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Literature Review: Analysis of the Role of the Board of Commissioners and the Audit Committee in Supervising the Implementation of Good Corporate Governance

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Abstract: This study seeks to broaden understanding of the strategic roles played by the Board of Commissioners and the Audit Committee in executing Good Corporate Governance (GCG) across various companies in Indonesia. Through a literature review approach, this research assessed multiple relevant journals to pinpoint factors influencing successful oversight by these entities. The findings reveal that autonomy of members, frequency of meetings, and the professional experience of members of both the Board of Commissioners and the Audit Committee are pivotal in enhancing corporate governance quality. Moreover, the study highlights challenges in GCG implementation, such as members' limited independence and skills, as well as restrictions in the frequency and quality of oversight. Consequently, the study suggests strengthening the structure and capabilities of the Board of Commissioners and Audit Committee as strategic measures for achieving superior and sustainable corporate governance, while also boosting transparency and accountability in an increasingly competitive market. It is hoped that this research will contribute to the evolution of GCG policies and practices in Indonesia and serve as a reference for future research in the corporate governance field.

Keywords: Board of Commissioners, Audit Committee, Good Corporate Governance, Corporate Governance

Introduction

A company is founded on a multitude of visions. Besides the goal of generating profits, it seeks long-term existence in its industry. To secure its ongoing operations, the company must adopt effective strategies, one of which is maintaining sound financial performance. Enhancing this financial stability often involves the application of business ethics, a common approach today. According to data, the practice of Good Corporate Governance (GCG) in Indonesia remains voluntary, with no penalties for companies that fail to implement it (Gallus, 2013). As the business environment becomes more complex and dynamic, the role of GCG shifts to being a crucial factor for ensuring the company's continuity and reputation. GCG doesn't just focus on boosting performance; it aims to promote transparency, accountability, and public trust in management practices. A vital component of GCG is the active involvement of the company's oversight bodies, such as the board of commissioners and the audit committee.

Good corporate governance can enhance profits and minimize the risk of future bankruptcy, thereby adding value to the company. The inception of good corporate governance was spurred by numerous financial scandals impacting companies globally, often in developed nations. As global business grows increasingly intricate, the adoption of good corporate governance practices has rapidly spread to other regions, notably to developing countries like Indonesia. (Renny Maisyarah)

The board of commissioners bears the duty of overseeing both the policies and capabilities of the board of directors, while also offering strategic guidance to ensure the company's management adheres to good governance principles. In addition, the audit committee, which acts as a support unit for the board of commissioners, has a crucial role in supervising the internal control system and the financial reporting process, as well as ensuring compliance with regulations. The collaboration between the board of commissioners and the audit committee is vital in establishing an effective supervisory framework. Nonetheless, the implementation of good corporate governance (GCG) in many companies, particularly in developing regions like Indonesia, encounters significant challenges. Among these challenges are issues with independence, a lack of competence, and the limited frequency and quality of supervision, which hinder the achievement of ideal governance. Hence, evaluating how effectively the board of commissioners and audit committee can oversee GCG implementation is essential.

The relevance of this research grows in the face of regulatory changes and evolving market expectations regarding the implementation of GCG in Indonesia, which continues to expand (Matondang, 2024). With the introduction of Financial Services Authority (OJK) regulations concerning corporate structure and transparency in information, companies are not only required to concentrate on financial performance but must also construct a governance structure that supports the sustainable attainment of corporate objectives. Previous research has highlighted that the composition and diversity of the board, including its independence, can influence market perceptions and the company's capitalization, ultimately impacting investment decisions (Irfani and Ainy, 2024).

This research aims to investigate and analyze the strategic role of these two governance structures in monitoring GCG implementation and to discover factors influencing the effectiveness of this oversight. As such, the findings from this study are anticipated to contribute both theoretically and practically to the enhancement of corporate governance policies and practices in the coming times.

Research Method

This study aims to examine the roles of the board of commissioners and the audit committee in the context of GCG, gathering data from pertinent literature across various journals published between 2021 and 2025. Employing a Systematic Literature Review (SLR) approach, the research seeks to delve into and assess the contributions of the Board of Commissioners and Audit Committee in executing Good Corporate Governance. The SLR approach is selected due to its capacity to offer a thorough and organized review of existing literature, while also highlighting gaps in research that warrant further exploration.

Result and Discussion

In this context, as per a study conducted by Aisyah Yuliyanti and Nur Cahyonowati, independent commissioners generally have a beneficial and notable impact on financial performance. In contrast, other factors like the board of directors, board of commissioners, audit committee, managerial ownership, and institutional ownership often show a negative or negligible impact. This research also emphasizes the significance of a well-designed GCG structure in enhancing financial results and minimizing conflicts of interest, although it faces limitations such as reduced sample sizes due to incomplete data and outliers.

An independent board member plays a crucial role in aligning the interests of major and minor shareholders and serves as a conduit between managers, auditors, and shareholders. Their contributions include crafting the company's long-term strategies and regularly evaluating their execution. According to agency theory, the participation of external individuals not linked to the company can enhance the board's ability to supervise management effectively, resulting in better financial outcomes. This theory also sheds light on the information gap that exists between management as agents and shareholders as principals. Hence, it's suggested for companies to raise the number of independent board members to lower conflicts of interest between the principal and the agent. Various empirical studies have explored the influence of independent board members on financial performance. Research by Tertius and Christiawan indicates a significant negative impact of numerous independent board members on financial performance, suggesting that their numbers, if excessive, can hamper effectiveness. This aligns with the findings of Situmorang and Simanjuntak, which assert that independent board members do not affect financial performance, implying that major stakeholders' dominance negates the supervision carried out by these independent members.

The execution of GCG in a company is tightly linked to the crucial function of the audit committee. As reported by the Indonesian Audit Committee Association, this committee is set up by the board of commissioners and performs its tasks with independence and professionalism. The audit committee is primarily responsible for supporting the board in enhancing its functions related to accounting standards, internal controls, and financial reporting (Rahmawati et al., 2017). Typically, an audit committee comprises five members, although the number can range from two to twelve. According to agency theory, a larger committee increases the effectiveness of management oversight, thereby reducing agency costs and enhancing company performance. Additionally, as per resource dependence theory, a more extensive audit committee can be a stronger indicator of financial performance due to the broader range of expertise and skills available compared to a smaller committee. Alodat et al. (2021) provide empirical evidence that audit committees influence a firm's financial performance. This finding upholds agency theory, which proposes that a competent audit committee can heighten the quality of financial reports and diminish agency-related challenges by lessening information asymmetry between management and stakeholders, as reflected in enhanced company performance. However, research by Alim & Destriana (2016) indicates that the audit committee has no substantial effect on financial performance.

In a journal article by Nurul Azizah, Nabila Azhari, and Wilchan Robain titled "The Effect of the

Independent Board of Commissioners on the Implementation of Good Corporate Governance in

Indonesian Public Companies," the research reveals that the presence and ratio of an Independent

Board of Commissioners significantly and positively influence the implementation of Good Corporate Governance (GCG) in non-financial companies in Indonesia. An increased number and quality of independent commissioners are associated with higher GCG scores, indicating better transparency, accountability, and governance practices. Additional factors like training, integrity, ownership structure, and industry type also play crucial roles in enhancing the effectiveness of independent commissioners. Consequently, companies are encouraged to boost the skills and professionalism of these commissioners to fully embody GCG principles.

A 2019 study by Rahmawati indicates that companies with a higher proportion of independent commissioners better adhere to corporate governance principles. This can be attributed to the independent commissioners' inclination to critically evaluate policies potentially detrimental to minority shareholders and their proactive stance on promoting information disclosure. Research by Nugroho and Eko in 2020 reaffirms the critical role of independent commissioners.

In another study, "The Effect of the Board of Commissioners, Sharia Supervisory Board, and Capital Structure on Financial Performance in Islamic Banking for the 2021-2023 Period," authored by Irsyad Alief Gutawa, Ratnawati Raflis, and Indrayeni, it was established that elements such as the Board of Commissioners and capital structure significantly influence the financial performance of Indonesian Islamic banks during the specified period. However, the Sharia Supervisory Board did not exhibit a notable effect. Proper management of these aspects can lead to enhanced efficiency, stability, operational success, and sustainability for banks. Additional studies underscore the importance of intellectual capital, good corporate governance, and sharia compliance, asserting that these combined factors are essential for boosting the financial and social performance of Islamic banks in Indonesia.

Regarding the journal "The Effect of Board Composition and Audit Committee on Company Market Capitalization in Indonesia" by Destia Dwi Putri, the study explores how the board of commissioners, board of directors, and audit committee composition influence the market capitalization of non-financial companies in Indonesia as of December 2023. From 50 major companies by market capitalization, 41 were examined. The study found that the number of commissioners and directors does not significantly impact market capitalization. Conversely, the composition and presence of audit committees positively and significantly affect market value. The study concludes that the existence and quality of audit committees are more influential in enhancing a company's market value than the board's structure, emphasizing the vital role of good corporate governance, particularly through audit committees. It suggests further research with additional factors and alternative measurement methods.

Discussion

Audit committees serve a vital role in fostering an effective corporate structure. Their primary duty is to aid the board of commissioners in supervision activities, like evaluating the company's internal control systems, verifying the quality of financial statements, and assessing the effectiveness of the internal audit function. Additionally, the audit committee is responsible for appointed and removed by the board of commissioners. Vafeas (2000) notes that larger audit committees are generally able to manage more oversight responsibilities. Furthermore, an audit committee with a higher number of independent members is likely to enhance transparency and oversight concerning the company's financial statements, ultimately aiming to boost firm value, as indicated by market capitalization (Almacitra, et al., 2023).

Conclusion

This research highlights the crucial roles played by the board of commissioners and the audit committee in supervising the implementation of Good Corporate Governance (GCG) principles. The board of commissioners is tasked with providing strategic guidance and overseeing management, while the audit committee is focused on internal control, the quality of financial statements, and adherence to regulations. The findings indicate that the effectiveness of these bodies is significantly influenced by their independence, meeting frequency, size, and the members' expertise and background. Furthermore, the study highlights that the presence and competence of independent commissioners and audit committees are pivotal in enhancing transparency, accountability, and company value.

Numerous studies reviewed suggest that increasing the proportion of independent commissioners and expanding and diversifying the audit committee can have a beneficial effect on financial performance and corporate governance. From the standpoint of agency theory, the inclusion of independent outsiders can mitigate conflicts of interest between management and shareholders. Conversely, some studies indicate that an excess of independent commissioners could diminish supervisory efficacy.

In light of the tightening regulations from OJK and market demands for transparency, the study suggests that Indonesian companies should bolster the structure and quality of their boards of commissioners and audit committees. This action can lead to the achievement of good corporate governance practices, positively impacting financial performance, reputation, and the company’s long-term sustainability. Continuous training and professional development for board and audit committee members are crucial to help them adapt to the evolving business environment and regulatory changes. Their active and independent participation is essential for establishing a responsible and competitive oversight mechanism.

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