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Authors: Inten Meutia, Zulnaidi Yaacob, and Shelly F. Kartasari

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SUSTAINABILITY REPORTING AND AUDIT COMMITTEE ATTRIBUTES: EVIDENCE FROM BANKS IN INDONESIA

Inten Meutia^{1*}, Zulnaidi Yaacob², and Shelly F. Kartasari¹

¹Accounting Program, Faculty of Economic, University Sriwijaya, Palembang 30126, Indonesia

²School of Distance Education, Universiti Sains Malaysia, 11800 USM Pulau Pinang, Malaysia

*Corresponding author: intenmeutia@unsri.ac.id

ABSTRACT

This paper examined the effects of audit committee attributes on the sustainability reporting (SR) of commercial banks in Indonesia. This study conducted a cross-sectional and time-series analysis using a sample of 74 commercial banks from 2015 to 2019. This study investigated the audit committee attributes, including financial expertise, size, independence, and meeting frequency. The model under study was underpinned by the theory of legitimacy, stakeholders and agency. The results showed that the financial expertise of audit committee had an inverse relationship with SR disclosure. Meanwhile, there was a positive relationship between committee independence, bank size, bank age, and type of auditor with SR disclosure. These findings imply that the banks should further focus on the audit committee's attributes as an effective measure to produce quality SR disclosure. In addition, non-financial expertise, especially in the field of sustainability, is a skill that the audit committee needs to have.

Keywords: sustainability reporting, audit committee, sustainable finance

INTRODUCTION

For many years, banks around the world have received continuous pressure from various stakeholders, such as shareholders, investors, media, NGOs, and customers, to practice responsible and ethical business operations. In response to this, financial institutions worldwide have on upward trends integrated sustainability issues into business practices.

However, for the sustainability business practices to be effective, a long-term business strategy must be put in place. For all managers, making a decision on the distribution of firm resources with a strong emphasis on long-term business strategy is a challenging task (Qiu et al., 2016). However, this challenging task is possible with the practice of effective corporate governance. Otherwise, a weak corporate governance may lead to financial crisis among business entities. The Enron and WorldCom case, and the financial crisis in 2008 are the major examples in business literature in relation to the critical role of corporate governance.

The aforementioned cases have urged the corporate world to revisit the financial reporting issues that may contribute to the company's failure. The related issues are tighter regulations, better corporate governance, and transparency of financial and non-financial information (Badolato et al., 2014). These corporate governance practices are of utmost importance for the stakeholders to carry out more effective control, monitoring, and responsible management in order to increase the

company's value (Crifo et al., 2019). Furthermore, corporate governance is believed to be an effective measure to minimise the risk of business bankruptcy. In discussing corporate governance, two principles behind it are accountability and transparency. Transparency is a force that, if applied consistently, would have positive effects on the issues of corruption, governance, and accountability (Chen and Zhang, 2014).

In line with its strategic importance as discussed in the literature, sustainability reporting (SR) has attracted considerable attention from researchers and has become a new critical direction for research in accounting and management since this reporting concept was first introduced by the Global Reporting Initiative (GRI). GRI stresses on the disclosure of environmental, social, and governance information in financial reports. The disclosure of these three groups of information would help companies adopt a sustainability strategy and provide adequate information for stakeholders to better evaluate a company's sustainability performance (Orazalin & Mahmood, 2019; Laskar & Gopal Maji, 2018; Dissanayake et al., 2019). The GRI defines sustainability reporting as a process of setting goals, and measuring an organization's economic, social, and environmental performance in relation to sustainable development based on the triple bottom line concept (Global Reporting Initiative, 2016).

Although the call for the implementation of corporate SR is getting louder among researchers and practitioners, the practice in Asia and other developing countries is still in its early stages compared to developed countries. Therefore, SR remains underexplored and unknown. Consequently, further studies on the function of corporate governance in SR is necessary to bridge the gap in the literature, especially using data from an emerging and significant economy of Indonesia, the fourth largest economy in the world. To conduct this study, the relationship between the attributes of the Audit Committee and the SR of banks in Indonesia was tested.

Because of the importance of the audit committee's role in a company's disclosure, a study of the committee's influence on SR adds to the literature (Raimo et al., 2020). Furthermore, Adegboye et al. (2020) stated that the audit committee is the central focus of a company's corporate governance structure, particularly in terms of audit quality and financial disclosure supervision. Therefore, a number of researchers such as (Marzuki et al., 2020; Bilal et al., 2018; Chen and Komal 2018) and various corporate governance regulations have stressed the significance of the audit committee's responsibility in a company's disclosure process. By achieving this research objective, the study would add to the growing body of literature on the effects of the audit committee attributes on the disclosure of information in SR.

This study has high interests in the banking sector because the players in this sector have taken heed of sustainability issues (Kumar & Prakash, 2019; Meutia et al., 2021). Furthermore, the banking sector supports the economy of a nation, such as providing the funding needed by corporations. To provide the SR framework for the banks in Indonesia, the Financial Services Authority, as the financial industry regulator, has issued a sustainable finance roadmap in 2014, followed by Financial Services Authority (OJK) Regulation number 51 of 2017 concerning sustainable finance.

This roadmap explains that sustainable development is no longer an option, but a necessity. This roadmap consists of four aspects: social, economic, environmental and institutional aspect. It describes the conditions to be achieved regarding sustainable finance in Indonesia in the medium (5 years) and long (10 years) term for the financial services sector under the authority of the OJK, namely banking, capital market and IKNB.

In the medium term (2015-2019), activities to strengthen sustainable finance are focused on the basic framework of regulation and reporting systems, increasing understanding, knowledge and competence of human resources in the financial services industry, providing incentives, and coordinating with relevant agencies. Furthermore, in the long term (2020-2024), activities are focused on the integration of risk management, corporate governance, assessment of the soundness of banks, and the development of an integrated sustainable financial information system (OJK, 2014: 16, 19).

SR disclosure is essential for all stakeholders. Therefore, a study on the factors influencing the disclosure of sustainability information expands the literature and informs new knowledge to the stakeholders of banks. In this present study, the SR literature is expanded by presenting the effects of the audit committee on the sustainability disclosure using a sample from Indonesia, a large developing country. This study also provides additional evidence on the contribution of the audit committee attributes to the disclosure of sustainability information. The findings are useful to align the 'company's strategy, reassign internal priorities, and reposition the company in relation to SR. This present study is also significantly important to the regulators in Indonesia because it details the ways policies are issued by the OJK and ways practices are impacted in the industries.

The results of this study have implications to various stakeholders. For regulators, these findings provide new insights regarding the importance of the audit committee attributes to encourage the practice of SR. The higher attention given to the committee's audit function could promote a better practice of SR. Meanwhile, a bank would benefit from these findings in strategizing the effective measures when practicing SR. This study fills in the gap in the SR literature by presenting results from a study on banks in developing countries like Indonesia, where the regulators have a dominant role in determining SR implementation. The literature on SR practice in developing countries is still limited, leaving many issues underexplored. At present, the SR is a disclosure expected by most stakeholders. This study aims to fill this important gap by analyzing the effect of four audit committee attributes (financial expertise, size, independence, and meeting frequency) on SR.

This paper is divided into several sections as follows. Section 1 is the introduction. Section 2 presents literature review and hypothesis development. Section 3 presents the research methodology as well as a sample description. Section 4 provides a discussion of the results of the empirical analysis. Section 5 provides conclusions, recommendations, and scope for further research.

LITERATURE REVIEW

Over the last few decades, many companies voluntarily disclose governance, environmental and social information to gain stakeholder legitimacy as well as improving the company's reputation (Gamerschlag et al., 2011; Gangi et al., 2019; Omran & Ramdhony, 2015). The Governance and Accountability Institute (GAI) reported that approximately 81% of S&P 500 companies issued a sustainability report in 2015 compared to less than 20% in 2011. By 2016, over 13,000 companies had produced more than 80,000 reports globally (D'Aquila, 2018).

Proponents of SR strongly believe that commitment to sustainability report will result in economic and non-economic returns for both companies and stakeholders. This is in line with the positive consequences of SR practices. For instance, SR leads to better external and internal decision making with greater transparency, leading to financial stability and social sustainability (Larrinaga-Gonzalez, 2007; Milne & Gray, 2013; Burritt & Schaltegger, 2010).

This research is grounded on two theories: the theory of legitimacy and stakeholders. According to Shehata (2014), these theories provide explanation for researchers when investigating CSR disclosure, and thus, they are applicable to SR disclosure as well. According to the legitimacy theory, disclosure of both financial and non-financial information in the annual report is necessary for companies to gain legitimacy for the decisions and practices put in place (Georgiou & Jack, 2011). The adequate disclosure of information in the annual report will have a positive effect by meeting community expectation and increasing the company's legitimacy.

Branco and Rodrigues (2006) in their research on social responsibility of banks in Portugal, stated that legitimacy theory provided explanation for SR practices. In different perspectives, the stakeholder theory views that organizations carry out voluntary disclosure to meet the 'stakeholders' demands (Jizi et al., 2014). To appreciate the different but complementing views of these two theories, this study used both legitimacy and stakeholder theory. This approach supported this present study to analyse the relationship between corporate governance and sustainability reports.

According to Beasley et al. (2009), the audit committee is one of the most critical elements of a good corporate governance framework. The existence of an audit committee, among others, aims to improve the effectiveness of board oversight, financial reporting quality, and better risk management while reducing the problem of information asymmetry. Understanding the importance of the audit committee's function in governance, the Indonesian central bank requires each bank to establish an audit committee board consisting of a minimum of three non-executive members. It must have at least one member with an educational background, and accounting and finance expertise.

In recent years, there has been increasing attention to the audit committee regarding its role in the preparation of financial reports. The audit committee is considered to be more dynamic in reviewing financial statements to reduce the differences in perceptions between managers and external auditors (Be 'dard et al., 2004; Alzeban & Sawan, 2015). This makes the company more likely to get qualified opinions, and to avoid accounting errors and non-compliance with accounting standards. In other words, the possibility that the company will have an ineligible

opinion from the external auditor due to accounting errors and non-compliance with accounting standards is reduced. Therefore, the audit committee is vital in corporate governance practices (Zain et al., 2006).

A plethora of studies on the role of the audit committee have been documented. One of the more studied is the audit committee's contribution to the quality of financial statements and voluntary disclosure (Zgarni et al., 2016). This is in line with the strategic role of the audit committee. According to Rainsbury et al. (2009), the audit committee is critical to facilitate the board of directors when providing financial and non-financial information to stakeholders. This information forms a reliable and valid base for the management performance evaluation to be carried out accurately, relevantly, timely and adequately, and to make the right decisions. Furthermore, Li et al. (2012) noted that an effective audit committee would improve the quality of disclosure and financial reports. Meanwhile, Samaha, Khelif, and Hussainey (2015) proved that an effective audit committee also increased voluntary disclosure level and quality. Other researchers have stated that the effectiveness of the audit committee depends on the characteristics of the audit committee (Cohen et al., 2014; Inaam & Khamoussi, 2016; Rochmah Ika & Mohd Ghazali, 2012). However, to support the audit committee to carry out its responsibilities efficiently, Madi et al. (2014) and Alqatamin (2018) emphasized that an audit committee required a combination of reliable experience, expertise, and capabilities of its committee members.

Although many empirical evidences about the relationship between audit committee attributes and voluntary disclosure have been reported, the findings are inconclusive, prompting more researches to be carried out as an effort to shed light on the related and emerging issues of audit committee. For example, Abdur Rouf (2011) and Samaha et al. (2015) documented the audit committee's positive influence on voluntary disclosure. In contrast, this positive relationship is not supported by Li et al. (2012) and Othman et al. (2014). Therefore, the role of the audit committee may depend mainly on the attributes of each individual.

The following paragraphs discuss the hypotheses of this study. Each hypothesis discusses the relationship between the audit committee attributes and SR disclosure.

Financial Expertise of Audit Committee and SR Disclosure

According to the literature, the competences of the audit committee and the expertise of individual committee members contribute to the audit committee's expertise (Velte et al., 2018). As described in the next paragraphs, this would further contribute to improved financial reporting quality.

Beasley et al. (2009) observed a positive relationship between the audit committee's financial competence and the quality of financial reporting. Similarly, Badolato et al. (2014) reported that the reliability of earnings quality had a positive relationship with the audit committee's activity and responsibilities. In other studies, the positive relationship between audit committee expertise and disclosure is also proven (Mangena & Pike, 2005; Barros et al., 2013; Bilal et al., 2018).

Research by Ji Yu et al. (2016) found that there was a positive and significant relationship between the financial expertise of audit committee members and CSR disclosure. Thus, the more expert the committee members are, the higher the level of CSR disclosure. The findings of Ji Yu et al. (2016)

confirmed by Dhaliwal et al. (2010) which stated that the audit committee's ability to know and understand financial statements in supervising the company's reporting process effectively required expertise in the financial sector. The findings by Shaukat and Qiu (2015) also stated that the greater the CSR measured by the financial expertise on the audit committee, the more proactive and comprehensive the company's CSR strategy is, and the higher its environmental and social performance. Similarly, Akhtaruddin and Haron (2010) also found a positive relationship between audit committee financial expertise and the level of voluntary disclosure.

The presence of audit committee members with high competence is strongly linked to higher quality information disclosure (Lary & Taylor, 2012). The inclusion of experts in the audit committee would increase the report's quality and improve planning, supervision, transparency, analysis, and integration of financial and non-financial data (Raimo et al., 2021). This also reported by Bravo (2019) that the financial expertise of female directors in accounting has significant contribution towards the disclosure of financial forward-looking information. Therefore, this study formulates the first hypothesis as follows:

H1: SR Disclosure is positively influenced by audit committee financial expertise

Audit Committee Size and SR Disclosure

The influence of audit committee size on the quality of reporting has attracted attention of researchers with the debate from the agency theory perspective. It is suggested that larger size of audit committee is associated with the ideas that larger group of size reflect larger resources in terms of expertise, experience, skills. in which would in turn improve the capacity if the committee in executing the audit (Lipton & Lorsch, 1992).

The requirement for adequate size of audit committee is has been practiced by various stock exchange around the world. The number of audit committee members not being less than three people is a requirement widely used because this number is believed to be an indicator of effective monitoring (Hoitash, 2009). The bigger size of audit committee may indicate a wider knowledge and experience, resulting to a more effective audit committee (Sun & Liu, 2014; Alqatamin, 2018). However, more committee members would also result in more responsibilities, causing less effective monitoring process (Detthamrong et al., 2017).

The literature on the effects of audit committee size on financial reporting has inconsistent findings (Samaha et al., 2015). A study by Mangena and Pike (2005) was unable to find a significant relationship between audit committee size and voluntary disclosure in interim reports. However, other studies reported a positive relationship between audit committee size and SR disclosure. For example, Li et al. (2012) and Li et al. (2008) reported that the size of the audit committee had a positive effect on the intellectual capital disclosure. Another study by Mohammadi et al. (2020) also showed that the number of audit committee members tended to increase the level of voluntary disclosure. Li et al. (2012) concluded that the greater the number of members, the better the ability of the audit committee to solve problems associated with the reporting process. Inaam and Khamoussi (2016) also emphasized that size was essential for monitoring a 'company's disclosure practices. Based on the above literature, this study formulates the second hypothesis as follows:

H2: SR Disclosure is positively influenced by audit committee size.

Independent Audit Committee and SR Disclosure

The audit committee's independence may affect the committee's competency and effectiveness (Sun et al., 2014), which would increase the credibility and quality of financial reporting information (Li et al., 2012). Kamarudin, Wan Ismail, and Samsuddin (2012) emphasized that one of the attributes of an effective corporate governance system was the audit committee's independence. The more independent the audit committee is, the more objective it becomes. Furthermore, Rahman and Ali (2006) also stated that the audit committee's independence and competence played a role in a more active, effective, and efficient supervision. A study by Neifar and Jarboui (2018) showed that the audit committee's independence had a significant positive relationship with risk disclosure.

Meanwhile, several other studies have reported a negative relationship (Lopes & Rodrigues, 2007; Mangena & Pike, 2005). Research conducted by Song and Windram (2004) failed to prove that the audit committee played a role in reducing earnings management. Bédard and Gendron (2010) in their literature review on the relationship between the audit committee effectiveness and independence noted that 53 percent of studies had a positive relationship between audit committee independence and effectiveness. In comparison, 42 percent of studies did not show a significant relationship.

According to agency theory, a larger proportion of outside directors on the board can reduce opportunism and agency costs. This is possible because the composition tends to make the board more independent and objective when making decisions, besides having the potential for better monitoring (Fama & Jensen 1983). The existence of an independent director in the audit committee allows for efficient monitoring, which will affect management behaviour because they do not have a personal relationship and thus, they can carry out their duties effectively and independently (Bedard & Gendron, 2010).

Furthermore, the audit committee's independence would limit management's ability to keep material hidden for personal gain (Allegrini & Greco, 2011) and reduce the possibility of collusion by managers and expropriation of shareholder wealth (Fama, 1980). Fama and Jensen (1983) also asserted that the effectiveness of monitoring manager's actions in disclosure could be increased by the existence of an independent audit committee. Therefore, the third hypothesis is as follows:

H3: SR Disclosure is positively influenced by audit committee independence.

Audit Committee Meeting and SR Disclosure

The audit committee must conduct frequent meetings to oversee corporate reporting and carry out other responsibilities. More frequent meetings are required for the audit committee to have sufficient time to monitor the quality of business reporting and the company's internal problems (Karamanou & Vafeas, 2005; Agrawal & Chadha, 2005). Leipziger (2015) also emphasized the importance of the chairman and audit committee members to allocate time to carry out their responsibilities. In summary, the more frequent the meetings are held, the more effective they will be in discussing audit reports and financial reports, including sustainability reports. The audit committee meetings are an important mechanism to influence the report's content and quality

(Stewart & Munro, 2007). Similarly, Salloum et al. (2014) emphasized that meeting frequency was a crucial factor in the reliability and efficiency of a 'company's activities. In short, the frequency of meetings is an essential characteristic of the audit committee. Therefore, council members who meet regularly are more likely to perform their monitoring and control responsibilities more effectively.

The number of audit committee meetings has positive relationship with company growth, profitability (Barros et al. (2013), intellectual capital disclosure (Taliyang & Jusop (2011) and a better financial reporting quality and voluntary disclosure (Mohd Saleh et al., 2007; Musallam, 2018). As a result of the above discussion, the fourth hypothesis is as follows:

H4: SR Disclosure is positively influenced by audit committee meetings.

RESEARCH METHODOLOGY

This study analysed annual reports and sustainability reports from 74 commercial banks in Indonesia from 2015 to 2019. There were 79 commercial banks in Indonesia; however, only 74 banks met the selection criteria. The criteria used included the completeness of the required data, and availability of social, environmental and governance data either in the sustainability report or in the annual report during the study period. Sustainability reports and annual reports were obtained from the respective bank websites. There were five banks that did not meet the criteria because they had not published sustainability reports or annual reports in five consecutive years in the 2015-2019 period.

The independent variables of this study were the financial expertise of audit committee, audit committee size, independence of the audit committee, and frequency of audit committee meetings. The dependent variable of this study was SR disclosure, and was measured using the sustainability disclosure indicator based on POJK regulation number 51 of 2017, consisting of 57 disclosure items.

This study used three variables widely reported in the literature as control variables: company size, company age, and audit firm. The natural logarithm of total assets was used to measure firm size while the audit firm was measured by a dummy variable, the big four and non-big four.

To estimate the effects of independent variables on the dependent variable and a set of control variables, the following model was used:

$$SR_{it} = \beta_0 + \beta_1 FEAC_{it} + \beta_2 SZAC_{it} + \beta_3 INDAC_{it} + \beta_4 METAC_{it} + \beta_5 BSZ_{it} + \beta_6 AGE_{it} + \beta_7 QA_{it} + \varepsilon_{it}$$

The variables used in this study are explained in Table 1.

Table 1
Research variables

Variables	Symbol	Type	Measurement
SR disclosure	SR	Dependent	Index of SR disclosure based on OJK rule
Audit committee financial expertise	FEAC	Independent	The variable is dummy. One of the audit committee member has a financial expertise and zero otherwise
Audit committee size	SZAC	Independent	The number of audit committee members
Audit committee's independence	INDAC	Independent	The number of independent committee members
Audit committee meeting frequency	METAC	Independent	The number of meetings every year
Bank size	BSZ	Control	The firm size is calculated by natural log of total sales of the company
Bank age	AGE	Control	Difference between the financial year and the year the bank was founded
Audit quality	QA	Control	The variable is dummy (1 for big 4 and 0 otherwise).

Descriptive Statistic

Table 1 shows that the average audit committee size is 3, with a minimum value of two and a maximum of eight. The governance regulations require a minimum of three audit committee members. This data showed that the majority of banks followed this rule. The governance regulations also require audit committee meetings of at least four times a year. This was supported by the data that showed an average audit committee meeting of 4.38. Concerning member independence, most committee members were independent directors, as indicated by the average score of 0.557. Regarding finance expertise, all audit committee members in the bank in this study had the skills needed to become an audit committee.

Table 2
Descriptive statistic variables

Variables	Symbol	Mean	Max	Min	SD
SR disclosure	SR	0.532	0.774	0.225	0.126
Audit committee financial expertise	FEAC	0.491	1	0	0.410
Audit committee size	SZAC	3.8	7	2	1.251
Audit committee's independence	INDAC	2.77	3	0	0.084
Audit committee meeting frequency	METAC	4.38	10	1	2.68
Bank size	BSZ	24.001	56.331	4.665	2.551
Bank age	AGE	20.738	54	4	1.004

Note: Observation (N = 370)

The average SR index was 0.532 percent, with a minimum value of 0.225 and a maximum of 0.774. This index was calculated based on the OJK regulations. The average value of the SR score indicated that most banks disclosed SR information at an early stage. This was reasonable considering that the OJK roadmap on SR was only created in 2014. The magnitude of the deviation between the interbank disclosure levels was not surprising given that the SR disclosure was only mandatory in 2019, and it has not yet been applied to all banks. Given that SR disclosure has become compulsory in Indonesia since 2019, it is expected that the quality of SR disclosure will be better in the future.

Model Validity

To ensure the validity of the model, this study conducted several tests, including the normal distribution test, autocorrelation test, and multicollinearity. The model certainly did not have homoscedasticity. Table 3 shows that the research data is normally distributed based on all variables' values that are more than 0.05.

Table 3
Model validity

Variables	Symbols	Normality	Stationarity	Collinearity	Auto-correlation	Heteroscedasticity	
		Shapiro–Wilk	ADF test	VIF test	Durbin–Watson test	Breusch – Pagan	koenker tes
SR disclosure	SR	0.000	–18.147***		2.223	0.000	0.000
Audit committee financial expertise	FEAC	0.000	–6.557***	2.273		0.000	0.000
Audit committee size	SZAC	0.000	–6.557***	1.245		0.000	0.000
Audit committee independence	INDAC	0.000		5.030		0.000	0.000
Audit committee meetings	METAC	0.000	–4.885***	2.129		0.000	0.000
Bank size	BSZ	0.000	–1.848***	4.188		0.000	0.000
Bank age	AGE	0.000	–4.224***	2.212		0.000	0.000

Note: ***Significant at 1% level

Series stationarity is an assumption commonly used in research that uses time-series data. According to Gujarati (2006), autocorrelation may occur because the time series is non-stationary. This study used the unit root test via the Augmented Dicky-Fuller (ADF) parametric test to test the time-series stationarity. The test results in table 3 showed that the ADF test was statistically significant at the 1 percent level, meaning that the time-series data used between 2015 and 2019 was stationary.

A good linear model has several critical assumptions, including no dependence between the independent variables. If this assumption is not met, the linear model cannot be validly tested. For this reason, the variance inflation factor (VIF) value must be assessed. According to Gujarati (2003), a VIF score of higher than 10 indicates multicollinearity issues. Table 3 shows that all independent variables have a VIF value of less than 10. In other words, the research model did not have a serious multicollinearity.

Furthermore, to test the autocorrelation, the Durbin - Watson (D - W) test was carried out. The D-W value in table 3 (1.5 - 2.5) indicated absence of autocorrelation in this research model. Another assumption that must be met in the regression model is homoscedasticity. The p-value in table 3 showed values above 0.05, thus indicating that the model fulfilled the homoscedasticity assumption.

RESULTS AND DISCUSSION

This study aimed to analyse the effects of audit committee attributes on SR disclosure. Table 4 shows that the model under study is statistically significant. The p-value of the F test of the model was less than 5 percent.

Table 4

Estimation results of model

Variables	Symbols	β	t-statistic	Probability
Audit committee financial expertise	FEAC	-0.347	-3.016***	0.000
Audit committee size	SZAC	0.436	2.369***	0.001
Audit committee independence	INDAC	0.598	6.501***	0.001
Audit committee meeting	METAC	0.111	1.698**	0.040
Bank size	BSZ	0.173	1.592**	0.049
Bank age	AGE	0.401	3.435***	0.000
Audit quality	AQ	0.798	7.993***	0.000

Note: R-squared = 0.837; adjusted R-squared = 0.833; F-statistic 26.268; p-value 0.000; ** and *** (significance levels 5% & 1%)

Table 4 shows that the audit committee's financial expertise has a significant and inverse relationship with SR. This finding did not support the H1: the audit committee's financial expertise and SR disclosure are positively correlated. This finding is consistent with the research by Buallay and Al-Ajmi (2019). These authors observed that the audit committee's financial expertise was significantly negatively associated with SR. In other words, these results indicate that the financial experts on the audit committee do not influence the level of SR disclosure. However, the findings reported in this present study were contrary to the findings by Mangena and Pike (2005), Barros et al. (2013), and Bilal et al. (2018) who found that financial expertise was positively related to the quality of financial reports and voluntary disclosure. The findings of this study indicate that financial expertise may also need to be supported by non-financial (sustainability) expertise given that so far, the expertise of the audit committee has only focused on financial and accounting aspects.

Despite of that, according to Bilal et al. (2018), the audit committee still needs the expertise in the financial sector to allow the audit committee to support effective internal control. A possible explanation for the above finding is that the decisions regarding SR disclosure in Indonesia's banks are mostly made by the board of directors, which has the highest authority compared to the audit committee.

Table 4 shows that the audit committee's size has a positive relationship with SR disclosure. Therefore, H2 was accepted. It is evident that the size of the audit committee affects the SR disclosure in banks in Indonesia. The more the number of audit committee members, the more diverse their knowledge, education and background, so that this can be a resource that has implications for improving the quality of sustainability reports. The findings of this study are consistent with several studies that report a positive relationship between the audit committee size and voluntary disclosure (Bilal et al., 2018; Erin et al., 2021). These findings support the agency theory, which states that a larger audit committee size allows more different experiences to be brought to the meeting (Madi et al., 2014). But, this finding is not in line with Adegboye et al., (2020) who find that smaller audit committee size tends to make the decision as regards

sustainability reporting effectively compared to larger committee size, which could lead to less sustainability performance.

Next, Table 4 also indicates that the audit committee members' independence has a significant positive relationship with SR disclosure. Therefore, H3 was accepted. This finding proves that the audit committee's independence in Indonesia's banks influences the SR disclosure. In other words, the audit committee's independence has an impact on the practice of SR. The findings are in line with (Neifar & Jarboui, 2018; Li et al., 2012; Appuhami & Tashakor 2017). This finding prove that audit committee formed exclusively of external and independent directors would result in better accountability and transparency for organisations. Independent audit committee are likely to make independent decisions to improve quality of SR disclosures.

Finally, Table 4 proves that the audit committee meetings' frequency is positively correlated to SR disclosure. Hence, H4 was supported. These findings prove that the number of meetings held by the audit committee can affect the banks' SR disclosure in Indonesia. Therefore, more frequent meetings are expected to increase the members' awareness and experience. Consequently, transparency of non-financial information in the SR disclosure is further encouraged. This finding is consistent with the previous studies (Barros et al., 2013; Musallam, 2018). The findings of the audit meeting prove that the members of the audit committee are actively involved in issues related to the company's activities, including sustainability reporting. The implication is that regular audit committee meetings will improve the quality of sustainability reports, because they will have more time to discuss financial and non-financial reporting matters. This is in line with Yin et al., (2012) emphasize that when an audit committee meets frequently, they are usually more informed, more diligent, and more knowledgeable about situations and are better equipped to handle the situations

Bank size, the control variable in this study, had a significant positive relationship with SR. This finding provides evidence that banks with large total assets tend to be more transparent in providing SR information. This finding is consistent with the literature (Adel et al., 2019; Chen et al., 2017). Another control variable, bank age, was also proven to affect SR disclosure positively. This shows that bank age may have influenced the information disclosed in SR. Therefore, the findings of this study provide evidence for both legitimacy and stakeholder theory.

The last control variable, audit quality, was proven to affect SR disclosure positively. This shows that the auditor's role is significant in encouraging SR disclosure. This finding is consistent with various studies examining the influence of big-four auditors on the quality of both financial and non-financial reports (Gaynor et al., 2016; Hussainey, 2009; Hammami & Hendijani Zadeh, 2019).

A robustness check was conducted to confirm the findings using alternative measures for financial expertise. The financial expert variable was measured using the proportion of financial experts and the number of financial experts on the audit committee. The negative and significant relationship between financial experts as measured by the proportion of financial experts and the number of financial experts with SR is supported by this additional analysis. The results of the analysis confirm that the presence of a financial expert on the audit committee has a significant negative relationship with the publication of SR. The results of the robustness check are in Table 5.

Table 5
Robustness check

Variables	Model 2 Proportion FE	Model 3 Number FE
FEAC	-0.087** (0.034)	-2.015** (0.031)
SZAC	2.216 ** (0.021)	2.117** (0.019)
INDAC	3.027** (0.007)	2.897** (0.013)
METAC	1.987*** (0.001)	2.003** (0.020)
BSZ	1.858 ** (0.039)	1.693*** (0.001)
AGE	3.592 *** (0.001)	3.821 *** (0.001)
AQ	0.386 ** (0.022)	0.219*** (0.001)
Note: Observation	370	370
Adj. R ²	0.45	0.43

t-statistics in parentheses; ** p < 0.05, *** p < 0.01

Overall, the results obtained confirm expectations regarding the audit committee's role as a mechanism capable of improving the quality of the Sustainability Report. Apart from the negative influence of financial expertise, three audit committee characteristics support higher quality SR disclosures by companies. These results confirm that the audit committee as part of governance, supports the company's strategy in preparing sustainability reports to meet stakeholder expectations or gain legitimacy.

CONCLUSION

This paper investigated the relationships between the audit committee attributes and SR disclosure of commercial banks in Indonesia from 2015 to 2019. The results showed that size, independence, and frequency of audit committee meetings significantly positively affected SR disclosure as reflected by other researchers (Alligrini 2011; Appuhami, 2017; Mohammadi et al., 2020; Musalam, 2018). In contrast, the audit committee's financial expertise had a negative effect on SR disclosure, which is in line with the study by Wang and Hussainey (2013) who did not find a significant relationship between the audit committee's financial expertise and voluntary disclosure.

The results also imply that the character of an adequate audit committee is a good sign of the company's attention to stakeholders, which is implemented through the publication of sustainability reports. This finding supports the stakeholder theory (Jizi, Salama, Dixon, & Stratling, 2014; Gibson, 2012) that companies seek to meet the expectations of their stakeholders by implementing good governance, including a good audit committee.

The findings of this study provide a significant perspective for regulators, especially for the Financial Services Authority (OJK) which oversees banking in Indonesia, including sustainability reporting. Considering that the attributes of the audit committee have a positive and significant impact on the disclosure of SR in banking in Indonesia, the OJK must increase the supervision of the audit committee so that the quality of SR disclosure also increases. These findings also imply that the banks should further focus on the audit committee's attributes as an effective measure to produce quality SR disclosure that meets the 'stakeholders' expectations.

One of the limitations of this study was that the samples in this study were banks in Indonesia that were relatively new to the sustainable finance policy; thus, the results found in this paper may not be applied to banks in other countries. This paper significantly contributes to the literature of SR since the issues with SR have been increasing among researchers and practitioners globally. Future research can be carried out by expanding the number of banks or conducting comparative studies between developing and developed countries. In addition, further research on SR may involve sectors other than banks. Another research opportunity is to compare the sustainability report between Islamic banks and conventional banks to enrich research in the field of sustainability.

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