

## THE ROLE OF QUALITY AUDIT COMMITTEE OVERSIGHT: QUALITY OF SUSTAINABILITY REPORTS IN INDOSESIAN ENERGY SECTOR COMPANIES

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### Keyword

*Audit committee, Governance, Sustainability Reporting Quality, GRI, Energy Sector, Indonesia.*

### Abstract











*This study examines the role of audit committee oversight quality on the quality of sustainability reports (SR) of energy sector companies in Indonesia. Using a quantitative research design and secondary data from annual reports and sustainability reports prepared in accordance with Global Reporting Initiative Standards. This study constructs an SR quality index based on the dimension of Theme/Topic completeness (adherence to material GRI indicators). The audit committee variable is proxied by the frequency of audit committee meetings during the fiscal years. The population includes all energy issuers (oil & gas, coal, electricity, renewable energy) listed on the Indonesia Stock Exchange for the period 2021–2024, with the sample determined using purposive sampling techniques and obtaining a sample of 153. Estimation were conducted using regression analysis accompanied by statistical analysis, classical assumption tests, and hypotesting using SPSS statistic 26. The results indicate that a higher frequency of audit committee meetings has a positive impact on SR quality. This study contributes to the literature on sustainability reporting governance in developing countries like Indonesia and offers replicable measurement guidelines for regulator and practitioners.*

## INTRODUCTION

Energy companies are under intense scrutiny due to the environmental and social impacts of their upstream and downstream operations and the transition to clean energy. In Indonesia, sustainability reporting obligations and practices are accelerating with the issuance of regulatory authorities and the adoption of global standards. However, there remains a wide variation in the quality of sustainability reporting (SR) across companies. The key question is: to what extent does the oversight role of the audit committee, as a key body of the board of commissioners, contribute to improving the quality of SR, not just the quantity of disclosures?

This study develops a framework for measuring SR quality in line with Global Reporting Initiative (GRI) standards, then tests the effect of audit committee monitoring intensity on variations in quality after controlling for company characteristics and other governance factors. Sustainability reporting can be presented as a separate document or as part of the annual report. At the same time, GRI standards have undergone a major update emphasizing material topics, due diligence, and impact-focused reporting. This research responds to this context by selecting the period 2021–2024, which covers the pre- and post-GRI Universal 2021 update, thereby enabling the testing of differences before and after the standard transition.

According to Scott (2015), the benefits of sustainability reporting, which is still voluntary, especially in developing countries such as Indonesia, include reducing information asymmetry, lowering capital costs, and serving as a positive signal to the market regarding the quality and prospects of the company. Sustainability reporting is now recognized as a global standard framework for evaluating and communicating a company's social responsibility and environmental concerns. The GRI standard has become the main reference for preparing transparent and comprehensive sustainability reports internationally. However, the implementation of this standard in Indonesia has not yet reached an optimal level. According to research by Dara & Barokah (2022), only around 23% of companies affiliated with business entities in Indonesia have successfully met the quality of sustainability reporting in accordance with GRI guidelines.

Economy	Overall	Economic	Societal	Environmental
1  New Zealand	100.0	86.0	100.0	100.0
2  United Kingdom	97.7	87.8	93.7	99.4
3  Australia	87.4	75.4	99.6	83.2
4  Singapore	85.7	92.4	87.0	75.2
5  Japan	81.5	72.2	81.9	91.2
6  South Korea	81.4	92.2	85.4	67.4
7  Hong Kong	81.4	100.0	65.8	79.2
8  Canada	80.0	81.1	99.8	61.0
9  Taiwan	72.3	76.7	87.1	61.2
10  United States of America	72.2	90.0	69.4	65.3

Source: *IMD Sustainable Trade Index (2024)*

Figure 1. Top 10 ESG reporting countries and their scores

According to research from the Hindrich-IMD Sustainable Trade Index (2024), Indonesia still lags behind in terms of sustainability reporting. Globally, Indonesia ranks 18th out of 30 countries surveyed, while in the ASEAN region, Indonesia ranks 6th, trailing behind Singapore, Thailand, the Philippines, Vietnam, and Malaysia. This gap indicates a significant shortfall in the implementation and integration of sustainability reporting standards. Furthermore, Indonesia's position in this index underscores that improving the quality of sustainability reporting is not merely a national requirement but also a key factor in enhancing competitiveness at the regional and global levels, particularly in addressing the growing trends of green investment and sustainable trade. In the context of Indonesia's commitment to the 2060 Net Zero Emissions target, the energy sector faces significant pressure from the public and stakeholders to transition to low-carbon energy sources. According to a report by Katadata.co.id (2024), of the total emissions, the energy and transportation sectors contributed 50.6% or around 1 Gt CO<sub>2</sub>e in 2022. The fact that the main source of national emissions comes from fossil fuels, particularly coal-fired power plants, makes the energy sector a focal point for Indonesia's Net Zero Emissions target.

The audit committee plays a role as one of the supervisory instruments established by the board of commissioners. The existence of the audit committee is regulated in various regulations, including Financial Services Authority (OJK) Regulation POJK No. 55/POJK.04/2015 concerning the Establishment and Guidelines for the Implementation of the Audit Committee, as well as the company charter that refers to POJK No. 55/POJK.04/2015, which stipulates that the Audit Committee must hold meetings at least once every three months (quarterly). Despite its important role, the audit committee does not have the authority to directly issue warnings or instructions to the board of directors. This aligns with the two-tier board system principle in Indonesia, where the separation of functions between the board of commissioners (supervisors) and the board of directors (managers) is strictly maintained to avoid conflicts of interest and ensure independence. Thus, any findings or recommendations generated by the Audit Committee are submitted to the board of commissioners, which then decides on strategic actions, including issuing reprimands or instructions to the board of directors.

The literature by Dewi et al. (2023), Henriques et al. (2022), Paleni et al. (2024), Alijoyo (2019) have linked corporate governance with sustainability report disclosure, but there is still limited causal evidence in developing countries in Indonesia regarding the specific role of audit committees on SR quality, as well as how the intensity of oversight affects assurance and disclosure controls. In Indonesia, cross-sector evidence is beginning to emerge, but replicable and open-method GRI-based SR quality measurements are still rarely applied in the energy sector. This study aims to: develop a replicable SR quality index based on GRI; examine the impact of the audit committee's oversight role on SR quality in Indonesian energy companies; and provide policy implications for strengthening the mandate and competence of audit committees in overseeing sustainability reporting. The contributions of this study will include: a transparent methodology for measuring SR quality; empirical evidence in emerging markets such as Indonesia; and practical governance recommendations for boards/audit committees.

## METHOD

This study uses a quantitative design with observation objects in energy companies listed on the Indonesia Stock Exchange. The population for this study consists of energy sector issuers (oil & gas, coal, electricity & utilities, renewable energy) according to the IDX classification for the 2021-2024 period, with the sample selection method using purposive sampling for companies with available annual reports and SRs for each observation year, as well as revealing the frequency of audit committee meetings. Based on observations of the population, researchers found a sample of 153 energy sector companies listed on the IDX that use GRI Standards in their sustainability reporting. Classical assumption tests such as data normality tests, heteroscedasticity tests, and autocorrelation tests were used in this study, as well as hypothesis tests such as t-tests and coefficient of determination tests. The data sources for this study are annual reports, SRs, corporate websites, and exchange/regulatory archives. The SRs analyzed are those that reference GRI (in accordance or with reference), including the application of GRI 2016, GRI Universal 2021, and/or GRI Energy sectoral standards.

The quality of sustainability reporting in this case uses GRI guidelines as an international reference for sustainability reporting. Previous studies such as those by Rofelawaty (2014) and recent studies such as Dewi et al. (2023) show that the use of content analysis based on GRI indicators in assessing corporate transparency, particularly in high-risk industries such as the energy sector, is important. Therefore, the integration of 25 material topics tailored to the energy sector and derived from GRI 200, 300, and 400 is important to ensure reports that are not only administratively compliant but also substantively meaningful. A score of 2 is given if the disclosure is descriptive or qualitative and accompanied by quantitative data or visualizations such as images. A score of 1 is given if the disclosure is only descriptive or qualitative without numerical support or visual illustrations. Meanwhile, if there is no disclosure of the information in question in the sustainability report, the company is given a score of 0 (Rofelawaty, 2014). The following is the formula for measuring the quality of sustainability reporting:

$$SRQ_{it} = \frac{\sum X_{it}}{N_{max}}$$

Description:

$\sum X_{it}$ : Total score for all topics/materials disclosed by company i in year t

$N_{max}$ : Total maximum score for all topics/materials

The quality of audit committee oversight as an independent variable, where the audit committee is an integral part of the corporate governance structure responsible for ensuring the quality of oversight of the company's information disclosure process and internal control. The percentage of meetings in a fiscal year, which is calculated by taking the natural logarithm (Ln) of the number of Audit Committee meetings, is one readily quantifiable measure of the operational behavior of the Audit Committee (Alijoyo, 2019).

## RESULTS

### 1. Test Normality

The normality test in this study used the Kolmogorov-Smirnov nonparametric statistical test (One Simple K-S). The Kolmogorov-Smirnov sample has a decision basis, namely, data is said to be normal if the Asymp. Sig (2-tailed) value is  $> 0.05$  (Ghozali, 2021)

Table 1. The results of the Kolmogorov-Smirnov Test

One-Sample Kolmogorov-Smirnov Test		
N	Asymp. Sig. (2-tailed)	Description
153	,200	Normal

The data above can be considered normally distributed since Table 1 above displays an Asymp. Sig value of 0.200, which indicates  $>0.05$ , according to the findings of the normality test

### 2. Heteroskedasticity

Glejser analysis was used to regress the absolute residual values against the independent variables. Heteroscedasticity did not occur if the significance probability was  $> 5\%$  (0.05), so it could be said that heteroscedasticity did not occur (Ghozali, 2021).

Table 2. The results of the Heteroscedasticity Tests

Variable	Significance Value	Description
X	,622	No Heteroskedasticity

The Audit Committee Supervision Quality variable has a Sig. value of 0.622, which is  $>0.05$ , indicating that there is no heteroscedasticity in the variable, according to the findings of the heteroscedasticity test in Table 2 above.

### 3. Autocorrelation

Autocorrelation is used in regression models with time series data because disturbances in individuals/groups tend to affect the same individuals/groups in the following period (Ghozali, 2021). The decision criterion in this test is Durbin-Watson, by looking at the DW test number. The decision is said to be no autocorrelation if the value of  $du < d < 4 - du$ , which means that there is no positive or negative autocorrelation (Ghozali, 2021).

Table 3. The results of the Autocorrelation Tests

Variable	Durbin-Watson	Description
X	1,966	No Autocorrelation

$$d = 1.966, du = 1.748$$

$$4 - du = 4 - 1.748 = 2.251$$

Table 3 above indicates that the  $4-du$  value is 2.251, the DW value is 1.966, and the  $du$  value is  $k=1$   $n=153$ . This shows that there is no autocorrelation because the DW value falls between the  $du$  and  $4-du$  values.

### Simple Linear Regression

Simple linear regression analysis aims to determine the relationship between research variable the following equation:  $Y = -0.444 + 0,072$

### Hypothesis Testing

#### 1. Coefficients of Determination

The coefficient of determination ( $R^2$ ) is used to measure the extent to which independent variables explain dependent variables. The coefficient of determination ranges from zero to one. If the coefficient of determination is small, it means that the independent variables have limited ability to explain the variation in the dependent variables.

Table 4. Coefficients Determinaton Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,287	,082	,076	,16870

The Audit Committee Supervision Quality variable contributes 8.2% to the Sustainability Report Quality variable, with other variables accounting for the remaining 91.8%, according to Table 4's R Square value of 0.082.

## 2. T-test (Partial)

According to Ghozali (2016), the t-test is used to show the extent to which one independent variable individually influences the dependent variable partially. The basis for the t-test decision is that if the significance value is  $< 0.05$ , the hypothesis is accepted, meaning that there is an influence between the independent variable and the dependent variable (Ghozali, 2021).

Table 5. T-test Results

Model	Variable	Significance Value
1	X	,000

Table 5 shows that the Sig. variable X value is  $0.000 < 0.05$ , which means that the Quality of Audit Committee Supervision has a significant effect on the Quality of Sustainability Reports.

## DISCUSSION

Within the framework of Legitimacy Theory, these findings are consistent with the view that companies seek to maintain consistency between their activities and social values through credible disclosure mechanisms (Suchman, 1995). The intensity of audit committee meetings reflects a higher level of oversight over the SR preparation process, thereby minimizing errors, enhancing compliance with GRI standards, and strengthening the company's legitimacy in the eyes of the public (Deegan, 2002).

In the context of Indonesia's energy sector, which is under intense pressure regarding environmental issues and the 2060 Net Zero Emissions target, effective oversight of SR is a strategic instrument for bridging the legitimacy gap between companies' actual performance and stakeholder expectations. This finding is in line with research Alqatamin (2018) which proves that the intensity of audit committee meetings has a positive effect on the quality of company reporting because it increases the effectiveness of information review and validation. These results also support the findings of Dewi et al. (2023) and Henriques et al. (2022), which show that strengthening governance through internal supervisory bodies can improve the quality of sustainability disclosure, especially in sectors with high reputational risk such as energy.

However, the relatively small  $R^2$  value indicates that corporate legitimacy through SR is not only determined by the frequency of audit committee meetings, but also requires the support of other factors such as the quality of human resources in the audit committee, global market pressures, stakeholder engagement, and low-carbon operational innovation. This aligns with Dowling & Pfeffer (1975) view that legitimacy is a dynamic resource, so companies need to integrate disclosure quality with authentic sustainability practices to maintain their social legitimacy. These findings reinforce the literature on governance and sustainability reporting in developing countries such as Indonesia, proving that the intensity of audit committee meetings is an effective mechanism for legitimacy. This mechanism functions not only as internal control, but

also as a strategic communication tool to maintain social legitimacy, especially in industries with high reputational risk.

## CONCLUSION

This study demonstrates that, for the years 2021–2024, the frequency of audit committee meetings significantly and favorably affects the caliber of sustainability reports (SR) produced by energy sector companies listed on the IDX. With a significance level of 0.000 ( $< 0.05$ ), the regression findings reveal a positive coefficient of 0.072, and the R<sup>2</sup> value of 0.082 suggests that the amount of audit committee monitoring accounts for 8.2% of the variation in SR quality. Although its contribution is moderate, this finding demonstrates a consistent relationship with Legitimacy Theory, where strictly monitored sustainability disclosure can strengthen public trust and reduce the legitimacy gap.

The uniqueness and breakthrough of this research lies in its focus on the energy sector in Indonesia, which has high ESG exposure and is a major contributor to national emissions, so that the findings produced have strategic relevance in supporting the agenda for transitioning to Net Zero Emissions 2060. This research also develops a structured GRI index-based sustainability report quality measurement, covering 25 material topics across economic, environmental, and social aspects, which have not yet been widely applied in studies of Indonesia's energy sector. Additionally, the use of a pre- and post-adoption period approach for the GRI Universal 2021 provides added value, as it enables empirical testing of the influence of audit committee oversight in addressing stricter and impact-based sustainability reporting standards.

Recommendations:

1. For Companies: Increase the intensity and quality of audit committee meetings, including expanding the meeting agenda to explicitly discuss ESG aspects and GRI materiality, not just financial reports.
2. For Regulators: Consider regulations that require more detailed disclosure regarding the role of the audit committee in the SR preparation process, as well as an evaluation of its effectiveness.
3. For Future Researchers: It is necessary to test the role of moderating factors such as the competence of audit committee members, the involvement of independent parties, or shareholder pressure, to explain greater variations in SR quality.

Thus, this study not only provides empirical evidence of the relationship between audit committee oversight and SR quality in the energy sector but also offers a replicable and relevant measurement methodology for strengthening sustainable governance practices in emerging markets.

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