



Financial aspects, corporate governance and disclosure of financial risk: Case of Indonesia

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Abstract

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Keywords:
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Purpose: This study aims to determine the effect of profitability, liquidity, and good corporate governance (CGC) on financial risk disclosure. Disclosure of financial risk refers to IFRS 7 (International Financial Reporting Standard No.7).

Design/Methodology/Approach: The population used in this study includes all mining companies listed on the IDX, a total of 49 companies during the period 2017 to 2019. The samples used were 24 companies for 3 years of financial statements which were selected using the purposive sampling method, so that the data analyzed were 72. Data analysis used the regression method. The test results show that, partially, the profitability and audit committee size variables affect the disclosure of financial risk. Meanwhile, the liquidity variable and the size of the board of commissioners variable have no effect on financial risk disclosure.

Findings: The test results simultaneously show that profitability, liquidity, board size, and audit committee size have an effect on financial risk disclosure.

Practical Implications: The implication of this research for companies is that the results show that the average level of financial risk disclosure by companies is 0.299. According to the data obtained, the average company has fulfilled the required disclosures such as presenting information about risk exposure, how risks arise, objectives, policies, and risk management processes along with ways to measure them.

Originality/Value: This study comprehensively examines financial and non-financial factors, namely in terms of corporate governance that affect risk disclosure

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INTRODUCTION

As the largest foreign exchange earner in Indonesia, mining is an industrial sector that has a significant impact on economic development and its contribution to Gross Domestic Product is 6 %. The mining sector is faced with many challenges and risks, both operationally and managerially. These various risks include complying with government regulations which are always changing and being made stricter, and managing operational activities are very dependent on technology, dealing with the inconsistent amount of raw materials that are available, and the fluctuating selling prices of commodities.

Risk is a component that is always present and it is an inherent part of the business world. Risk according to the Institute of Chartered Accountants in England and Wales (ICAEW) is an uncertain event, both in terms of profit and loss, which, if it occurs, can affect the goals to be achieved by a company. To anticipate the occurrence of risks, companies must always be alert and ready to face them. Companies must find solutions quickly and precisely to overcome and minimize the risks that will occur. Therefore, so that risks can be managed properly, a company can carry out risk management through risk disclosure.

Issues related to corporate risk disclosure began to become a focus of concern in the business world after the publication of a discussion paper by the ICAEW in 1998 which suggested that, in an annual report, a company discloses information about risk so that it can be used by stakeholders to make investment decisions.

Risk disclosure is an effort that is made to explain or show report users what risks have been successfully managed and strategies implemented to control risks that are likely to occur in the future. It is important to disclose risk because doing so conveys information about how management manages the risk and what kind of impact it will have on the sustainability of the company's operations. Management need to create a good strategy is a coherent set of analysis, concepts, policies, arguments, and actions that give responses to a high-risk challenge (Rumelt 2012). A company's ability to manage risk can minimize the impact that can arise from these risks.

With the availability of risk information, a company is expected to be able to provide appropriate information to stakeholders to take essential decision in handling any adverse economic event (Sultana et al. 2022), assist companies in managing changes that occur, and serve as guidelines in running a business. In addition, risk disclosure can also help users of financial statements to predict risks that will occur in order to be able to maximize income (Tirado-Beltrán and Cabedo-Semper 2020). According to the results of research by Syabani and Siregar (2014) average total risk disclosure is 1,999 words, with mandatory risk disclosure amounting 1,444 words, far higher than voluntary risk disclosures with the average of 555 words on the financial statements of companies in Indonesia in 2010.

The rules regarding risk disclosure are contained in IFRS 7 which pertains to disclosure as a financial instrument: it states that companies are required to disclose financial information so that shareholders can assess the type and level of risk of a financial instrument. Disclosed financial information includes qualitative and quantitative disclosures. In qualitative disclosure, companies are required to disclose risk exposure, how risks arise, objectives, risk management policies and processes, and ways to measure them. Meanwhile, quantitative disclosure requires companies to disclose a minimum of credit risk, liquidity risk, and market risk, including conducting a sensitivity analysis of each type of risk. IFRS 7 seeks to increase transparency in the banking system (Bischof 2009), arguing that increased disclosure of financial risks tends to reduce uncertainty level (Campbell et al. 2014) and will benefit investors, enabling the firms to better allocate their resource (Elshandidy and Zeng 2022).

Disclosure of risk is one form of implementation of a Good Corporate Government (GCG) system (Singhania et al. 2022). GCG is a series of relationships between management, directors, commissioners, investors, and stakeholders that regulate and direct company activities (Wahyudin and Solikhah 2017). Risk disclosure speeds up the achievement of GCG which is needed to maintain the continuity of the company's operations. In general, the principles of implementing GCG are based on five principles, namely openness, accountability, responsibility, independence, and fairness (Burak et al. 2016). The GCG items that may influence risk disclosure used in this study are the size of the board of commissioners and the size of the audit committee.

Research on risk disclosure has been conducted in various countries, in the Spain (Madrigal et al. 2015), in Indonesia (Syabani and Siregar 2014), in Bangladesh (Dey et al. 2018). The results of these studies exhibit several inconsistencies regarding risk disclosure such as the findings of Madrigal et al. (2015) which found that profitability had no impact on the level of risk information disclosed while Elfeky (2017) found evidence on the positive significant correlation between profitability and voluntary disclosure. A company with high liquidity is likely to disclose more information regarding the management of liquidity including the management of liquidity risk (Elzahar and Hussainey 2012), meanwhile, the results of research by Rahmawati and Prasetyo (2020) found that liquidity had no effect on risk disclosure.

The results of research by Alves et al. (2012) found that the size of the board of commissioners had an effect on voluntary disclosure. Meanwhile, the results of research by Khandelwal et al. (2020) found that the size of the board of commissioners has no effect on risk disclosure, Elfeky (2017) found no significant correlation between board size and the overall corporate governance voluntary disclosure extent. The results of research by Samaha and Dahawy (2011) found that audit committee has effect on voluntary disclosure, while Adznan and Puat Nelson (2015) found audit committee independence was positive and significantly associated with financial instruments disclosure practices.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory describes the contractual relationship between the principal and the agent (Panda and Leepsa 2017). The contract explains the rights and obligations that must be fulfilled by the principal and agent. The principal acts as an employer by giving power to the agent to make the best decisions for the agent and company management (Jensen 1993).

The relationship between the principal and the agent can result in a conflict called agency conflict. Agency conflict can occur when there are different interests and information asymmetry between the principal and the agent (Akerlof 1970; Nwajei et al. 2022). Conflicts of interest can occur when management, which has been given the authority to carry out company management tasks, does not work in accordance with the interests of the principal. The principal has an interest in maximizing profits and the agent has an interest in maximizing the fulfillment of his economic and psychological needs (Mahrani and Soewarno 2018). Another agency conflict is that management knows more about the company than the shareholders do (Bergh et al. 2019). This results in the emergence of information asymmetry due to differences between the information obtained by management (information providers) and that obtained by shareholders (information users).

The concept of agency theory can be used as a basis for understanding risk disclosure practices in terms of how management provides information to users by making reliable information available. The main purpose of risk disclosure is to avoid information asymmetry between the principal and the agent (Khaledi 2014). Management, as the party that knows more about the state of the company, should practice risk disclosure by providing relevant information indicating that the agent's actions are in the interests of the principal. The information provided by the company's management will be used as the main consideration in making investment decisions.

Signal Theory

According to Amaya et al. (2021), signal theory explains how a company can influence stakeholders' perceptions, create a competitive advantage and positively impact their corporate image. Signal theory is used by companies to explain how financial reports are used to send positive and negative signals to interested parties. In the practice of risk disclosure, signal theory can explain how management discloses information to stakeholders regarding the risks faced by the company in order to signal its underlying risk management quality to other parties and to signal that the firms are able to protect and create value for the investors (Abdullah et al. 2015).

Risk

Disclosure can be interpreted as an action that does not cover or hide something. If the disclosure is related to financial statements, the report presented must contain sufficient information and explanation and be able to explain every event that affects operating results. Disclosure of risk is an effort made to show firms' major risks and their expected economic impact on their current and future performance (Dey et al. 2018).

There are three general concepts of disclosure in financial statements according to Susanto and Meiryani (2019), namely: adequate disclosure, fair disclosure, and complete disclosure. Adequate disclosure means that the information provided by the company includes minimal disclosure so as not to mislead users of financial statements. Fair disclosure means that the information provided by the company demonstrates its goal of treating all users equally. Full disclosure means that the disclosures made provide all relevant information.

Risk disclosure is useful for companies and stakeholders in order that they can make predictions about the future state of the company, as well as provide complete information about the reality of running operations in the face of all threats and obstacles. Furthermore, risk disclosure is useful for the users of reports when making investment-related decisions. Disclosure of risk can reduce information asymmetry between management and investors and reduce the company's cost of equity (Setiany and Suhardjanto 2021).

According to IFRS 7, Financial Instruments, Disclosure: financial risk is grouped into three, namely (1) credit risk is caused the failure of one party to pay its obligations which results in the other party experiencing financial instrument losses, (2) liquidity risk is caused by the company being unable to pay off its obligations, and (3) market risk is caused by fluctuations in the fair value of a financial instrument.

Profitability

Profitability is one of the focuses of attention of potential investors and shareholders because it relates to the share price and dividends that they will receive. The greater the profitability achieved, the wider the company will carry out risk disclosure because it wants to prove to stakeholders that the company is capable of managing the use of its capital. Profitability can be seen as a sign of good management (Madrigal at al. 2015). Companies that are in a profitable condition will be more willing to disclose more information to legitimize their performance and attract the interest of investors, creditors and other stakeholders. Disclosures by companies include risk disclosure, namely companies implementing effective risk management will obtain higher benefits and demonstrate management competency (Linsley and Shrives 2006). To assess the level of profitability in this study, the formula used by the researchers is Net Profit Margin (NPM).

Liquidity

Many investors, creditors, and government agencies pay attention to whether the performance of the company can guarantee its survival by seeing liquidity as a key factor for assessing bankruptcy (Owusu-Ansah and Yeoh 2005). This is what encourages companies to continue to make broader disclosures so that they can convince their stakeholders. The disclosure of this risk information can provide benefits for the company; namely, they will get additional new potential investors.

Corporate Governance

Corporate governance is a set of agreements or institutional rules governing efficient decision-making. In addition, corporate governance is used as a tool to convince shareholders that they will get a return on their invested capital (Love 2011).

The board of commissioners is the part of the company that has joint and/or specific duties and responsibilities to supervise and provide advice to the directors and ensure that the company implements GCG. According to Law No. 40 of 2007, the board of commissioners is a legal entity that represents the principal in carrying out a supervisory role in the implementation of company policies and strategies carried out by the directors in good faith and by providing advice to the directors in managing the company.

A small number of commissioners on a board can lead to a lack of expertise which can affect the quality of decision making and policies and cause high agency costs, thereby affecting the performance of the board to fulfill its corporate governance responsibilities. Meanwhile, a large number of commissioners is expected to have a lot of impetus in carrying out supervision, especially in terms of the oversight of risk disclosure practices so that no information is hidden. Agency theory predicts that a larger board encompassing a wider range of expertise leads to greater effectiveness in monitoring, communication, and decision-making roles (Jensen 1993; Elzahar and Hussainey 2012; Gaur at al. 2015). The duty to protect the interests of investors is related to the board's role in ensuring the transparent disclosure of financial risk information (Elzahar and Hussainey 2012; Lopes and Rodrigues 2007). Therefore, the board of directors is responsible for the risk management process (Ntim at al. 2013). Many studies document the positive impact of boards of directors on risk reporting practices (Mokhtar and Mellett 2013; Ntim at al. 2013; Elshandidy at al. 2013).

The audit committee is a committee formed by the board of commissioners to carry out audits of company management. The establishment and implementation guidelines of the audit committee are contained in the Financial Services Authorization No. 55/PJOK.04/2015. The duties of the audit committee are to encourage the implementation of GCG, to encourage the establishment of an adequate internal control structure, to improve the quality of financial disclosure and reporting, and to supervise the implementation of audits by both internal and external auditors.

The audit committee is seen as a means of preventing fraud in financial reports and monitoring management performance including disclosure (Razali and Arshad 2014). The existence of an audit committee will make the company more accountable and transparent in carrying out financial reporting and avoid manipulation of disclosures because the audit committee will oversee all company activities (Setiany 2018).

Companies with a number of members that meet the requirements for establishing an audit committee will be supervised more effectively because they will have the expertise and insights needed to carry out supervision. The size of the audit committee is the number of members who play a role on that

committee. This number is used to measure the size of the audit committee which can explain the implications for risk disclosure (Alshirah et al. 2020).

The effect of profitability on the disclosure of financial risk

The higher the level of profitability, the better a company's financial performance. A high level of profitability can generate high return for investors (Novy-Marx 2013). The results of research by Elfeky (2017) found that profitability affects risk disclosure

According to agency theory, when there are high levels of profitability, company managers tend to disclose risk information and risk management more broadly in annual reports. Disclosure of risk is carried out in order to minimize the occurrence of information asymmetry between management and stakeholders, and explaining management performance to shareholders AL-Shammari Bader (2014) shows how companies can manage risk well in order to increase stakeholder confidence in the survival of the company; therefore, management will get increased compensation for their performance (Aljifri and Hussainey 2007).

H1: Profitability affects disclosure of financial risk

The effect of liquidity on disclosure of financial risk

Liquidity is one of the measuring tools used by investors and government agencies to find out whether a company can maintain its viability as well as being a key factor in evaluating bankruptcy risk (Owusu-Ansah and Yeoh 2005). This condition prompts management to disclose risk information more broadly in order to convince stakeholders.

According to signal theory, the level of liquidity can be a good signal for stakeholders, especially investors, as a consideration when investing in a company. The level of liquidity is a good signal for stakeholders because it shows that the company is able to manage corporate debt compared to companies that have low liquidity. Management will disclose more risk information if their liquidity ratio is high. This is done because they want to demonstrate their ability to manage liquidity risk compared to companies with low liquidity ratios, and want to provide an explanation to stakeholders about the condition of these companies

H2: Liquidity has an effect on financial risk disclosure

The effect of the size of the board of commissioners on the disclosure of financial risk

The board of commissioners is one of the components of corporate governance that can influence financial risk disclosure. The task of the board of commissioners is to ensure that the company's strategy is carried out, supervise management in managing the company, and require accountability (FCGI, 2010). Maharani and Soewarno (2018) state that a large number of commissioners can increase accuracy in supervising and controlling company management. Hussainey and Al-Najjar (2011) found that the size of the board of commissioners has an effect on risk disclosure.

According to agency theory, the board of commissioners represents the main internal mechanism for overseeing management's opportunistic behavior in order to help balance the interests of shareholders and management. A large board of commissioners can perform more effectively in supervising and the pressure exerted on company management is getting stronger, thus encouraging management to be more extensive in making risk disclosures including disclosure of financial risks.

H₃: The size of the board of commissioners has an effect on financial risk disclosure

The effect of audit committee size on financial risk disclosure

The audit committee is a body formed with the aim of assisting the board of commissioners in maximizing the oversight function within the company. The existence of an audit committee monitoring the decision taken by the manager for further voluntary information (Samaha and Dahawy 2011).

According to agency theory, the audit committee, audit committee effect disclosure practices (Alshirah et al. 2020). This is because such a committee is tasked with maximizing the supervisory function within the company. Furthermore, the task of the audit committee is to liaise between shareholders, the board of commissioners, and management in terms of internal control. Therefore, the larger the size of the audit committee, the more effective the oversight of the company meaning that agency conflicts that occur due to management's desire to improve their own welfare by disclosing risks that benefit themselves can be minimized. A large number of members on an audit committee will make its performance in assisting the board of commissioners more effective because it will involve a lot of expertise and points of view needed in conducting supervision, so management will carry out risk disclosure more broadly.

H4: The size of the audit committee has an effect on financial risk disclosure

METHOD

This research was conducted on mining companies listed on the Indonesian Stock Exchange. Below is an explanation of the variables used in the study:

Table 1. Definitions of Operational Variables

Variable	Definition	Measurements
Profitability	the company's ability to make a profit in terms of sales or investment	$NPM = \frac{\text{Profit After Tax}}{\text{Sales}}$
Liquidity	the company's ability to pay its short-term obligations by utilizing its current assets	$CR = \frac{\text{Current Assets}}{\text{Current Liabilities}}$
Board of commissioners size	the total number of members of the company's board of commissioners	$\sum \text{Board of Commissioners}$
Audit committee	the total number of members of the company's audit committee	$\sum \text{Audit Committee}$
Financial risk disclosure	measured using the financial risk disclosure index (FRDI) In this study, FRDI consisted of 43 disclosure items referring to IFRS No.7. FRDI items are divided into three main types, namely credit risk, liquidity risk and market risk. Based on IFRS No. 7 market risk is divided into three, namely foreign currency risk, interest rate risk and price risk.	<p>The calculation of FRDI items uses a dichotomous approach, namely by giving a value of 1 to items that are disclosed and 0 if they are not disclosed. Each item will be added up to get the total number of FRDIs for a company. The following is the formula for calculating the FRDI variable used:</p> $FRDI = \frac{\text{Number of Disclosure Items}}{\text{Total Financial Risk Disclosure Items}}$

According to Amran at al. (2017) there are several provisions that are used in order that the information obtained is considered a risk disclosure sentence, namely if the reader is informed about opportunities, hazards, losses, and threats that have impacted the company or possibly will do so in the future, or about the management of every opportunity, prospect, threat or exposure to such loss. If a disclosure regarding risk information is too vague, then the disclosure is not considered a risk disclosure. Each repeated disclosure will be written as a disclosure sentence each time it is explained. Disclosure of risks presented can be in the form of good risks, bad risks, or uncertainties.

DATA ANALYSIS AND DISCUSSION

General description of research object

The objects in this study used are mining companies listed on the IDX from 2017 to 2019. Mining: includes shares in the mining and quarrying business, such as coal, oil and gas mining, metal ore, rock excavation, clay excavation, sand, salt mining and quarrying, mineral mining, chemicals, and fertilizer materials, as well as gypsum, asphalt and limestone mining. The reason researchers used this company as a research object is because it is one of the sectors with high risk (uncertainty), the mining sector is in great demand by investors and is a pillar of a country's economic development. The population of this study were 49 companies and the sample was 24 companies which were determined based on the purposive sampling method, namely determining the sample with certain criteria

Table 2. Sampling Criteria

Information	Amount
Mining companies listed on the IDX from 2017 to 2019	49
Companies that do not publish complete annual reports or consolidated financial reports for 2017 to 2019	(6)
Companies that experience losses	(14)
Companies that were delisted from 2017 to 2019	(2)
Companies whose data is incomplete	(3)
Company observation data	24
Total processed samples (24 companies x 3 years)	72

Descriptive statistics

Descriptive statistics aim to provide an overview of a data variable used in this research by looking at the mean, maximum, minimum, and standard deviation values. The following are the results of the descriptive statistical analysis.

Table 3. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Profitability	72	0.002	13.978	0.321	1.636
Liquidity	72	0.214	9.222	1.735	1.335
Board of Commissioners Size	72	3	9	4.89	1.516
Audit Committee Size	72	3	4	3.11	0.316
Financial Risk Disclosure	72	0.209	0.395	0.299	0.045
Valid N (listwise)	72				

Source: Author's Work

Hypothesis test

The purpose of the R² test is to determine the ability of the independent variable to explain the dependent variable. R² values range between 0 and 1. The following is a table of the results of the coefficient of determination.

Table 4. Determination Coefficient Test Results

Model	R	R Square	Adjusted R Square
1	0.411	0,169	0,119

Source: Author's Work

From table 4 it can be seen that the Adjusted R Square value is 0.119. This means that the independent variables (profitability, liquidity, the size of the board of commissioners and the size of the audit committee) are able to explain the dependent variable (disclosure of financial risk) of 11.9 % and 88.1 % is explained by other variables outside the study.

The t test was conducted to see the effect of each independent variable on the dependent variable. The following is a table of the partial test results of this study.

Table 5. Partial Test Results

Model	t	Sig.	Hypotheses
(Constant)	2.974	0.004	
Profitability	-2.064	0.043*	H1 is accepted
Liquidity	0.606	0.546	H2 is rejected
Board of Commissioners Size	0.377	0.707	H3 is rejected
Audit Committee Size	2.717	0.008*	H4 is accepted

Source: Author's Work

Note: * significance at the 5 % level

The F-test was carried out to see the effect of the independent variables together on the dependent variable. The following are the results of the simultaneous tests of this study.

Table 6. Simultaneous Tests Results

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	0.025	4	0.006	3.399	0.014 ^a
Residual	0.121	67	0.002		
Total	0.146	71			

Source: Author's Work

From Table 6, it can be seen that the significant value is $0.014a < 0.05$, so it is concluded that simultaneously the variables of profitability, liquidity, board size and audit committee size affect, the disclosure of financial risk.

Discussion

The effect of profitability on the disclosure of financial risk

According to the results obtained from the first hypothesis test, the t value is -2.064 and, it is significant because $0.043 < 0.05$ which means that, at a significant level of 5 %, profitability affects disclosure of financial risk. Thus the first hypothesis is accepted.

The results of this study are supported by Yunifa and Juliarto (2017) who stated that profitability affects risk disclosure. However, in this study, profitability has a negative effect on the disclosure of financial risk, meaning that the higher the level of profitability achieved by a company, the lower the level of the disclosure of financial risk that is made.

Profitability is a description of the overall performance of management which can be seen from the amount of profit received in relation to sales and investment. There is a negative influence between profitability and disclosure of financial risk because companies that experience low profitability also tend to experience high risk, so this encourages managers to increase risk disclosure in order to explain in detail what happened in order to explain to the shareholders how management handled the risks that existed, to reduce negative views of investment quality, and to minimize the occurrence of information asymmetry between the management and the principals in accordance with agency theory. However, the empirical research on this subject did not find evidence of the existence of a positive significant association between a company's profitability and its risk disclosure level (Linsley and Shrides 2006).

The effect of liquidity on the disclosure of financial risk

According to the results of the second hypothesis test, the t value is 0.606 and it is not statistically significant because $0.546 > 0.05$ which means that, with a significant level of 5 %, liquidity has no effect on the disclosure of financial risk. Thus the second hypothesis is rejected.

According to signal theory, management will disclose more risk information if their company's liquidity ratio is high. This is done because they want to show their ability to manage liquidity risk compared to companies with low liquidity ratios, and they want to provide an explanation to stakeholders about the condition of these companies (Amran et al. 2009). However, the results of this study do not show the effect of liquidity on financial risk disclosure.

A company's level of liquidity does not affect the extent of financial risk disclosure given because producing liquidity is imperative for every company. Its management considers whether the level of liquidity is sufficient to serve as a positive signal for stakeholders to assess the company's prospects without having to disclose risks more broadly.

The effect of the size of the board of commissioners on the disclosure of financial risk

According to the results of the third hypothesis test, the t value is 0.377 and it is not statistically significant because $0.707 > 0.05$ which means that, at a significant level of 5 %, the size of the board of commissioners has no effect on the disclosure of financial risk. Thus the third hypothesis is rejected.

The results of this study are supported by Elfeky (2017) who found that the size of the board of commissioners has no effect on risk disclosure. According to the data obtained, the number of commissioners owned by each company has met the requirements, namely at least two people. However, in this study, the size of the board of commissioners cannot influence the disclosure of a company's financial risk. Agency theory argues that the board of commissioners represents the main internal mechanism for monitoring opportunistic behavior by the management in order to help balance the interests of shareholders and management.

A large board of commissioners is believed to be able to improve accuracy in supervising and controlling management due to the combination of skills among the board's members. However, a board of commissioners with too many members can slow down the decision-making process because the chances of conflict between members of the board of commissioners are greater if there are differences of opinion; this makes it necessary to unite the various views and opinions of all members of the board of

commissioners.

The effect of audit committee size on financial risk disclosure

According to the results of the fourth hypothesis test, the t value is 2.717 and it is significant because $0.008 < 0.05$ means that at a significant level of 5 %, the size of the audit committee has an effect on financial risk disclosure. Thus the fourth hypothesis is accepted.

The results of this study are supported by Samaha and Dahawy (2011) who found that audit committee size has an effect on risk disclosure. OJK regulation No.55/PJOK.04/2015, Article 4, explains that the audit committee has at least three members who are independent commissioners and parties from outside the company. The duties of the audit committee are to encourage the implementation of CGC, to encourage the establishment of an adequate internal control structure, to improve the quality of financial disclosure and reporting, to supervise the implementation of auditor examinations, and to review the scope, accuracy, independence, and objectivity of public accountants.

The size of the audit committee has an effect on financial risk disclosure because the existence of an audit committee can make companies more accountable and transparent in carrying out financial reporting and avoid manipulation of disclosures because the audit committee will oversee all company activities. This is in accordance with agency theory which explains that the larger the audit committee, the more effective its performance will be in assisting the board of commissioners, namely in carrying out its supervisory duties because it involves a lot of the necessary expertise and points of view. With the existence of effective oversight from the audit committee, it will be possible to suppress the management's desire to take actions that benefit themselves and so the management will make broader risk disclosures.

CONCLUSION

The conclusions that can be drawn from the results of the data analysis conducted and the discussion are that profitability and audit committee size have an effect on financial risk disclosure, while the independent variables liquidity and board size have no effect on it. At the same time, the variables profitability, liquidity, board size, and audit committee size do have an effect on the disclosure of financial risk.

The implication of this research for investors is that they are expected to be more careful in choosing a company in which to invest. Only looking at the amount of profit that can be generated and the return that will be received is insufficient; they should also pay attention to the corporate governance of companies such as the size of the audit committee, because a large numbers of members can minimize the occurrence of agency conflicts between management and principals.

The implication of this research for companies is that the results show that the average level of financial risk disclosure by companies is 0.299. According to the data obtained, the average company has fulfilled the required disclosures such as presenting information about risk exposure, how risks arise, objectives, policies, and risk management processes along with ways to measure them. However, it is hoped that the company can disclose more useful information for stakeholders as a tool for their consideration when making investment decisions.

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