INVOICE
JURNAL ILMU AKUNTANSI
p-ISSN: 2714-6359 e-ISSN: 2714-6340
Program Studi Ilmu Akuntansi
Fakultas Ekonomi dan Bisnis
Universitas Muhammadiyah Makassar

TCWG on Cost of Equity with Audit Opinion as a Moderating Variable

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Keywords:

Audit Committee, Cost of Equity, Audit Opinion, Indonesia Stock Exchange, Panel Data.

Abstract

This study examines the impact of the audit committee (AC) on the cost of equity (COE), with audit opinion (AO) as a moderating variable, in hotel and property sector companies listed on the Indonesia Stock Exchange from 2019 to 2023. Using a quantitative approach with panel data regression, the findings indicate that the number of audit committee members does not significantly affect COE. Furthermore, audit opinion fails to strengthen the relationship between the audit committee and COE, suggesting that investors do not fully consider these factors when assessing risks and expected returns. These results highlight the need for improving the quality and effectiveness of audit committees in overseeing financial reporting processes to enhance transparency and investor confidence. Additionally, firms should ensure that their financial statements reflect accurate and reliable information to mitigate investment risks. The study contributes to the literature on corporate governance by providing empirical evidence on the limited role of audit committees and audit opinions in influencing the cost of equity. From a practical perspective, regulators and corporate decision-makers should emphasize strengthening governance mechanisms beyond mere compliance with regulatory requirements. Enhancing financial disclosures and reinforcing the credibility of audit committees may help reduce perceived risks among investors, leading to lower capital costs. This study underscores the importance of transparency in financial reporting and the role of governance structures in shaping investor perceptions. Future research should explore other governance attributes, such as board independence and financial expertise, in influencing COE to provide a more comprehensive understanding of the determinants of equity financing costs.

1. Introduction

In carrying out operational activities and maintaining business sustainability amidst competition, such as expanding, developing product innovations, and creating product differentiation, companies face increasing funding needs. Therefore, organizations require partners who can provide funding, such as investors and creditors. Apart from seeking funds from investors and creditors, companies also have the option to issue shares or bonds that can be traded on the capital market to obtain funds from providers. However, the issuance of shares and bonds imposes an obligation on the company to pay costs as compensation for the funds provided by investors and creditors, referred to as the cost of equity.

A company's capital originates from two sources: internal capital obtained from the owners, either through investments or retained earnings, and external capital, which usually consists of debts from creditors, suppliers, or banking institutions (Sinka Septiyani, Tabrani, Teguh Budi Raharjo). Thus, the cost of equity can be explained from two perspectives: the company's perspective and the investor's perspective. From the company's perspective, the cost of equity refers to the expenses the company must incur for its investors. Meanwhile, from the investor's perspective, the cost of equity represents the return expected by investors as compensation for investing in the company, given a certain level of risk. Therefore, the essence of the cost of equity is the amount the company must pay shareholders to compensate them for the level of risk they assume (Zumratul Meini, Roikhana Umiyatun Nikmah).

According to Brealey and Myers (2016), the cost of capital is defined as the return expected by investors on the funds they invest in a company. This cost of capital consists of two main components: the cost of debt, which

reflects the interest paid by the company to creditors, and the cost of equity, which is the return expected by shareholders, often calculated using models such as the Capital Asset Pricing Model (CAPM). Additionally, the cost of capital is influenced by the risks faced by the company; the higher the risk, the higher the return expected by investors, leading to an increase in the cost of capital. The cost of capital is a crucial criterion in investment decision-making, where a project or investment is considered profitable if the expected return exceeds the cost of capital (Marsuni, N. S, 2024).

In 2024, the global economy remains influenced by uncertainty risks, particularly regarding the potential recession in the United States. Signs of economic weakening in the U.S. have heightened concerns about a recession, compounded by sentiments that the U.S. Federal Reserve (The Fed) may delay reducing benchmark interest rates. According to Antara News, Indonesia's Minister of Finance, Sri Mulyani Indrawati, stated that after the release of U.S. labor market data indicating a possible recession, the market reacted with high volatility, hoping for a reduction in the Fed Fund Rate. This demonstrates that markets can fluctuate rapidly based on investor psychology, with significant impacts. Investments showed positive growth in the first and second quarters of 2024, both from domestic and foreign sources, reflecting high investor confidence in Indonesia's business and investment climate.

Increased downstreaming and maintained stability have attracted investors to invest in Indonesia (Fiscal Policy Agency, 2024). The foreign trade balance continued to show a surplus, marking a trend that has lasted for 50 consecutive months through June 2024. However, by the end of the second quarter of 2024, surplus growth began to slow. Overall, Indonesia's economic growth is projected to be around 5% in 2024. Bank Indonesia and the IMF predict slight growth increases in 2025, while ADB projections indicate stagnation. Strong private consumption, infrastructure development, and consistent investment remain the pillars supporting growth.

The cost of equity reflects the return expected by investors as compensation for the risks they face. When stock market volatility increases, investment risks also rise, prompting investors to demand a higher cost of equity. Using the CAPM model, the cost of equity is calculated by considering market risk through beta, where a high beta indicates greater price fluctuations compared to the overall market. During volatile market conditions, the beta of specific stocks tends to increase, leading to a higher cost of equity. Furthermore, high volatility is often caused by market uncertainty, such as policy changes or economic news, making investors more skeptical and demanding higher returns. This impacts corporate investment decisions, as companies must assess whether new projects or expansions are profitable enough to cover the higher cost of equity. Therefore, in uncertain macroeconomic conditions, investors are likely to demand greater returns, further increasing the cost of equity.

The need for auditors aims to address agency problems within a company. According to Zumratul Meini and Roikhana Umiyatun Nikmah (2022), agency theory describes the relationship between agents, acting as company management, and principals, who are shareholders or owners. Agents are appointed by principals and are granted authority and responsibility for managing and making decisions on behalf of the company. This responsibility is reflected in the presentation of audited financial statements by independent auditors. Audited financial statements contain a statement or opinion from the auditor evaluating the reports, known as the audit opinion. In addition to assessing the conformity of the presented financial statements with applicable standards, auditors provide an opinion on whether the financial statements are prepared, in all material aspects, according to the applicable financial reporting framework, as described in the International Standard on Auditing 700. Overall, the auditor's opinion plays a crucial role in enhancing the reliability of financial statements, providing assurance to

stakeholders, and helping companies manage risks and ensure regulatory compliance.

Mulyadi (2009) noted that each opinion issued by an auditor is based on certain considerations, namely: unqualified opinion, unqualified opinion with explanatory language, qualified opinion, adverse opinion, and disclaimer of opinion. According to data obtained from the Indonesia Stock Exchange (IDX) for 2019–2023, out of 934 listed companies, 9 issuers received adverse audit opinions. This indicates significant issues in the financial statements that may affect the reliability of the presented information. Additionally, several issuers received disclaimers of opinion from public accountants, indicating that the auditors could not provide a clear opinion due to limited information or other issues, including some in the hospitality sector. This phenomenon shows that while most companies meet the established audit standards, a few issuers face serious challenges in terms of financial transparency and accuracy. Negative opinions can significantly impact investor confidence, potentially affecting stock value and investment decisions.

Thus, the audit opinion influences the cost of equity, which is the cost expected by investors to invest in a company's equity. Positive opinions, such as unqualified opinions, can boost investor confidence and lower perceived risks, whereas negative opinions, such as adverse opinions or disclaimers, can heighten perceived risks, leading to increased cost of equity. High-quality audit reports reflect transparency and reliability in financial statements, attracting more investors and reducing capital costs. Additionally, audit opinions can influence market reactions; if an opinion raises concerns, stock prices may decline, prompting investors to demand higher returns to compensate for additional risks. Good corporate governance practices, often reflected in positive audit opinions, can also result in a lower cost of equity as investors feel more secure, (Marsuni, N. S at.al, 2022).

Apart from audit opinions, the cost of equity is also influenced by the audit committee. Firstly, the audit committee is responsible for overseeing and ensuring that the company's financial statements are accurately prepared according to applicable accounting standards. With strict supervision from the audit committee, auditors are more confident in issuing positive audit opinions or unqualified opinions, knowing that financial statements have been thoroughly reviewed. Secondly, the audit committee also enhances the transparency and integrity of financial statements. A well-functioning audit committee reduces the risks of fraud and errors, making auditors more likely to provide favorable opinions.

The audit committee's primary responsibility is to oversee the entire financial reporting process related to auditing and accounting. They are also responsible for compensation, appointment, and supervision of both internal and external auditors. In this regard, the Financial Services Authority (OJK) Regulation No. 55/PJOK.04/2015 outlines the establishment and duties of audit committees, requiring that they consist of at least three members. One member must be an independent commissioner serving as the chairperson, while the others can be independent commissioners or other independent parties, one of whom must have a background in finance or accounting. Additionally, the regulation mandates that audit committees meet at least four times a year to ensure effective oversight and evaluation.

A company lacking adequate oversight can face various problems and suffer significant losses, both for the company itself and its investors. For example, PT Trinitan Metals and Minerals Tbk experienced losses amounting to IDR 98,637,806,490 from 2020 to 2021 and received an adverse audit opinion. This situation clearly demonstrates that significant revenue losses affect the effectiveness of the audit committee, which failed to conduct proper oversight during the financial reporting process.

2. Literature Review

2.1 Signal Theory

According to Ghozali (2020), signaling theory was first developed by Spence in 1973 to explain behavior in the labor market. This theory outlines how a signaler influences the behavior of the signal receiver. The goal is to convince stakeholders to invest capital and invest in the company. Signaling theory explains how companies send signals to investors to help them assess investment risks. Signals originating from the company are crucial. The characteristics of a high-quality audit committee can provide positive signals to investors, which in turn can reduce investment risks and help the company enhance its applied value or Cost of Equity (COE) (Erna Wati, Selfin, 2022).

According to Appuhami (2018), signaling theory argues that audit committee meetings can signal the effectiveness of the audit committee in monitoring and maintaining the credibility of financial statements. The frequency of audit meetings also sends signals to investors, creating a positive impression that the company poses a low investment risk. This, in turn, can increase the company's cost of equity.

2.2 Those Charged With Governance

TCWG (Those Charged With Governance), or parties responsible for governance, as outlined in International Standard on Auditing (ISA) 700 (Forming an Opinion and Reporting on Financial Statements), identifies three components:

1. States that the auditor communicates with those charged with governance regarding, among other things, the scope and timing of the planned audit as well as significant audit findings, including any significant deficiencies in internal control identified by the auditor during the audit;
2. For audits of the financial statements of listed entities, states that the auditor provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence and communicates with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence and, where applicable, related safeguards; and
3. For audits of the financial statements of listed entities and other entities where key audit matters are communicated in accordance with ISA 701, states that, from the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and, therefore, are the key audit matters. The auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences of doing so could reasonably be expected to outweigh the public interest benefits of such communication. (Ref: Para. A48)

2.3 Audit Committee

The audit committee is an entity established with a specific purpose, namely to support the board of commissioners in ensuring that financial statements meet high-quality standards. The better the quality of financial statements, the more likely investors perceive investment risks as lower, which in turn leads to a reduction in the cost of capital required to develop or sustain investments. This indicates that the audit committee plays a critical role in maintaining the transparency and accuracy of a company's financial statements. With high-quality financial statements, investors are more confident in facing investment risks, which can lower the cost of capital in investment decision-making. Therefore, the role of the audit committee not only builds trust in financial reporting but also has broader implications for the company's financial aspects (Muhammad Jovy Shidqy, Eddy Suranta, Pratana Puspa Midiastuty, 2023).

The crucial role played by the audit committee in the corporate structure underscores the importance of addressing conflicts of interest between shareholders and executive management. Thus, the selection of audit committee members must be based on strict independence criteria. This measure aims to minimize and manage various potential risks that may arise during the preparation of financial statements, including the possibility of fraud or manipulation of financial data.

2.4 Audit Opinion

An audit opinion is the result or product that contains a statement from an auditor regarding the financial statements that have been examined. Its purpose is to provide an assessment of whether the financial statements meet certain standards. This statement is issued by the auditor to the auditee after conducting an audit to evaluate whether the submitted financial statements comply with applicable accounting principles and whether they are free from material misstatements. Based on the audit results, the auditor will issue an opinion, which could be an unqualified opinion if the financial statements meet the established criteria, or other opinions if there are matters that require further attention regarding the financial statements (Afridayani & Anisa, 2021).

In other words, an audit opinion is a statement provided by the auditor regarding the fairness of the audited entity's financial statements, whether they are prepared in accordance with the applicable financial reporting framework, and whether they are free from material misstatements. This opinion can take the form of an unqualified opinion, a qualified opinion, a disclaimer of opinion, or an adverse opinion, depending on the auditor's findings during the audit process.

An audit opinion represents the auditor's statement on the fairness of a company's financial statements in all material respects and their compliance with the applicable Financial Accounting Standards in Indonesia (Audit Standard "SA" 700, 2021). The Public Accountant Professional Standards (SPAP) under Audit Standard ("SA") 700 (2021), concerning the formulation and reporting of opinions on financial statements, effective from January 1, 2022, state that:

1. The auditor must formulate an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.
2. The auditor must conclude on the financial statements by obtaining sufficient assurance that the statements as a whole are free from material misstatements due to fraud or error.

2.5 Cost Of Equity

The cost of equity is the specific rate of return a company needs to achieve to meet the expected returns of common shareholders on their invested capital, adjusted for the risks they bear (Bodie et al., 2009). The expected rate of return is closely tied to the perceived risk, where higher risk estimates lead to higher expected returns by shareholders (Setyaningrum & Zulaikha, 2013).

The cost of equity plays a crucial role in determining the value of a company as it reflects the projected rate of return desired by investors. Two commonly used measures of capital cost are the implied ex-ante cost of equity and the ex-post observed stock returns. Compared to ex-ante measures, ex-post measures tend to produce estimation errors as they account for changes related to a company's growth opportunities and incorporate differences in expected growth rates. In contrast, the ex-ante cost of equity avoids these issues because its valuation models explicitly account for future cash flows and growth potential in the estimation process (Kim et al., 2015). Companies with higher levels of risk typically expect higher rates of return from investors, which in turn results in a higher cost of equity (CEQ) (Nguyen et al., 2020).

The cost of equity can be viewed from two perspectives: the company and the investor. For the company, the cost of equity represents the expense of obtaining external funding, which is

often considered a cheaper source of financing (Guindy, 2021). Meanwhile, for investors, the cost of equity is the expected rate of return on an investment. The cost of equity is critical for companies as it directly impacts operational costs, capital structure, and financing strategies (Zheng et al., 2021).

2.6 The Influence of the Audit Committee on the Cost Of Equity

According to Erna Wati and Selfin (2022), the characteristics of the audit committee, including size, meeting frequency, independence level, and financial expertise, can be seen as signals conveyed through financial statements to the market. These signals have the potential to influence investors' investment decisions. Thus, good quality and attributes of an audit committee can provide greater confidence to investors, which in turn can reduce risk and affect the cost of equity. This suggests that an effective audit committee not only plays a role in oversight but also in shaping market perceptions of the company.

Additionally, an audit committee with members possessing adequate expertise can help identify potential issues before the financial statements are audited. This contributes to better-quality reporting and, as a result, more positive audit opinions. Overall, the quality and effectiveness of the audit committee directly impact the reliability and integrity of financial statements, which in turn influence the type of audit opinion issued.

Several studies have explored the audit committee, as described in previous research. For instance, Ahsan Habib and Md. Borhan Uddin Bhuiyan (2021) found that companies with higher equity ownership in the audit committee tend to benefit from a lower cost of equity, suggesting a relationship between the audit committee and the cost of equity. Similarly, research by Farah Aulia Rianti and Vinola Herawaty (2024) stated that there is a negative impact of audit committee meeting frequency on the cost of equity. This indicates that the more frequent the audit committee meetings, the lower the cost of equity. Frequent meetings imply that the audit committee performs its duties well in monitoring the company's financial reporting process.

On the other hand, a study by Anum Anindita Rahmah and Karlina Aprilia Kusumadewi (2020) found a positive relationship between the size of the audit committee and the cost of equity, where larger audit committees tend to have a lower cost of equity. However, contrasting findings were reported by Erna Wati and Selfina (2022), who stated that the characteristics of the audit committee do not have a significant impact on the cost of equity. Based on these findings, the hypothesis of this study is formulated as follows:

H1: It is suspected that the audit committee has a significant effect on the cost of equity**.**

2.7 The Role of Audit Opinion in Moderating the Relationship of the Audit Committee to the Cost Of Equity

The effectiveness of the Audit Committee improves as the number of committee members increases, as they will have more resources to address the company's issues. The more members and meetings conducted, the timelier the financial statements can be presented. With oversight from the Audit Committee, the quality of financial statements improves, and independent auditors are more likely to issue an unqualified opinion. An unqualified opinion motivates the Audit Committee to encourage management to ensure timely submission of financial statements (Ramadhani, 2018).

Thus, the audit opinion serves as an important indicator for investors in assessing the risks and potential returns on their investments, which directly affects the company's cost of equity. This aligns with the study by Deriqqa Mawaddah Yulfa (2018), which found that audit opinions positively influence the cost of equity. When a company receives an audit opinion, the cost of equity increases because the opinion highlights risks associated with the company. Conversely, research by Zumratul Meini and Roikhana Umiyatun Nikmah (2022) indicated that audit

opinions do not directly affect the cost of equity. In other words, investor reactions do not depend on the audit opinion received by the company, and thus do not influence the capital cost demanded by investors. Similarly, the study by Brenda Christin Herdiana (2017) concluded that audit opinions do not have a significant impact on investor reactions. Whether the audit opinion is positive or negative, it does not influence investor behavior.

H2: It is suspected that the role of audit opinions strengthens the influence of the Audit Committee on the cost of equity.

3. Research Methods

This study adopts a quantitative approach with a causal associative research design. The population of the study consists of the hospitality and property sectors listed on the Indonesia Stock Exchange during the 2019–2023 period. The sample used in this study comprises 150 companies. The sampling method applied is purposive sampling, which selects samples based on specific criteria, detailed as follows:

1. Companies in the hospitality sector that have gone public and are listed on the Indonesia Stock Exchange during the 2019–2023 period.
2. Companies in the hospitality sector that provide financial reports during the study period.
3. Companies in the hospitality sector that include information about the audit committee, including member profiles and reports on the committee's activities.
4. Companies in the hospitality sector that include information on the cost of equity.

In this study, the type of data used is secondary data. The data sources are derived from the annual reports of the sample companies during the 2019–2023 period. The data were obtained from the official website of the Indonesia Stock Exchange and other relevant websites. The technique used for data collection is documentation.

The dependent variable in this study is the cost of equity (COE), which is measured using the Capital Asset Pricing Model (CAPM). This method utilizes the current stock price to estimate the expected rate of return, represented by COE. This approach aligns with the studies conducted by Anum Anindita Rahmah and Rr. Karlina Aprilia Kusumadewi (2020) as well as Farah Aulia Rianti and Vinola Herawaty (2024) :

$$\textbf{COEC} = \boldsymbol{Rft} + \boldsymbol{\beta i}\,(\boldsymbol{Rmt} - \boldsymbol{Rft})$$

Where:
Rft = Return bebas resiko
Rmt = Return Pasar
βi = Risiko tidak sistematis

The moderating variable in this study is the role of the audit committee, which is measured based on the study by Farah Aulia & Vinola Herawaty (2024) :

$$frekuensi\ rapat\ komite\ audit = jumlah\ rapat\ komite\ audit\ dalam\ setahun$$

In the study by Zumratu Mein (2022), based on Wijayanti (2015), the auditor's opinion is measured using a dummy variable. Companies that receive an unqualified opinion are assigned a code of 1, while companies receiving any opinion other than unqualified are assigned a code of 0.

4. Results and Discussion

4.1 Research Results

a. Uji Chow

The Chow test is used to compare and select the best model between the Common Effect Model (CEM) and the Fixed Effect Model (FEM). The selection of the model is determined based on the probability value (p-value). If the p-value is greater than 0.05, the Common Effect Model (CEM) is chosen, whereas if the p-value is less than 0.05, the Fixed Effect Model (FEM) is selected.

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	0.862422	(23,94)	0.6458
Cross-section Chi-square	22.975374	23	0.4622

Based on the results in the table above, the p-value is 0.4622, which is greater than 0.05. Therefore, according to the Chow test, the best model to use is the Common Effect Model (CEM).

b. Uji Housman

The Hausman test is conducted to compare and select the best model between the Fixed Effect Model (FEM) and the Random Effect Model (REM). The decision is made by observing the probability value (p-value) for cross-section random. If the p-value is greater than 0.05, the selected model is the Random Effect Model (REM). However, if the p-value is less than 0.05, the selected model is the Fixed Effect Model (FEM).

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	1.128964	2	0.5687

Based on the data above, the p-value is 0.5687, which is greater than 0.05. Therefore, according to the Hausman test, the best model to use is the Random Effect Model (REM).

c. Uji LM (*Lagrange Multiplier*)

The LM (Lagrange Multiplier) test is used to determine whether the Random Effect Model (REM) is better than the Common Effect Model (CEM). It is also utilized to confirm inconsistencies between the results of the Fixed Effect Model and Random Effect Model from previous tests. The decision is made based on the probability value (prob. Breusch-Pagan). If the prob. Breusch-Pagan is greater than 0.05, the Common Effect Model (CEM) is selected. Conversely, if the prob. Breusch-Pagan is less than 0.05, the Random Effect Model (REM) is chosen.

Lagrange Multiplier Tests for Random Effects
Null hypotheses: No effects
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	0.293949 (0.5877)	448.8090 (0.0000)	449.1030 (0.0000)
Honda	-0.542170 (0.7061)	21.18511 (0.0000)	14.59677 (0.0000)
King-Wu	-0.542170 (0.7061)	21.18511 (0.0000)	19.34429 (0.0000)
Standardized Honda	-0.297715 (0.6170)	23.74326 (0.0000)	12.39068 (0.0000)
Standardized King-Wu	-0.297715 (0.6170)	23.74326 (0.0000)	18.93156 (0.0000)
Gourieroux, et al.	--	--	448.8090 (0.0000)

Based on the results of the LM test, the prob. Breusch-Pagan value is 0.5877, which is greater than 0.05. Therefore, the selected model is the Common Effect Model (CEM).

d. Uji Asumsi Klasik

Verbeek (2000), Gujarati (2003), Wibisono (2005), and Aulia (2004:27) in Ajija et al. (2011:52) concluded that "another advantage of panel data is that it does not require classical assumption testing." Therefore, panel data analysis does not necessitate classical assumption tests such as normality or autocorrelation. The reasons why normality and autocorrelation tests are unnecessary are as follows:

1. A normality test is only used if the number of observations is less than 30, to determine whether the error term approximates a normal distribution. If the number of observations exceeds 30, the normality test is not required because the sampling distribution of the error term tends to be normal (Ajija et al., 2011:42). In this study, with 96 observations, the normality test can be disregarded.
2. An autocorrelation test examines whether there is a correlation between disturbance errors in period ttt and those in previous periods in a linear regression model. The Generalized Least Squares (GLS) method is a technique to eliminate first-order autocorrelation in regression equation

estimations. Sarwoko (2005:144) also emphasized that "the use of the GLS method can reduce the autocorrelation that often arises in estimation error variance, so with the GLS method, the autocorrelation problem can be addressed." Furthermore, Gujarati (2003:450) stated that "the use of the GLS method can suppress the autocorrelation that typically arises in Ordinary Least Squares (OLS) formulas as a result of error variance estimation."

e. Uji Hipotesis

Hypothesis testing is conducted using three main tests. The F-Statistic Test is used to determine the simultaneous effect of independent variables on the dependent variable. The Coefficient of Determination (R^2) evaluates the extent to which the independent variables influence the dependent variable, with the remainder being attributed to other factors outside the model. Lastly, the Partial Test (t-Test) analyzes the extent to which each independent variable individually explains the variation in the dependent variable. If the probability value is less than 0.05, the hypothesis is accepted.

Variabel	Prob
(constant)	0.0428
KA	0.0736
OA	0.6228
R- Square	0.028887
Adj r-squared	0.012286
F- statistik (p-value)	1.740131

Source: EViews Output, 2025

Based on the table above, the variable **KA** has a positive and significant effect on **COE** as indicated by the t-test probability value, which is less than 0.05. The R-squared value is 0.028887, meaning that only 2.89% of the variability in the dependent variable (Y) can be explained by the model, indicating a very low explanatory power. After adjustment for the number of independent variables, the Adjusted R-squared value drops to 0.012286, which shows that the model can only explain 1.23% of the variability in Y. Additionally, the F-statistic value of 1.740131 with a probability of 0.180088 (> 0.05) suggests that the overall model is not significant at the 5% level, implying that the regression coefficients are not jointly different from zero.

4.2 Research Discussion

a. The Effect of the Audit Committee on COE

The research findings indicate that the number of audit committee members does not enhance the negative influence of environmental performance on COE. Based on this, the number of audit committee members is not considered relevant information by investors, meaning that the size of the audit committee does not impact the magnitude of COE.

b. The Effect of the Audit Committee on COE with Audit Opinion as a Moderating Variable

The research findings demonstrate that audit opinions do not strengthen the negative effect of the audit committee on the Cost of Equity (COE). This is evident from the t-test significance value, which exceeds 0.05, leading to the rejection of the hypothesis. This implies that whether the audit opinion is favorable or unfavorable, it does not influence the COE.

5. Closing

5.1 Conclusion

Based on the results of this study, it can be concluded that the audit committee does not have a negative effect on the Cost of Equity (COE). However, an increase in the frequency of audit committee meetings is associated with a reduction in the COE. Additionally, the audit opinion variable is unable to moderate the influence of the audit committee on COE, indicating that the presence or quality of audit opinions does not affect the relationship between the audit committee and COE.

5.2 Suggestion

Based on the findings of this study and considering its limitations, several suggestions

for future research are proposed. Future studies could employ alternative proxies to measure the Cost of Equity (COE**)** to provide additional evidence supporting the robustness and reliability of findings on similar topics. Additionally, subsequent research could utilize empirical evidence from companies in different sectors or from other developing countries, which may yield different conclusions and interpretations.

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