorrelation Test Result**

Model	R	R.Square	Adjusted R Square	Std. Error of the Estimate	Durbin – Waston
1	.616 <sup>a</sup>	.380	.348	.05436	2.043

Source: SPSS Outout

Based on Table 7. shows that the DW value is 2.043 which can be seen in the Durbin-Watson test table. This value will be compared with the DW table value using a 5% significance, a sample size of 120 (n) and a number of independent variables of 2 ( $k = 2$ ), then the DW table will get an upper limit value (dU) of 1.7536. Since the DW value of 2.043 is greater than dU of 1.7536 and 4-(dU) of 2.2464, it can be concluded that there is no autocorrelation either positive or negative.

**3. Hypotesis Test****Coefficient of Determination ( $R^2$ )**

The results of testing the coefficient of determination using SPSS software are presented in the following table:

**Table 8. Coefficient of Determination Test Result**

Model	R	R.Square	Adjusted R Square	Std. Error of the Estimate
1	.623 <sup>a</sup>	.388	.346	.05444

Source: SPSS Output

According to the table 8, the test outcomes of the xcoefficient of determination show an adjusted-R square value of 0.346. It can be concluded that only 34.6% of the variation of the 3 audit committee variables, audit independence, M \* X1 interaction and M \* X2 interaction. The remaining 65.4% is explained by other variables that are not included in the regression model. These include managerial ownership, independent commissioners, and institutional ownership.

**Table 9.**  
**Multiple Linear Regression Analysis Test Results**

Model	Unstandardized		Standardize Coefficients		
	B	Std. Error	Beta	t	Sig.
1.	-.638	.118		-5.406	<.001
AC	.119	.040	.313	3.003	.004
AI	.068	.019	.477	3.640	<.001
X1M	-.001	.006	-.023	-.186	.853
X2M	.028	.031	.130	.903	.370

Source: SPSS Output

### Multiple Linear Regression Analysis

Table 9 shows the results of multiple linear regression tests which show that the Audit Committee (X1) affects the Quality of Financial Statements with a significance of less than 0.05, or 0.004, therefore hypothesis 1 is accepted. While Audit Independence (X2) affects the Quality of Financial Statements with a significance of less than 0.05, or <0.001, so hypothesis 2 is accepted.

### Moderated Regression Analysis (Moderate Regression Analysis) / MRA

According to the MRA test shown in Table 9, Audit Committee (X1) on Financial Statement Quality (Y) with Audit Quality (Z) moderation has a significance value of 0.853 greater than 0.05, which indicates that Audit Quality cannot moderate the relationship between Audit Committee (X1) and Financial Statement Quality (Y), so H3 is rejected. In addition, Audit Independence (X2) on Financial Statement Quality (Y) with Audit Quality (Z) as a moderating variable has a significance value of 0.370 greater than 0.005, which indicates that Audit Quality cannot moderate the relationship between Audit Independence (X2) and Financial Statement Quality (Y), so H4 is rejected.

## DISCUSSION

### The Effect of the Audit Committee on the Quality of Financial Statements

In this study, the first hypothesis proposed is that the Audit Committee has an effect on the Quality of Financial Statements, where the significance level possessed by the audit independence variable is  $0.004 < 0.05$ , so H1 is accepted. This is because audit committees are part of GCG, and they are assigned to help the board of commissioners improve the quality of financial statements. The audit committee ensures that the company's financial reporting process is properly supervised, so that the company's financial statements have integrity[20]. This is in line with agency theory where the role of the audit committee as an arbiter between principals and agents is needed to oversee the financial reporting process so that the resulting financial statements are of high quality. The results of this study are also in line with the results of previous research[20][21]. However, the results of this study contradict the results of other studies[11].

### The Effect of Audit Independence on the Quality of Financial Statements

The multiple regression coefficient test results show that the significance level possessed by the audit independence variable is  $0.001 < 0.05$ . This shows that audit independence affects the quality of financial reports, so H2 is accepted. The results of this study are in line with the theory of attitudes and behavior, where if the auditor has an independent and impartial attitude and honest behavior, the quality of financial statements produced by an issuer or company can have integrity and reliable quality[22]. Another factor that affects independence itself is the relationship between the auditor and the auditee. If the relationship between the auditor and the auditee occurs for a long period of time, it will reduce the independence of an auditor[24]. Therefore, the Chairman of the Capital Market Supervisory Agency made a decision that the maximum assignment of an auditor is only 3 years[39]. The results of this study are in line with the results of previous studies[23][45]. However, the results of this study contradict the results of other studies[14].

#### **The Effect of the Audit Committee on the Quality of Financial Reports with Audit Quality as a Moderator**

The third hypothesis in this study states that audit quality cannot moderate the relationship between the audit committee and the quality of financial statements. The results showed a significant value of 0.853, which is greater than 0.05. From these results, it is known that the interaction between audit quality and audit committee has no significant effect on the quality of financial statements. The moderating variable used in this study is the quality of audits as measured by the Big Four KAP. This is due to the difference in task focus between KAP Big Four and the audit committee itself. The focus of KAP Big Four is to audit financial statements with applicable audit standards, KAP Big Four is not directly involved in the internal supervision and assessment process which is the main focus of the audit committee. Although Big Four firms can provide high audit quality, the effectiveness of audit committee oversight in ensuring the quality of financial statements through internal controls, understanding of regulations, and evaluating financial risks are crucial factors that do not always depend on Big Four firms. The audit quality provided by Big Four KAPs does not necessarily affect the audit committee's ability to carry out their supervisory duties, but the audit committee has the ability to influence the quality of financial statements by selecting external auditors and ensuring their independence. This is in line with the results of previous research[3]. However, contrary to the results of other studies[28].

#### **The Influence of Auditing Independence on Financial Reporting Qualities with Audit Quality as a Moderator**

The fourth hypothesis in this study states that audit quality cannot moderate the relationship between audit independence and financial report quality. The results showed a significance value of 0.37 which is greater than 0.05, so H4 is rejected. This is because Big Four KAPs mostly assess audit quality from the point of view of the audit process, which includes audit standards, methodology, and compliance with laws. This assessment does not always include an assessment of auditor independence or its influence on audit results. The difference in focus between audit quality as measured by Big Four KAPs and audit independence is a crucial factor why audit quality as measured by Big Four KAPs cannot

moderate the relationship between audit independence and financial statement quality. Audit quality as measured by Big Four KAP focuses more on technical elements such as the application of sophisticated audit methodologies, audit experience, and compliance with audit standards. Meanwhile, audit independence is more related to the auditor's ability to act without being influenced by their own interests. The results of this study are in line with previous research[46]. However, the results of this study contradict the results of previous studies which state that audit quality can moderate the relationship between audit independence proxied by auditor turnover on the quality of financial statements[1].

## CONCLUSION

**Fundamental Findings:** This study reveals that both the audit committee and audit independence significantly enhance the quality of financial statements in manufacturing companies listed on the Indonesia Stock Exchange from 2019 to 2023. However, audit quality does not moderate the impact of the audit committee or audit independence on financial statement quality. **Implication:** These findings suggest that while strong audit committees and independent auditing practices are vital for improving financial statement quality, the involvement of Big Four auditors does not necessarily amplify these effects. **Limitation:** The research is limited to a specific sector and period, focusing solely on manufacturing companies from 2019 to 2023, which may not allow for generalization across industries or broader timeframes. **Further Research:** Future studies should explore other moderating factors, broader sectors, and longer timeframes to provide more comprehensive insights into the relationship between audit mechanisms and financial statement quality.

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