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The Effect of the Audit Committee on the Firm Value of State-Owned Enterprises in Indonesia: The Mediation Role of Financial Performance

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Abstract

The audit committee is important in implementing corporate governance in a company. The aim of this study is to investigate the impact that the audit committee has on the value of the company, with the financial performance of the company serving as a mediating variable. During the 2016-2020 research period, the investigation was carried out at businesses that are part of state-owned enterprises and are registered on Indonesia's capital market. Data analysis in this research uses a path analysis. The research sample was obtained through a population sampling technique. This research found that the audit committee positively affects the company's financial performance. This research also found a positive effect of the financial performance on firm value. The results of path analysis prove that financial performance can act as a variable mediating the influence between the audit committee and firm value in companies in the category of state-owned enterprises registered on Indonesia's capital market. This research proves that the existence of an audit committee can improve a company's financial performance, which indirectly impacts increasing firm value.

Key terms: audit committee, firm value, financial performance, state-owned enterprises, Indonesia

JEL Classification: G32, G30, M42

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➲ Introduction

Özcan (2021) explains that increasing firm value is one indicator of increasing the welfare of company owners. This research aims to examine the influence of the audit committee on the value of BUMN companies (state-owned companies) on Indonesia's capital market with mediating variable financial performance. BUMN companies are state companies owned by the Government of Indonesia, whose shares are sold to the public through Indonesia's capital market. From 1997 to 1998, Indonesia experienced a political, social and economic crisis, resulting in a decline in various industrial sectors. The Indonesian Government implemented reforms in various fields, including state-owned companies, which at that time were considered to be underperforming and prone to corruption problems. One of the decisions that the Indonesian Government has taken is to privatize several state-owned companies by selling shares to the capital market. After over 20 years, capital market data shows that several Indonesian state-owned companies have been registered on the capital market. The privatization of state-owned companies by the Government of Indonesia is considered to have been quite successful in improving the company's financial performance. State-owned companies in Indonesia have developed well and have grown as profit-oriented professional companies. Even though some of the government's share ownership has been sold on the capital market, the Government of Indonesia still has a role as the majority shareholder in the state-owned company.

This research is based on the practical phenomena of the industrial world and theoretical phenomena from previous studies. The phenomenon of the industry in BUMN companies shows that in the last five years several problems have been related to implementing corporate governance in Indonesian BUMN companies. The 2018 PT Garuda Indonesia airline financial report scandal case is one of the cases that has attracted great attention from academics and practitioners. Improper profit acknowledgment (leading to alleged fraud) by PT Garuda Indonesia has resulted in the distortion of information that harms the users of financial statements. The case with PT Garuda Indonesia showed allegations of a scandalous occurrence of falsification of financial report data. The airline management of PT Garuda Indonesia and the public accounting firm that audited PT Garuda Indonesia's financial statements have been given sanctions by Indonesian regulators. Corporate governance issues in state-owned companies invite criticism and demands for improvement from various circles of the Indonesian society. The Indonesian Government, as the majority shareholder in BUMN companies, is required to improve the performance of BUMN and keep state-owned companies away from corruption and unhealthy business practices.

The occurrence of alleged financial scandals at state-owned companies has increased public demand for strengthening supervisory policies, increasing internal controls and improving the governance of state-owned companies. Financial scandals at state-owned companies in Indonesia show the lack of good corporate governance mechanisms in these companies owned by the Indonesian Government. This condition motivated researchers to research corporate governance in state-owned companies in Indonesia. The audit committee is a corporate governance mechanism in a company (Al Farooque *et al.*, 2020). The phenomenon of financial scandals in Indonesian state-owned companies emphasizes that the issue of corporate governance, especially the effectiveness of audit committees, is a worthy and interesting theme for further in-depth study. Alabdullah and Ahmed (2020) emphasize the need for a more active role than the audit committee to achieve quality financial reports. Poor performance of the audit committee will lead to an increase in the potential for fraud within the company which causes a decrease in firm performance. The effectiveness of the audit committee's work as part of implementing corporate governance will improve financial performance and increase corporate value.

This line of inquiry was inspired by a theoretical phenomenon in addition to the real occurrences that take place in state-owned firms in Indonesia. Previous research on audit committees, financial performance and business value has produced conclusions that are not completely consistent with one another. There are still some differences. In one study, Kasthury and Anandasayanan (2021) state that the audit committee had a positive effect on the company's financial performance. In contrast, Al-Jalahma (2022) found that the audit committee had a negative effect on the company's financial performance. Malini *et al.* (2021) did not find the effect that the audit committee had on the company's financial performance.

For previous research that examined the relationship between financial performance and firm value, researchers considered that the results of previous research were quite stable, and most gave positive results. The profit figure is still enough to be the investors' dominant concern in determining the company's value. Ochego *et al.* (2019) and Chen and Chen (2011) found a positive influence on the corporate financial performance and value. Previous studies examining the relationship between audit committees and firm value also yielded varied results. Research by Alabdullah and Ahmed (2020) and Azam and Wang (2021) found a positive influence of the audit committees on firm value. Malini *et al.* (2021) were unable to find the effect of the audit committee on firm value, while Al-Jalahma (2022) found a negative effect of the audit committee on firm value.

Referring to agency theory, researchers think that the audit committee, according to Kasthury and Anandasayanan (2021), has a positive effect on the company's financial performance. In other research results, according to Azam and Wang (2021), the audit committee positively affects firm value, while Ochego *et al.* (2019) found a positive influence of a company's financial performance on firm value. Therefore, the researchers claim that there is a vacuum in research that may be developed by investigating the role of financial success as a mediating variable. This can be done so that the gap can be filled. Examining the corporate financial performance as a mediating variable in the relationship between the audit committee and firm value is an innovative aspect of this research that contributes to the overall significance of the findings. In the context of Indonesian enterprises that are owned by the state, the researchers will investigate if the audit committee has an effect on the firm value that is direct or indirect, depending on whether it first influences the financial performance of the company.

➲ Review of literature and hypotheses

■ Agency theory

The grand theory used in developing this research idea is agency theory (Jensen & Meckling, 1976). Agency theory explains company management separately between shareholders (principals) and company managers (agents). The principal assigns the task to the agent to manage the company's resources. Managers as agents make financial reports, being responsible for managing company resources in managing the company. Hill and Jones (1992) mention that in the interaction between principals and agents there is a big risk of agency conflicts caused by misaligned interests between shareholders and the corporate manager. Company management benefits from access to more information about the company's business conditions, so that it has the potential to take actions that are personally beneficial and detrimental to the interests of shareholders.

Jensen (1986) states that to limit agency conflicts companies need to create a series of policies and certain mechanisms to ensure that company managers continue to work in harmony with the interests of company owners. Hill and Jones (1992) explained that internal control mechanisms and the design of transparent and accountable business governance are one of the efforts to limit corporate management's deviant behaviour. The management's opportunistic behaviour that makes policies that benefit themselves is expected not to occur with a set of controlled controls. Ammann *et al.* (2011) mention that the corporate governance mechanism is one of the mechanisms created to protect the interests of shareholders in the context of agency relationships.

Haj-Salem *et al.* (2020) explained that agency conflict arises when managers and shareholders need to be aligned interests, especially when shareholders think there will be a transfer of company wealth to other parties or creditors. Corporate governance must be implemented as a form of corporate manager accountability, improving the quality of business decisions and better forecasting. Corporate governance is believed to control the opportunistic behaviour of company managers, reduce agency conflicts and increase investor confidence. Corporate governance is also expected to improve the corporate financial performance and positively impact firm value.

Zimon *et al.* (2021) and Özcan (2021) state that corporate governance has received attention from many researchers, especially since various accounting scandals such as the Enron, Toshiba and Parmalat cases. Various company stakeholders are realizing the importance of strengthening corporate governance to prevent fraud in the company's financial reports. Parks and Conlon (1995) state that companies must have the right mechanism related to monitoring the corporate financial performance, so as to have an effective mechanism for paying agents. The corporate governance system manifests the company's oversight mechanism (Ammann *et al.*, 2011).

In order to strengthen corporate governance and reduce the risk of fraud, certain regulations must be revised. Increasing the role and functions of the audit committee as a means of providing more effective support for the execution of corporate governance is one of these. Özcan (2021) explains that a literature study on agency theory is now being conducted with regard to studies on audit committees in general. The concept of agency provides an explanation for the requirement that effective monitoring of company performance be carried out by internal and external auditors. The efficiency of corporate supervision will have an influence on the accomplishment of control activities, the dependability of financial reporting and the elimination of information asymmetry between company management and company shareholders. The primary responsibilities of an audit committee include monitoring the preparation of financial reporting, conducting an analysis of the efficacy of internal control, ensuring compliance with applicable regulators and monitoring the performance of the organization's internal auditors.

■ Corporate financial performance

Chen and Chen (2011) explain that the relationship between profitability and firm value has received great attention among researchers for several decades. Companies with high profitability have the potential to distribute greater profits to company stakeholders, which has an impact on increasing firm value. Giannopoulos *et al.* (2022) mention that the core thinking about a company's financial performance is the numbers in the financial statements that relate to company profits. Financial ratios such as return on assets, for example, are one of the financial ratios that can be used to measure a company's financial performance. According to Kyere and Ausloos (2021), companies can improve their financial performance by minimizing agency costs. If the company can properly manage all components of the company's agency costs, the corporate financial performance will increase. Efforts to maximize firm performance and value are often hampered by various conflicts of interest (Ambarwati *et al.*, 2019).

Sudiyanto *et al.* (2012) explained that financial performance is still the main measurement of the success of an investment. An increase in profitability will encourage an increase in the company's share price in the capital market and indicate an increase in firm value. Akhmadi and Januarsi (2021) state that when a company succeeds in producing high profitability, this condition describes the prospects for future performance. The increase in profitability is expected to be directly proportional to dividend payments, so that it becomes a signal that can increase the company's stock price. Profitability increases investor and shareholder confidence and provides a positive management profile for the efficiency of company management.

Ibrahim Al and Nawaiseh (2017) explain that financial performance is the main indicator of success in managing a company's business. Carrying out financial performance assessments appropriately and sustainably will enable corporate managers to improve planning, improve technical operations, map better resource use and minimize company business risks. Sustained financial performance growth will be directly proportional to the increase in firm value. Chen and Chen (2011) mention that profitability indicates a company's efficiency in managing assets and management. Investors hope the company's profit increase will be directly proportional to the increase in dividend distribution to shareholders. Br Bukit *et al.* (2018) state that firm performance could be interpreted as financial efficiency, financial stability and also the company's financial health. The company's high ability to generate profits indicates a safe and sound financial condition. High profitability will reduce the company's business risk. Company management must manage business operations efficiently, so as to increase financial performance and corporate value.

■ Firm value

Kyere and Ausloos (2021) explained that corporate performance can be seen from two sides, namely performance related to the financial profitability data and the second is performance related to the company's stock price. Ambarwati *et al.* (2019) are of the opinion that increasing firm value is the main goal of establishing a company. Ibrahim Al and Nawaiseh (2017) explain that an increase in firm value indicates an increase in the welfare of corporate owners. Company managers must monitor continuously to update plans, improve operating techniques and measure outputs and resources that impact financial performance. Br Bukit *et al.* (2018) state that companies must understand the conditions of uncertainty that can increase the company's business risks, impacting firm performance and value. The company's value can be illustrated by changes in the company's stock price. Increased firm value shows good company prospects in the future.

Anderson and Yohn (2002) explained that investors would use data in financial reports to analyze and predict the company's future performance and evaluate the company. The corporate financial performance shows how much the company can generate profits, while the company's value measures the market reaction to financial performance. Investors in the stock market will provide high corporate value to companies with good performance and vice versa. Abreu (2016) mentions that changes in firm value are closely related to accounting number data in financial statements. This accounting data has a physical dimension, namely certain business activities or policies with information value. Investors process information from financial reports to take business decisions impacting firm value.

Investors hope the company can continue improving its performance through sustainable profit growth. Increased profitability, accompanied by increased firm value, indicates increasing investor welfare. Jo and Harjoto (2011) explained that the company's goal in agency relationships is to maximize firm value. Agency conflicts, information asymmetry and opportunistic behaviour of the company management hampers the investors' desire to maximize value. Corporate governance is a mechanism created by the principal to limit the deviant behaviour of agents, increase supervision and align the interests of principals and agents. Implementing corporate governance will make management work according to the shareholders' wishes through sustainable business processes, based on accountability and transparency. The follow-up impact of corporate governance is the quality financial reporting. Financial statements are a source of information that investors will use to assess the company's performance and value (Anderson & Yohn, 2002). García-Teruel *et al.* (2009) argue that by increasing the quality of financial reports, information asymmetry would decrease, so that, hopefully, investors can provide value to the company more precisely. Profit figures generated from quality financial reports are more indicative of actual business performance, so that shareholders can make a more precise valuation.

■ The role of the audit committee in corporate governance

Kyere and Ausloos (2021) mention that corporate governance is a company management system based on accountability, transparency, fairness and management responsibility principles. Most academics agree that corporate governance positively impacts a company's financial performance. Jensen and Meckling (1976) explained that company agency costs include monitoring costs and implementing corporate governance to align the interests of principals and company management. Özcan (2021) argues that one form of corporate governance mechanism in a company is the optimal function of the oversight role of the company's audit committee.

Kasthury and Anandasayanan (2021) explain that the audit committee plays an important role in the corporate governance system, especially in processes related to financial reporting, internal control systems and risk management. The audit committee's duties are also related to efforts for limiting agency problems (Jensen & Meckling, 1976). The audit committee communicates with internal auditors, company executives and external auditors regarding the improvement of business governance. Good qualifications from the audit committee and a systematic internal audit process will create a mechanism to improve operational performance, which is expected to improve the company's financial performance.

Agyemang-Mintah and Schadewitz (2018) state that maintaining the integrity of financial statements through the audit process and assessing company business risks is the main task of an audit committee. The audit committee is also tasked with advising management on professional business decisions and efforts to keep financial records per applicable financial accounting standards. The audit committee recommends changing or replacing external audits, reviewing audit fees and other non-audit work. Al-Okaily and Naueihed (2020) argue that the audit committee oversees financial reporting, ensures that managers ethically report performance properly and reduces the potential for fraudulent financial reporting. The audit committee improves firm performance as regards the achievement of information quality. Almaqoushi and Powell (2021) explained that the composition of the audit committee is of concern to investors and shareholders, because changes in the composition of the audit committee affect the company's valuation. Audit committee members are a resource that can be used to improve the performance and quality of financial reporting, strengthen internal control and calculate company risk management.

Qeshta (2021) explains that the audit committee must have a mechanism for regular meetings with external audits to discuss financial reporting, the audit process and internal control weaknesses. The audit committee must create a working system that can prevent and reduce information asymmetry within the company. The audit committee has an important task to strengthen user confidence in the quality of financial reporting information prepared by management. The audit committee is tasked with preventing fraudulent financial reporting by management. It can become an institution that implements, maintains and safeguards the implementation of corporate governance practices so that it benefits all company stakeholders.

Al Farooque *et al.* (2020) explain that the audit committee plays a role in supporting the effectiveness of the board of commissioners in the field of auditing, the independence of the nomination committee and other company compensation policies. An audit committee that can work independently will increase the effectiveness of business operations and the effectiveness of internal controls, which will have an impact on improving firm performance. Improving the corporate financial performance will impact the accumulated wealth of company owners. The frequency of work meetings between the audit committee and company management will affect the effectiveness of supervision and reduce the potential for fraud. A large number of audit committee members will show the composition of experience and knowledge that has an impact on the effectiveness of supervision, which has an impact on improving firm performance. Alabdullah and Ahmed (2020) state that the audit committee has an important role in the company's oversight mechanism, the internal control system in preparing audit reports and the quality of financial reports.

■ Hypotheses development

In developing the first hypothesis, researchers will examine the relationship between the audit committee and the corporate financial performance in Indonesian state-owned companies. Previous studies examining the relationship between audit committees and financial performance provided varied results. Alabdullah and Ahmed (2020), Al-Okaily and Naueihed (2020), and Kasthury and Anandasayanan (2021) found a positive effect of audit committee size and the number of audit committee meetings on a company's financial performance. Al Farooque *et al.* (2020) found a positive effect of the number of annual audit committee meetings on a company's financial performance. However, they did not find an effect of audit committee independence and the number of audit committees on the corporate financial performance. Qeshta (2021) found a negative effect of the number of audit committee meetings on financial performance, but found no effect of the audit committee size, the audit committee independence and the audit committee experience on corporate financial performance. Al-Jalahma (2022) found a negative influence of the audit committee on the company's financial performance. Jufri (2019) found no effect of the audit committee on firm value.

Referring to the agency theory, the researcher supports the opinion about the positive influence of the audit committee on the company's financial performance. Alabdullah and Ahmed (2020) explain that the audit committee has an important role in the control mechanism, supervision, advisory over the corporate internal control system and preparation of financial reports. Al-Okaily and Naueihed (2020) state that the frequency of meetings held by the audit committee, the background of the audit committee's experience, and the number of audit committee members are several important indicators of the effectiveness of the audit committee. Jufri (2019) explains that the audit committee is the main corporate governance tool that makes financial reports more conservative and of good quality. If the audit committee is weak, the company's output will be weak in measuring the performance and quality of financial reports and has the potential to cause fraud. The audit committee is related to improving the oversight mechanism within the company (Al Farooque *et al.*, 2020). Effective supervision will reduce supervision costs, so that the corporate financial performance will increase. Al-Okaily and Naueihed (2020) state that the effectiveness of the audit committee's role could reduce information asymmetry in the company. The audit committee plays a role in improving the quality of financial reports, financial reports free from material errors and efforts to reduce company earnings management. Alabdullah and Ahmed (2020) explain that the audit committee is the main medium for implementing corporate governance, which plays a role in strengthening internal control and improving firm performance. Based on agency theory and the results of previous research, researchers suspect that the audit committee has a positive influence on the company's financial performance.

Based on the theoretical studies above, the first hypothesis of this research is formulated as follows:

H1: The audit committee has a positive effect on the company's financial performance.

Developing the second research hypothesis will examine the effect of financial performance on firm value in Indonesian BUMN companies. Br Bukit *et al.* (2018), Ambarwati *et al.* (2019), and Akhmadi and Januarsi (2021) found that there is a positive influence of the corporate financial performance on firm value. This research supports the opinion of previous researches which states that financial performance positively influences firm value because the company's ability to generate profits is still the main key and the basis for investors to evaluate investment funds in the company. Ochego *et al.* (2019) explained that firm value is a direct function of the corporate financial performance on the long term. The corporate financial performance is the core value of the company's business activities. Sudiyatno *et al.* (2012) found that there is an effect of financial performance on firm value in Indonesia. Improved financial performance is a good signal for market participants, thereby increasing the company's value. Abreu (2016) explains that financial performance that grows sustainably will increase the company's value. Akhmadi and Januarsi (2021) state that improved financial performance is expected to be directly proportional to profits distributed to shareholders. Br Bukit *et al.* (2018) mention that increased profit is a guarantee of the company's financial health and at the same time increases investor confidence in the company (Akhmadi & Januarsi, 2021). Referring to the study of agency theory and the results of previous research, researchers argue that an increase in a company's financial performance will be directly proportional to an increase in firm value.

Based on the explanation above, the second hypothesis of this research is formulated as follows:

H2: Financial performance has a positive effect on firm value.

The development of the third hypothesis will examine the mediating role of financial performance on the influence of audit committees and firm value on Indonesian state-owned companies. Research examining the relationship between audit committees and firm value also provides varied results. Research from Alabdullah and Ahmed (2020), Al-Okaily and Naueihed (2020), Azam and Wang (2021), and Özcan (2021) found that there is a positive influence of the audit committees on firm value. Malini *et al.* (2021) failed to find the effect of the audit committee on firm value, while Al-Jalahma (2022) found a negative effect of the audit committee on firm value.

Regarding agency theory, the researcher supports the results of previous research opinions which state that the audit committee has a positive influence on firm value. Ochego *et al.* (2019) explained that implementing corporate governance in a company will encourage an increase in financial performance which impacts stock market prices and efforts to increase firm value. Al-Okaily and Naueihed (2020) state that the audit committees are a solution to conflicts between shareholders and company management regarding aspects of company supervision. The audit committee is expected to increase corporate value through communication effectiveness and improving the quality of financial reporting.

Azam and Wang (2021) stated that the audit committee's role could not be separated from implementing corporate governance. The audit committee has a supervisory and communication role between the manager and the external auditor, aiming for the external audit to work more professionally. Reducing information gaps and increasing the credibility of financial reports are the main things to be achieved through the independence and expertise of the audit committee. Özcan (2021) mentions that the positive aspects of the company's audit committee are expected to increase firm value. The complex business environment requires increased internal control and the credibility of financial reports. This role is expected to be carried out by the company's audit committee, so that it can impact increasing firm value.

Previous research by Alabdullah and Ahmed (2020), Al-Okaily and Naueihed (2020), and Kasthury and Anandasayanan (2021) found that there is a positive effect of the audit committees on performance. Chen and Chen (2011), Br Bukit *et al.* (2018), Ambarwati *et al.* (2019), and Akhmadi and Januarsi (2021) found a positive influence of the corporate financial performance on firm value. Research by Alabdullah and Ahmed (2020), Al-Okaily and Naueihed (2020), Azam and Wang (2021), and Özcan (2021) found that there is a positive influence of the audit committees on firm value. Based on the explanation above, the researcher argues that a company's financial performance can mediate the influence of the audit committee on firm value. Researchers suspect that the audit committee affects financial performance first and then firm value.

Based on the explanation above, the third hypothesis of this research is formulated as follows:

H3: The audit committee has an effect on firm value with financial performance as a mediating variable.

➲ Research methodology

■ Research data

This research focuses on Indonesian state-owned companies registered on Indonesia's capital market. Analysis of research data was carried out from 2016 to 2020. The population of this research were all companies included in the category of BUMN (state-owned companies) on Indonesia's capital market. The data for this research was obtained from secondary data sources, namely annual reports and audited financial reports of Indonesian BUMN companies. This data is obtained through the official website of Indonesia's capital market and the official website of each state-owned company. The research sample selection technique used is the population sample method. All BUMN companies on Indonesia's capital market with complete research data are used as samples.

■ Variable operational definition

✓ *Independent variable*

The audit committee serves as an independent variable in this research. Jufri (2019) stated that the audit committee is a committee formed by the company under the board of commissioners. The audit committee carries out the duties and functions of corporate governance control. The audit committee variable in this research was measured based on the percentage of the existence of the audit committee compared to the board of commissioners (Indrastuti, 2021).

✓ *Dependent variable*

Firm value is the dependent variable in this research. Corporate firm value in this research was measured by price-to-book value (PBV), referring to Ambarwati *et al.* (2019). PBV is a financial ratio that compares the market value per share with the book value per share.

✓ *Mediation variable*

Sudiyatno *et al.* (2012) explained the corporate financial performance in achieving a company's profit performance in one accounting period. This research's financial performance calculation uses the gross profit margin ratio (Ibrahim Al & Nawaiseh, 2017). Gross profit margin ratio is a financial ratio that compares the company's gross profit with the company's revenue. The higher the gross profit margin ratio, the better the company's profitability, which means the better the corporate financial performance (Ibrahim Al & Nawaiseh, 2017).

■ Analysis techniques

This research uses several linear regression models, as follows:

$$FPt = \alpha + \beta 1\ ACt + e$$

$$CFVt = \alpha + \beta 1\ ACt + e$$

$$CFVt = \alpha + \beta 1\ FPt + \beta 2\ ACt + e$$

Information:
FPt – financial performance (gross profit margin ratio);
ACt – the audit committee;
CFVt – corporate firm value (price-to-book ratio).

Based on the three regression models above, the authors make a path analysis to test the mediating variable.

➲ Empirical findings and discussion

■ Descriptive statistics

This research investigates the role of financial performance in the influence between the audit committees and firm value state-owned companies on Indonesia's capital market. Researchers obtained 23 state-owned companies with complete financial data based on the selection of research samples. The total research observations during 2016-2020 were 115 sample data. The results of the data outlier test obtained four outlier data and had to be removed from the analysis process, so that the total research observations were 111 data. Table 1 below provides an overview of the descriptive statistics of each research variable.

Table 1. Descriptive statistics

	N	Minimum	Maximum	Average	Standard deviation
CFV	111	0.15	8.07	1.58	1.38
FP	111	-1.51	0.71	0.23	0.24
AC	111	0.33	0.88	0.63	0.14

Source: Data calculation results by the authors.

Table 1 shows that the firm value (CFV) averages 1.58 with a standard deviation of 1.38. The smallest value for the firm value variable is 0.15, and the most significant value for the firm value is 8.07. As measured by gross profit margin, financial performance has an average value of 0.23 with a standard deviation of 0.24. The smallest value for firm performance is -1.51, with the most significant value being 0.71. The audit committee variable has the smallest value of 0.33, with the most considerable value of 0.88. The average value of the audit committee is 0.63.

The correlation between research variables is described in Table 2 below.

Table 2. Correlation matrix

	CFV	FP	AC
CFV	1	-	
FP	-0.022	1	
AC	-0.005	0.177	1

Source: Data calculation results by the authors.

Based on Table 2, we can see that the relationship between financial performance and the audit committee has the most considerable correlation with 0.177. In contrast, the relationship between audit committee and firm value has a little correlation with a value of -0.005.

■ Analysis results

✓ *First equation regression result*

The first regression equation is a simple regression model that examines the effect of the audit committee on the financial performance of state-owned companies in Indonesia. The regression analysis results show that the coefficient of determination is 0.043, which means that the effect of the audit committee on changes in the corporate financial performance is 4.3%. The test results for the regression F-value show a value of 4,724 with a p-value of 0.032, which means that the data fits the research model. Testing the first hypothesis in this research shows that the regression test for the audit committee variable shows a regression coefficient value of 0.674 with a p-value of 0.032. Based on the test results, the researchers concluded that the audit committee positively affects the value of BUMN companies in Indonesia. The first hypothesis in this research is supported.

This research's results align Al Farooque *et al.* (2020) and Al-Okaily and Naueihed (2020), who found a positive effect of the audit committee on the company's financial performance.

✓ *Second equation regression result*

The regression of the second equation aims to examine the effect of the audit committee on firm value. The regression test results show a coefficient of determination of 0.001, which means that the influence of the audit committee on the value of BUMD companies in Indonesia is 0.1%. The regression F-value shows a value of 0.076 with a p-value of 0.783. The results of the regression analysis of the second equation show a regression coefficient of 0.072 with a p-value of 0.783. The regression results show insignificant results, meaning the audit committee does not affect firm value.

✓ *Third equation regression result*

The regression of the third equation aims to examine the audit committee's effect on firm value and financial performance. The regression test results show a coefficient of determination of 0.069, which means that the influence of the audit committee and financial performance on changes in firm value is 6.9%. The regression F-value shows a value of 4.934 with a p-value of 0.009, which means that the research model fits the data, the results of the regression analysis of the third equation show two main points. Testing on the audit committee variable shows a regression coefficient of -0.090 with a p-value of 0.726. The regression results show that the audit committee has no significant effect on firm value. The second test for the financial performance variable shows that the regression coefficient value for the financial performance variable is 0.245 with a p-value of 0.002. The regression results show significant results, which means that financial performance affects firm value. The second hypothesis in this research is supported. The results of this research are consistent with the results of research by Ambarwati *et al.* (2019) and Chen and Chen (2011), which found an influence between financial performance and firm value.

✓ *Path analysis*

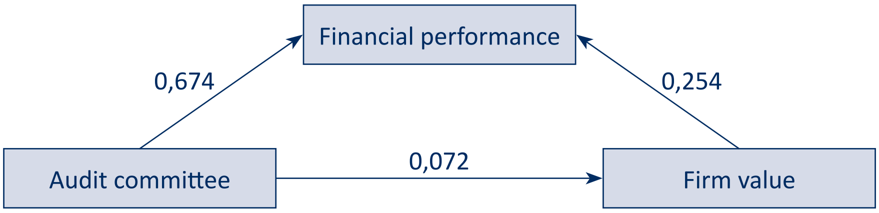
Path analysis based on the three regression equations above is presented in the following table.

Table 3. Summary of effects between research variables

Influence between variables	Path coefficient	p-value	Description
Audit committee → Financial performance	0.674	0.032	Significant
Financial performance → Firm value	0.254	0.002	Significant
Audit committee → Firm value	0.072	0.783	Not significant

Source: Data calculation results by the authors.

Based on the test results of the three regression equations in the previous analysis section, the researchers made a path analysis with the following appearance:



Path analysis

Source: Data calculation results by the author.

Based on the path analysis above, the audit committee's direct effect on firm value is 0.072, while the indirect effect of the audit committee on firm value through financial performance as a mediating variable is 0.171 (0.674 x 0.254). The results of the column analysis show that the indirect effect has a more significant influence than the direct effect, so the researchers conclude that financial performance can play a role as a variable that mediates the effect of the audit committee on firm value. Hypothesis 3 in this research is supported.

■ Discussion

This research found a positive influence of the audit committee on the corporate financial performance in the types of BUMN companies on Indonesia's capital market. The results of this research support the thinking of Al-Okaily and Naueihed (2020), which state that the effectiveness of the audit committee's work will improve oversight of the company's directors which has an impact on improving firm performance and the welfare of owners. The audit committee also reviews financial reporting and oversees the company's board of directors. The audit committee has a role in increasing internal control and preventing fraud within the company. Qeshta (2021) states that the audit committee is an important part of a company's corporate governance, which controls risk and business operations. Al Farooque *et al.* (2020) explain that the audit committee communicates with the external auditors and regularly evaluates financial reporting, audit processes and internal control processes. The audit committee creates a transparent business environment, preventing fraud within the company and minimizing risks to internal control (Al-Okaily & Naueihed, 2020). An important implication of the results of this research is the need to increase the effectiveness of the role and performance of audit committees in BUMN companies on Indonesia's capital market, because the effectiveness of audit committee work significantly impacts improving firm performance.

The second finding of this research is that financial performance has a positive influence on the value of BUMN companies on Indonesia's capital market. The increase in the financial performance of BUMN companies is directly proportional to the increase in the company's value on the capital market. This research's results align with Chen and Chen (2011), who found a positive response from investors to an increase in the company's financial performance. Ibrahim Al and Nawaiseh (2017) explain that a company's ability to generate profits is an indicator of the success of the performance of company managers. High profits indicate business success and guarantee investment security in the future. Akhmadi and Januarsi (2021) explain that investors assess that an increase in company profits will be directly proportional to an increase in dividends, an increase in future investment prospects and a decrease in business risk. Ambarwati *et al.* (2019) explained that the company's value will increase in the direction of an increase in the company's financial performance.

The third finding of this research is that there is a mediating role for financial performance variables in the influence of the audit committee on firm value in the case of BUMN companies on Indonesia's capital market. Direct examination of the effect of the audit committee on firm value yields insignificant results. The audit committee indirectly affects firm value, which means that an audit committee first affects the corporate financial performance and then affects firm value. This research's results align with Al Farooque *et al.* (2020), which also found no direct effect of the audit committee on firm value. The results of this research support Al-Okaily and Naueihed (2020) and Kasthury and Anandasayanan (2021), who found a positive effect of the audit committee on a company's financial performance. This finding implies that the audit committee (as part of implementing corporate governance) can improve the company's financial performance. The effectiveness of the audit committee's oversight of the directors' performance, review of financial reporting, strengthening of internal control and efforts to prevent fraud within the company improved the company's internal financial performance. An increase in the corporate financial performance will be responded to by an increase in the share price, which increases the company's value (Akhmadi & Januarsi, 2021).

➲ Conclusion

This research aims to determine the role of the corporate financial performance as a mediating variable in the influence of the audit committee on firm value in the case of BUMN companies on Indonesia's capital market. The first conclusion of this research is that the audit committee has a positive effect on the financial performance of BUMN companies on Indonesia's capital market. The second conclusion shows that financial performance positively affects the value of BUMN companies. The third conclusion is that the corporate financial performance can be a mediating variable in the influence of the audit committee on firm value. This research implies that Indonesian state-owned companies should always increase the effectiveness of the audit committee's role, as it can impact the corporate financial performance and value.

The limitations of this research include measuring the audit committee. This research only uses one indicator of the company's audit committee assessment. Future research can develop other measurements of audit committees, such as frequency of meetings, audit committee capabilities or the number of company audit committee findings and test them against firm performance and value.

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