

CHAPTER I

INTRODUCTION

1.1 Background

The purpose of financial statements, according to PSAK (Revised 2017), is to give information on a company's financial status, performance, and changes in economic position that is beneficial for a broad number of users to make financial choices. Financial reports should be presented in a reliable and accurate manner since they include valuable information for financial statement users that may influence their decisions. The key qualitative features of a financial report, according to the IFRS Conceptual Framework for Financial Reporting, are relevance and accurate depiction. Users of financial reports and other parties involved may make poor decisions as a result of material misstatements or misinformation in financial reports.

Financial reports that are free from mistakes, comprehensive, and objective are deemed accurate representations. Financial reports may be made more helpful if they can be compared to other financial reports, are verifiable, are issued on time, and are simple and easy to comprehend. Financial reports' users will have confidence in the information in financial reports if they are provided in a comprehensive, truthful, and dependable manner (Sari and Indarto, 2019). Financial reports that lack credibility will make users hesitant to depend on and trust the company's financial reporting. According to Palmrose et al. (2004), companies that release a financial restatement are considered to have acknowledged making a major misstatement or error in its financial reports

(Habib et al., 2020). Thus, the financial restatement phenomena has recently caught the interest of investors because the accuracy and reliability of financial statements are critical for users' decision-making (Putri et al., 2021).

When a company issues a financial restatement, it may be influenced by a number of factors, which may affect how readers evaluate the financial statement information. As stated by Akhigbe et al. (2005), financial restatements, from the investor's point of view, not only reveal issues from past periods, but they also make investors more conscious of the company and its management's future problems, which indicate serious financial reporting problems and can cause extreme market response (Oradi & Izadi, 2019). Financial restatement is influenced by various variables, including the number of changes in materiality, auditor competence, earnings quality, and an increase in the complexities of the firm's activities. However, financial restatements can be triggered not only by the company's mistakes or material misrepresentation, but also by changes in accounting standards. A financial restatement is a revision to a financial statement as a result of a failure to follow accounting standards (Wan Mohammad et al., 2018). There are numbers of research or study on the consequences of financial restatement in addition to the determinants. Financial restatement, according to Palmrose et al. (2004), resulted in a drop in stock price as well as a decrease in company value (Oradi & Izadi, 2019). As a result, identifying factors that may minimize the possibility of financial restatements is essential.

Financial restatements caused by a company's mistakes or negligence can be prevented if corporate governance is properly implemented. According to

Habib et al. (2020), corporate governance is crucial or needed for a corporation to monitor the rules and regulations that are implemented throughout the company. It also assures that the financial statements issued are reliable. As a consequence, a corporation that has issued a financial restatement may be considered to have poor corporate governance. One of the most crucial elements of corporate governance is the audit committee (Habib et al., 2020). The main responsibility of the audit committee, as stated by Liao and Hsu (2013), is to monitor the financial reporting process, the accuracy of financial reports, the effectiveness of internal control, and the external or internal auditors (Safari Gerayli et al., 2021). Therefore, it can be assumed that having a competent audit committee within a company can help to prevent financial statement misstatements, irregularities, and fraud.

As previously stated, corporate governance is established in a company to monitor management conduct within the firm. Post and Byron (2015) argued that due to the availability of "cognitive frame" variation, boards with a variety of gender could be able to effectively supervise and regulate managerial activities (Dobija et al., 2021). According to Huse et al. (2009), women are more likely than males to be curious, which might lead to more open board discussions (Dobija et al., 2021). Additionally, men and women have different perspectives, which might give additional alternatives and opinions while solving problems or discussing other topics. Thus, the existence of gender diversity on boards, particularly in the audit committee, might prevent the chance of material misstatements or other financial reporting mistakes.

Moreover, the financial reporting process may be influenced by the audit committee's experience. According to POJK No. 55/ POJK.04/ 2015, at least one member of a firm's audit committee must have a financial or accounting background. Many studies have shown that having financial expertise within the firm's audit committee increases the financial reporting quality and decreases the incidence of restatements. However, there are very few studies that examine other audit committee expertise that might influence financial statement quality and restatements. An audit committee having at least one member with an IT background will help the committee in more effectively detecting potential IT risks, and they will be able to discuss the problem with management and analyze the company's strategy to reduce and resolve them (Ashraf et al., 2019). Accounting information systems, as defined by Mancini, Vaasen, and Dameri (2013), are procedures and techniques for gathering, collecting, analyzing, and reporting financial and accounting data (Ashraf et al., 2019). Thus, information technology is essential in accounting information systems. Considering the significance of information technology in the financial reporting process and the audit committee's obligation to oversee it, appointing IT expertise to the audit committee might help a company provide accurate financial reporting.

It is reasonable to assume that having an audit committee with a diverse range of expertise and gender will benefit the audit committee in resolving different accounting issues and avoiding financial report misinformation. According to IDX, the manufacturing sector accounted for 27% of the entire sectors on the Indonesian Stock Exchange, and it was in which most investors put

their investment. Consequently, the purpose of this research is to see if an audit committee with at least one female member and an IT expert member does have an influence on financial restatements in manufacturing companies listed on the Indonesia Stock Exchange between 2017 and 2019. Prior research in Indonesia has primarily focused on the effects of corporate governance on financial restatements, but it hasn't examined the effects of gender diversity on audit committees or audit committee IT expertise on financial restatements in detail. As a reason, the researcher wants to examine if having a diverse audit committee, as well as having an IT expert audit committee member, will contribute to decreasing the number of financial restatements.

1.2 Research Problem

As we can see from the background above, financial restatement is known to be harmful to both financial statement users and the firm itself. Thus, researcher formulates the problem to be studied as follows:

- 1) if the audit committee is gender diverse, will there be any occurrences of financial restatement?
- 2) if there is at least one audit committee member with IT expertise, will there be any occurrences of financial restatement?

1.3 Research Objective

The researcher's aims for this research are as follows, based on the formulation of the research problem:

- 1) identifying the relationship between the gender diversity within audit committees and the occurrence of restatements.
- 2) identifying the relationship between IT expertise in the audit committee and the occurrence of restatements.

1.4 Research Purposes

- 1) Future researchers

It is expected that the findings of this study will give more information regarding characteristics that may reduce the occurrence of financial restatements in future research.

- 2) Firms

This research is expected to raise corporate management's awareness of the audit committee's importance in presenting accurate financial reports. Furthermore, by emphasizing the necessity of gender diversity and IT experts in audit committees, this study is intended to help companies in avoiding financial restatements.

- 3) Financial statements' users and stakeholders

This study is anticipated to help in the decision-making process of financial statement users, especially in companies that perform financial restatements. Furthermore, this study should be able to present an understanding of the importance of corporate governance, particularly the role of the audit committee in assuring the accuracy and reliability of financial information presented.

1.5 Research Limitation

Boundaries are essential to keep the scope of the variables covered in the research from becoming too vast. As a result, the following are the limitations of the problem that was employed in this study:

- 1) in this study, the occurrence of financial restatement will be employed as the dependent variable.
- 2) in this research, the audit committee's gender diversity and IT competence will be employed as the independent variable.
- 3) the research focused on manufacturing firms that went public on the Indonesia Stock Exchange during 2017 and 2019.
- 4) the information about the expertise of audit committee members is restricted to the profiles of members provided in the annual report and not all audit committee members have a LinkedIn profile.
- 5) research objects are companies that fulfill the requirement for being used as research samples.

1.6 Systematic Research

CHAPTER I INTRODUCTION

This chapter covers the research background, research problem, study objectives, research purposes, research limitations, and systematic discussion.

CHAPTER II THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

This chapter describes the underlying theoretical foundation as well as the relevant literature with the variables researched, conceptual framework or model, and research hypotheses.

CHAPTER III RESEARCH METHODOLOGY

The population, sample, data sources, data collection methods, empirical research models, definitions of operational variables, and data analysis methods are all covered in this chapter.

CHAPTER IV RESULT AND DISCUSSION

This chapter will cover the research's outcomes and empirical findings about the relationship between the presence of gender diversity, the presence of an IT expert on the audit committee, and financial restatements.

CHAPTER V CONCLUSION AND RECOMMENDATION

The results of testing and research (descriptive statistics analysis, correlations between variables, results of model feasibility tests, and results of hypothesis testing) are covered in this section, along with a discussion of the research findings.