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EFFECT OF AUDIT COMMITTEE CHARACTERISTICS, MANAGERIAL OWNERSHIP AND AUDITOR REPUTATION ON FINANCIAL DISTRESS OF ISLAMIC BANKING IN INDONESIA

Nurul Fitriani[1]
Universitas Islam Negeri Raden Intan, Lampung, Indonesia
nuyfitriani22@gmail.com

Hanif[2]
Universitas Islam Negeri Raden Intan, Lampung, Indonesia
hanif@radenintan.ac.id

Ahmad Hazas Syarif[3]
Universitas Islam Negeri Raden Intan, Lampung, Indonesia
hazassyarif@radenintan.ac.id

Abstract

This work aims to analyze the influence of the characteristics of the Audit Committee, managerial ownership and Auditor reputation on the financial Distress of Islamic Banking in Indonesia in 2019-2025. In this work, the type of data used is quantitative data. The population used in this study is the population of this study in all Sharia commercial banks operating in Indonesia as many as 14 Sharia commercial banks (BUS) during the period 2019-2025. The sample used in this study was 105 by taking data from the characteristics of the audit committee, managerial ownership and auditor's reputation on the financial distress of Islamic banking in indonesia in 2019-2025. In this case, the author uses the sample of the last 7 years, namely 2019-2025. The characteristic variables of the Audit Committee have a significant effect on Financial Distress for the period 2019-2025. Managerial ownership variable does not significantly affect the Financial Distress period 2019-2025. The auditor's reputation variable has a significant effect on Financial Distress for the period 2019-2025. Characteristics of the Audit Committee, managerial ownership, and Auditor reputation significantly affect the Financial Distress period 2019-2025.

Keywords: Characteristics of the Audit Committee, Managerial Ownership And Auditor Reputation, Financial Distress

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INTRODUCTION

This research is in the background by the existence of financial distress experienced by companies and can lead to bankruptcy, especially in the Islamic banking sector in Indonesia. If this condition continues to be experienced by Islamic banking companies, the company will gradually experience bankruptcy. However, this can be predicted and minimized by the company's management with various efforts so that the company can continue to run well. One of the efforts that can be done to minimize the occurrence of financial difficulties can be done by improving the financial performance of the company as seen in the company's financial ratios (Fadhli & Arifin, 2022).

One of the main problems that arise is the financial difficulties (financial distress) in Islamic banking in Indonesia, one of which is bank muamalat. The risk of bankruptcy of a bank is seen from the financial distress that can occur because there are indications of a decline in financial performance, both from the operational side and from the service side. The decline in financial performance seen from the operational side is related to the turnover of assets owned by the bank in increasing revenue seen from the liquidity and solvency and profitability of the bank. While in terms of services that are related to human resources and the form of services provided to customers, both the number and quality that can support operations in increasing bank revenues (Weo et al., 2022).

The development of the Islamic banking industry in Indonesia in the period 2019-2025 shows complex dynamics. As the country with the largest Muslim population, Indonesia has a massive market potential for Islamic banking. However, the growth of assets and increasing market share does not necessarily free the industry from the threat of financial risks. Financial distress or financial difficulty is the initial stage before bankruptcy which is characterized by the company's inability to meet its financial obligations (OJK, 2024).

Financial distress conditions in Islamic banking become crucial because banks are intermediary institutions that rely heavily on public trust (trust). In the period 2020-2022, the COVID-19 pandemic put significant pressure on the quality of banking assets. Although in aggregate the Islamic banking industry showed resilience, data from the Financial Services Authority (OJK) showed fluctuations in profit ratios and increased reserves of impairment losses in several Islamic commercial banks (BUS) (Altman, 1968).

This instability phenomenon requires the implementation of Good Corporate Governance (GCG) more stringent. One of the key elements in internal supervision is the characteristics of the Audit Committee. The audit committee is

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responsible for ensuring the integrity of financial statements and the effectiveness of internal control systems. Low meeting frequency or lack of financial expertise in the audit committee is often associated with failure to early detection of financial risks that lead to financial distress (Jensen & Meckling, 2019).

On the other hand, the ownership structure also affects the sustainability of the bank. Managerial ownership is considered as a mechanism for aligning interests between management and shareholders in accordance with Agency Theory. When managers are also shareholders, they tend to be more cautious in taking high-risk policies to avoid potential losses and bank bankruptcies.

In addition to internal mechanisms, external supervision through the Auditor's reputation plays an important role in providing signals about the health condition of the bank. Auditors from large public accounting firms (KAP) (such as the Big Four) are considered to have higher independence and capability in detecting financial anomalies than non-Big Four KAP. The use of highly reputable auditors is expected to reduce information asymmetry and provide early warning of potential financial distress (Kasmir, 2019a).

Based on a review of previous research, it appears that there are empirical and methodological gaps in previous research, namely the existence of differences in inconsistent research results. The inconsistency of the results of the study is a gap for further research. This study seizes the gap by proposing a bankometer model approach.

Table 1
Financial distress in Sharia Banking In Indonesia 2019-2025 (%)

Islamic Commercial Bank	2019	2020	2021	2022	2023	2024	2025
Bank Syariah Indonesia (BSI)	0,31	1,38	1,61	1,98	2,35	2,47	2,39
Bank Muamalat Indonesia	0,05	0,03	0,02	0,09	0,02	0,03	0,04
Bank BCA Syariah	1,20	1.10	1,10	1,30	1,50	1,60	1,57
Bank BTPN Syariah	13,58	7,16	10,72	11,36	6,30	6,42	7,34
Bank Mega Syariah	0,89	1,74	4,08	2,59	1,96	2,04	1,40
Bank Syariah Bukopin	0,04	0,04	5,48	1,27	-8,99	0,58	0,22
Bank Jabar Banten Syariah (BJB Syariah)	0,60	0,41	0,96	1,14	1,29	0,92	0,56
Bank Panin Dubai Syariah	2,08	1,91	-6,72	1,79	1,62	0,65	0,33

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Maybank Syariah Indonesia	1,09	1,04	1,34	1,25	1,41	0,85	0,94
Bank Victoria Syariah	2,47	6,19	8,81	10,85	4,22	0,90	2,07
Bank Aladin Syariah	11,15	7,07	10,10	8,50	7,55	2,43	1,60
Bank Nano Syariah	0,34	0,30	0,23	3,27	4,14	2,64	2,55
Bank Aceh Syariah	2,33	1,73	1,87	2	1,22	1,41	1,67
Bank NTB Syariah	2,56	1,74	1,64	1,93	2,07	1,85	-
Bank Riau Kepri (BRK) Syariah	1,63	2,54	1,93	2,31	1,33	1,43	1,20
Total	40,32	34,38	43,17	51,63	27,99	26,22	23,88

Based on the table above, Financial distress using the Return on Assets (ROA) of Islamic Banking in Indonesia in 2019-2025 fluctuated, Bank Syariah Indonesia (BSI) Financial distress at Bank Syariah Indonesia showed an increasing trend during the study period. In 2019 ROA was recorded at 0.31%, then increased in 2020 to 1.38% and again increased in 2021 by 1.61%. The increase continued in 2022 at 1.98% and in 2023 at 2.35%. In 2024 the ROA reached 2.47%, but decreased slightly in 2025 to 2.39%. In general, this condition shows the bank's profitability performance is getting better despite a slight decline at the end of the period. Bank Muamalat Indonesia Financial distress in Bank Muamalat Indonesia showed a relatively low ROA value during the study period. In 2019 ROA was 0.05% and decreased in 2020 to 0.03% and 0.02% in 2021. In 2022, there was an increase to 0.09%, but it decreased again in 2023 by 0.02%. In 2024 the ROA increased to 0.03% and in 2025 by 0.04%. This shows that the profitability of banks is still at a relatively low level and tends to fluctuate. Bank BCA Syariah Financial distress Bank BCA Syariah showed a relatively stable upward trend. In 2019 the ROA amounted to 1.20% and decreased slightly in 2020 and 2021 to about 1.10%. Furthermore, in 2022 it increased to 1.30%, in 2023 to 1.50%, and in 2024 by 1.60%. In 2025 it slightly decreased to 1.57%. Overall, the bank showed a fairly consistent increase in profitability performance. Bank BTPN Syariah Financial distress at Bank BTPN Syariah showed a relatively high but fluctuating ROA value. In 2019 ROA reached 13.58%, then decreased in 2020 to 7.16%. In 2021, it increased again to 10.72% and rose again in 2022 by 11.36%. But in 2023 there was a decrease to 6.30% and a slight increase in 2024 by 6.42%. In 2025 it will again increase to 7.34%. This shows that the bank still has a strong level of profitability despite fluctuations. Bank Mega Syariah Financial distress at Bank Mega Syariah experienced significant fluctuations. In 2019 ROA amounted to 0.89% and

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increased to 1.74% in 2020. A sharp increase occurred in 2021 to 4.08%, but decreased in 2022 to 2.59% and again decreased in 2023 to 1.96%. In 2024 the ROA slightly increased to 2.04% and again decreased in 2025 to 1.40%. Bank Syariah Bukopin Financial distress at Bank Syariah Bukopin showed extreme fluctuations. In 2019 and 2020 ROA was at a very low level of 0.04%. But in 2021 there was a significant increase to 5.48%. In 2022, it again decreased to 1.27%, and in 2023 it decreased drastically to reach -8.99% which indicates a loss condition. In 2024, ROA returned positive at 0.58% and increased in 2025 to 0.22%, although it is still at a low level. Bank Jabar Banten Syariah (BJB Syariah) Financial distress at Bank Jabar Banten Syariah showed a relatively stable trend with slight fluctuations. In 2019 ROA amounted to 0.60% and decreased in 2020 to 0.41%. Furthermore, it increased in 2021 to 0.96% and in 2022 by 1.14%. The increase continued in 2023 to 1.29%, but decreased in 2024 to 0.92% and again decreased in 2025 to 0.56%. Bank Panin Dubai Syariah Financial distress at Bank Panin Dubai Syariah showed significant fluctuations. In 2019 ROA amounted to 2.08% and slightly decreased in 2020 to 1.91%. But in 2021 it experienced a drastic decrease to -6.72% which indicates a loss condition. In 2022 it increased again to 1.79% and continued to decline gradually in 2023 by 1.62%, in 2024 by 0.65%, and in 2025 by 0.33%. Maybank Syariah Indonesia Financial distress at Maybank Syariah Indonesia was relatively stable during the study period. In 2019 ROA amounted to 1.09% and slightly decreased in 2020 to 1.04%. In 2021 it increased to 1.34% and slightly decreased in 2022 to 1.25%. In 2023 it increased again to 1.41%, but decreased in 2024 to 0.85% and increased again in 2025 to 0.94%. Bank Victoria Syariah Financial distress at Bank Victoria Syariah showed sharp fluctuations. In 2019 ROA amounted to 2.47% and increased significantly in 2020 to 6.19%. The increase continued in 2021 to 8.81% and reached 10.85% in 2022. But in 2023 there was a sharp decline to 4.22% and again decreased in 2024 to 0.90%. In 2025 it again increased to 2.07%. Bank Aladin Syariah Financial distress at Bank Aladin Syariah showed a downward trend during the study period. In 2019 ROA amounted to 11.15% and decreased in 2020 to 7.07%. In 2021, it increased again to 10.10%, but then decreased gradually in 2022 by 8.50%, in 2023 by 7.55%, in 2024 by 2.43%, and in 2025 by 1.60%. Bank Nano Syariah Financial distress at Bank Nano Syariah was relatively low at the beginning of the study period. In 2019 ROA amounted to 0.34% and decreased slightly in 2020 to 0.30% and 0.23% in 2021.

However, in 2022 there was a significant increase to 3.27% and again increased in 2023 to 4.14%. In 2024 the ROA decreased to 2.64% and slightly decreased again in 2025 to 2.55%. Bank Aceh Syariah Financial distress at Bank

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Aceh Syariah showed fluctuations but relatively stable. In 2019 ROA amounted to 2.33% and decreased in 2020 to 1.73%. In 2021 it increased slightly to 1.87% and in 2022 by 2.00%. In 2023, there was a decrease to 1.22%, then increased again in 2024 to 1.41% and in 2025 by 1.67%. Bank NTB Syariah Financial distress at Bank NTB Syariah showed a relatively stable movement. In 2019 ROA amounted to 2.56% and decreased in 2020 to 1.74%. The decline continued in 2021 to 1.64%. But in 2022 it increased again to 1.93% and in 2023 to 2.07%. In 2024 it slightly decreased to 1.85%, while 2025 data are not available. Bank Riau Kepri (BRK) Syariah Financial distress at Bank Riau Kepri Syariah showed moderate fluctuations. In 2019 ROA amounted to 1.63% and increased in 2020 to 2.54%. But in 2021 it decreased to 1.93% and increased again in 2022 by 2.31%. In 2023, there was a decrease to 1.33%, then slightly increased in 2024 by 1.43% and again decreased in 2025 to 1.20%.

Although the above data shows a positive trend post-pandemic, individually, there are several Islamic commercial banks that have been under intensive supervision due to an efficiency ratio (bopo) that swelled to exceed 90% in the 2020-2022 range. This shows that the risk of financial distress is latent and can attack banks that do not have strong governance.

Islamic commercial banks are Islamic banks that in their activities provide services in payment traffic. Islamic commercial banks can operate as foreign exchange banks and nondevisa banks. Foreign exchange Bank is a bank that can carry out transactions out of the country or related to foreign currency as a whole such as transfers out of the country, inkaso out of the country, opening of letters of credit and so on (Ningsih et al., 2020).

In the Islamic perspective there is still the notion that Islam inhibits the progress of the Times and as a factor inhibiting development. This hasty conclusion is almost certainly due to a misunderstanding of islam. Although islam is a complete and universal religion (Tiyan et al., 2021).

The research gap continues to this day. Some previous studies have shown that the characteristics of the audit Committee have a positive effect on preventing financial distress, but other studies have found that the existence of the audit committee is often only a regulatory formality with no real effect on financial performance. Similarly, managerial ownership in some Islamic banks is still very small, so its effectiveness in mitigating risks is still an academic debate (Irham, 2020).

Based on the urgency, this study aims to further examine the influence of internal mechanisms through the characteristics of the audit Committee and

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managerial ownership, as well as external mechanisms through the auditor's reputation in predicting and mitigating financial distress in Islamic banking in Indonesia for the period 2019-2025.

LITERATURE REVIEW

Agency Theory

The main theory that underlies the relationship between corporate governance and financial condition is the agency theory. This theory explains the contractual relationship between the owner (principal) and the manager (agent). In Islamic banking, this relationship becomes more complex because it involves the owner of the deposited funds (shahibul maal) and the bank manager (mudharib). Agency problems arise when managers tend to prioritize personal interests or take high-risk actions for short-term profit, which can ultimately trigger financial distress (Jensen & Meckling, 2019). To mitigate these conflicts, oversight mechanisms such as audit committees and appropriate ownership structures are needed for managers to act in harmony with shareholder interests.

Signalling Theory

Signalling theory posits that companies that have good performance and governance will give signals to the market to distinguish themselves from bad companies. In this context, the use of highly reputable auditors (Big Four) and the competent composition of the audit Committee are positive signals that the bank sends to investors and customers (Spence, 1973). The signal indicates that the bank has a high level of transparency and a low risk of financial distress. On the contrary, the inability of the company to give positive signals is often interpreted as the presence of hidden financial problems.

Financial Distress the Sharia banking

Financial distress is a condition in which the company's financial position has decreased before bankruptcy or liquidation. In Islamic banks, financial distress is not only seen from the profitability ratio, but also from the capital Adequacy Ratio (Capital Adequacy Ratio) and the ratio of problematic financing (Non-Performing Financing). Factors that trigger this condition include poor risk management, macroeconomic conditions, to weak internal supervision (Kasmir, 2019b). The period 2019-2025 is a crucial period because of global economic pressures that force Islamic banks to strengthen capital structures to avoid financial failure.

Characteristics of Audit Committee

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The audit committee is a committee established by the Board of Commissioners to assist in overseeing financial reporting and internal controls. The characteristics of an effective audit committee are usually measured through the size of the committee, the frequency of meetings, and the financial expertise of the members. Based on the regulation of the Financial Services Authority (OJK), the audit committee must have independent members and experts in accounting or finance. The more often the audit committee conducts coordination (meetings), the less chance of management manipulating financial statements, so that the risk of financial distress can be detected and prevented earlier.

Managerial Ownership

Managerial ownership is the proportion of shares owned by management (directors and commissioners) in a company. Based on the perspective of agency theory, increasing managerial ownership will unite the interests between managers and shareholders (Brigham, 2004). By owning shares, managers will also feel the direct impact if the company experiences financial difficulties. Therefore, managers have a strong motivation to maintain the financial stability of the bank and avoid excessive risk-taking that can cause financial distress.

Auditor Reputation

The auditor's reputation reflects market confidence in the quality of audits conducted by public accounting firm (KAP). Auditors from the Big Four Kaps (PwC, Deloitte, EY, KPMG) are generally considered to have higher audit quality than non-Big Four Kaps because they have extensive resources and a global reputation to maintain (DeAngelo, 1981). Auditors of high repute tend to be more bold in revealing the true state of affairs in their audit opinions, including signs of going concern. This provides an early warning to stakeholders about the potential financial difficulties faced by Islamic banking.

RESEARCH METHOD

In this study, the authors used a quantitative approach (Satria et al., 2023). The quantitative method is a research method that can be interpreted as a research method based on the philosophy of positivism, used to research on a particular population or sample, data collection using research instruments, quantitative data analysis with the aim to test the hypothesis that has been established (Pratama et al., 2020). This type of research is causal-comparative to determine the influence of the characteristics of the audit committee, managerial ownership, and auditor reputation on the financial distress of Islamic banking in Indonesia.

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The Data used is panel data (cross-section of Islamic banks and time-series 2019-2025).

The population of this study was in all Sharia commercial banks operating in Indonesia during the period 2019-2025 which numbered 14 banks. And using purposive sampling techniques. The Total sample in this study amounted to 105 samples by taking data from the characteristics of the audit committee, managerial ownership, and auditor's reputation on the financial distress of Islamic banking in indonesia in 2019-2025.

The Data used is secondary data, obtained from the annual report of Islamic banks (annual report), Financial Statements published by the Financial Services Authority (OJK) and Bank Indonesia, external audit reports published in the annual report, and the official Website of each Islamic bank. The data period collected is 2019-2025.

To answer the problems that have been set, then in analyzing the problem (data) the author will use the regression method of Panel Data. Data panel (pool) which is a combination of time series data with cross section data. Therefore, the Data panel has a combination of characteristics, namely data consisting of several objects and covering some time (Sari & Ardian, 2019). Generally, the estimation of parameters in regression analysis with cross section data is done using the small square estimation method or called Ordinary Least Square (OLS). Regression using panel data is also called the panel data regression model (Widarjono & Pengantar, 2016).

Descriptive statistics are statistics used to analyze data by describing or describing data that has been collected without intending to make conclusions that apply to the general or generalization (Sugiono, 2019). There are several ways of presenting data in descriptive statistics, among others: 1) Tables, 2) graphs/diagrams, 3) the size of concentration; Average Count (mean), median, and Mode, 4) the size of the place value; quartiles, deciles, and percentiles, 5) the size of the spread; range (range), mean deviation, and standard deviation (Martias, 2021). In determining the regression model estimation method using panel data can be done through three approaches, among others: Fixed Effect Model, Random Effect Model, and Pooled Least Square. The panel data regression estimation Model will be selected which model is most suitable through the CHOW Test and hausman test. The classical assumption test is a statistical requirement that must be met in regression analysis based on ordinary least square (OLS).

Likewise, not all classical assumption tests must be performed on every classical assumption test must be performed on linear regression analysis, for

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example, multicollinearity tests are not performed on simple regression analysis and autocorrelation tests do not need to be applied to cross sectional data (Basuki & Prawoto, 2016). Tests conducted include multicollinearity test, autocorrelation test, normality test and heteroscedasticity test. T test or partial test is done to see how far the influence of independent variables (independent) individually (partial) in explaining the variation of the dependent variable (dependent) (Hasan, 2013). F test is performed to determine the presence or absence of the influence of all independent variables together (simultaneous) to the dependent variable. And the coefficient of determination is used to show the ability of the independent variables in explaining the changes in the independent variables in the hypothesis test.

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Table 2
Descriptive Statistical Analysis

Descriptive Statistics					
Variable	**N**	***Minimum***	***Maximum***	***Mean***	***Std. Deviation***
Characteristics Of Audit Committee (X1)	105	0	1,945910	1,148702	0,401029
Managerial Ownership (X2)	105	-2,513517	22,72252	8,629074	8,779617
Auditor Reputation (X3)	105	0	13,07942	7,458238	3,154135
Financial Distress (Y)	105	-3,912023	2,608598	0,268824	1,406155

Data source: data processed using Eviews 10, 2026

Based on the table above, N or the number of data for each variable is 105, from 105 characteristic data of the Audit Committee (X1) from N 105, it is known that the minimum value is 0, the maximum value is 1.945910, the mean value from 2019-2025 is 1.148702, and the standard deviation value is 0.401029, which means that the mean value is greater than the standard deviation value so that the data deviation that occurs is low, the spread of values is even. Managerial ownership (X2) of N 105, the minimum value of -2.513517, the maximum value of 22.72252, from 2019-2025 known mean value of 8.629074, as well as the value of the standard deviation of 8.779617 which means the mean value is smaller than the standard deviation so that the deviation of the data that occurs low then the spread of the value evenly. Auditor reputation (X3) from N 105, it is known that

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the minimum value is 0, the maximum value is 13.07942, the mean value from 2019-2025 is 7.458238, and the standard deviation value is 3.154135. Financial Distress (Y) from N 105, it is known that the minimum value is -3.912023, the maximum value is 2.608598, the mean value from 2019-2025 is 0.268824, and the standard deviation value is 1.406155, which means that the mean value is smaller than the standard deviation value so that the data deviation that occurs is low then the spread of the value is evenly distributed.

Panel Data Regression Test

$$Yit = \alpha + \beta1X1it + \beta2X2it + \beta3X3it + \epsilon it$$

Description:

Y	= *Financial Distress*
A	= Constants
B1, B2, B3	= Coefficient Of Independent Variable
X1	= Characteristics Of Audit Committee
X2	= Managerial Ownership
X3	= Auditor Reputation
I	= Indonesia
t	= The research period is years 2019-2025

The following are the results of the panel data regression test:

$$Y = -1{,}145281 + 0{,}719993X1 + 0{,}008697X2 + 0{,}068649X3$$

Based on the results, it can be seen that:

1. Y = *Financial Distress*.
2. Constant of -1,145281.
3. The coefficient of estimation of the characteristics of the Audit Committee is 0.719993, meaning that every 1% increase in the value of the characteristics of the Audit Committee, the value of Financial Distress increases by 0.719993.
4. The value of the coefficient of managerial ownership estimation is 0.008697, meaning that every 1% increase in the value of managerial ownership, the value of Financial Distress increases by 0.008697.
5. The value of the Auditor's reputation estimation coefficient is 0.068649, meaning that every 1% increase in the value of the Auditor's reputation, the value of Financial Distress increases by 0.068649.

Pooled Least Squares (Common Effect Model) Method

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The first Test was done by using the common effect Test. Here are the test results:

Table 3
Panel Data Regression Results with Common Effect Model

Variable	*Coefficient*	Prob
Characteristics Of Audit Committee (X1)	0,522895	0,1242
Managerial Ownership (X2)	0,008335	0,5800
Auditor Reputation (X3)	0,129727	0,0028

Data source: data processed using EViews 10, 2026

The results of the panel data regression using the common effect showed that the Audit Committee characteristic variable (X1) obtained a coefficient value of 0.522895 and a prob value of 0.1242 (>0.05), it was stated that the Audit Committee characteristic variable had no effect on the financial Distress of Islamic Banking in Indonesia in 2019-2025. The managerial ownership variable (X2) obtained a coefficient value of 0.008335 and a prob value of 0.5800 (>0.05), it was stated that the managerial ownership variable had no effect on the financial Distress of Islamic Banking in Indonesia in 2019-2025. The Auditor's reputation variable (X3) obtained a coefficient value of 0.129727 and a prob value of 0.0028 (<0.05), it is stated that the Auditor's reputation variable has a positive effect on the financial Distress of Islamic Banking in Indonesia in 2019-2025.

Fixed Effect Model

After the analysis using the common effect model, the next step is to perform regression analysis of panel data using the fixed effect model. The following is the panel regression data using the fixed effect model. Here are the test results:

Table 4
Evaluation Result Of Data Panel With Fixed Effects Model

Variable	*Coefficient*	Prob
Characteristics Of Audit Committee (X1)	0,732901	0,0120
Managerial Ownership (X2)	0,013525	0,8595
Auditor Reputation (X3)	0,063620	0,0430

Data source: data processed using EViews 10, 2026

The results of the panel data regression using fixed effects showed that the Audit Committee characteristic variable (X1) obtained a coefficient value of 0.732901 and a prob value of 0.0120 (<0.05), it was stated that the Audit Committee characteristic variable had a positive effect on the financial Distress of Islamic

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Banking in Indonesia in 2019-2025. The managerial ownership variable (X2) obtained a coefficient value of 0.013525 and a prob value of 0.8595 (>0.05), it was stated that the managerial ownership variable had no effect on the financial Distress of Islamic Banking in Indonesia in 2019-2025. Auditor reputation variable (X3) obtained a coefficient value of 0.063620 and a prob value of 0.0430 (<0.05), it was stated that the Auditor reputation variable had a positive effect on the financial Distress of Islamic Banking in Indonesia in 2019-2025.

Random Effect Model

After analysis using the fixed-effect model, the next step is to perform regression analysis of panel data using the random-effect model. The following are the results of panel data regression using random effect model. Here are the test results:

Table 5
Panel Data Regression with Random Effect Model

Variable	*Coefficient*	Prob
Characteristics Of Audit Committee (X1)	0,719993	0,0105
Managerial Ownership (X2)	0,008697	0,8000
Auditor Reputation (X3)	0,068649	0,0260

Data source: data processed using EViews 10, 2026

The results of the panel data regression using random effect showed that the Audit Committee characteristic variable (X1) obtained a coefficient value of 0.719993 and a prob value of 0.0105 (<0.05), it was stated that the Audit Committee characteristic variable had a positive effect on the financial Distress of Islamic Banking in Indonesia in 2019-2025. Managerial ownership variable (X2) obtained a coefficient value of 0.008697 and a prob value of 0.8000 (>0.05), it is stated that the managerial ownership variable does not affect the financial Distress of Islamic Banking in Indonesia in 2019-2025. Auditor reputation variable (X3) obtained a coefficient value of 0.068649 and a prob value of 0.0260 (<0.05), it was stated that the Auditor reputation variable had a positive effect on the financial Distress of Islamic Banking in Indonesia in 2019-2025.

Chow Test

Chow test is used to determine the best estimation model between the Fixed Effect Model or Common Effect Model by looking at the F-statistics. If the F-statistic results obtained exceed the significance level, then the best estimation

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model used in this study is the Common Effect Model. However, when the F-statistic result is less than the significance level, the best estimation model used is the Fixed Effect Model using EViews 10. Here are the results of the Chow Test:

Table 6
Chow Test Results

Effect Test	Statistic	d.f	Probabilitas
Cross-section F	18,594432	(14,87)	0,0000
Cross-section Chi-square	145,356154	14	0,0000

Data source: data processed using EViews 10, 2026

From the results of the Chow test, the probability value of 0.0000 < 0.05, the selected model is the fixed-effect model (FEM).

Hausman Test

Hausman test is used to compare whether the Fixed Effect Model or Random Effect Model is best to be used in this study. If the Chi-Square value exceeds the significance level, it can be ascertained that the Random Effect Model is the best model to be used in this study. However, if the Chi-Square value is lower than the significance level, the best estimation model used is the Fixed Effect Model using the EViews 10 tool. Here are the results of the Hausman test

Table 7
Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f	Probabilitas
Cross-section random	0,877556	3	0,8308

Data source: data processed using EViews 10, 2026

Based on the table above, the results of random cross section 0.8308 > 0.05 then the selected random effect model (REM). Based on the table above, of the two tests that have been done, the best REM model, therefore to perform regression analysis can use the random effect model (REM).

Classical Assumption Test

Multicollinearity Test

Multicollinearity test shows the presence or absence of correlation between independent variables with the provision that if the value of correlation between variables below 0.80 then the model does not occur multicolinearity using tools Eviews 10 if the value of correlation between independent variables > 0.80 then there is multicollinearity. If the correlation value between independent variables

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< 0.80 then there is no multicollinearity. Here are the results of the multicollinearity test:

Table 8
Multicollinearity Test Results

Variabel	Characteristics Of Audit Committee (X1)	Managerial Ownership (X2)	Auditor Reputation (X3)
Characteristics Of Audit Committee (X1)	1,000000	0,149175	0,225788
Managerial Ownership (X2)	0,149175	1,000000	0,025762
Auditor Reputation (X3)	0,225788	0,025762	1,000000

Data source: data processed using EViews 10, 2026

Based on the table above, the results of correlation coefficients X1 and X2 of 0.149175 < 0.80, X1 and X3 of 0.225788 < 0.80, X2 and X3 of 0.025762 < 0.80 it can be concluded that multicollinearity symptoms do not occur in this study.

Heteroscedasticity Test

The heteroscedasticity test tests whether the regression model variance inequality occurs from the residual of one observation to another observation. This test is done by means of a test using tools Glejser Eviews 10. If the probability value of each independent variable > 0.05 then there is no heteroscedasticity problem. Here are the results of the heteroscedasticity test:

Table 9
Heteroscedasticity Test Results of Glacier Method

Variabel	*Coefficient*	T-Statistic	Probabilities
Constants	1,688002	4,331537	0,0000
Characteristics Of Audit Committee (X1)	-0,568119	-2,880953	0,0048
Managerial Ownership (X2)	-0,019426	-0,858127	0,3929
Auditor Reputation (X3)	0,008409	0,386496	0,6999

Data source: data processed using Eviews 10, 2026

Based on the table, it can be seen that the value of Prob. X1 of 0.0048 > 0.05, Prob. X2 of 0.3929 > 0.05 and Prob. X3 of 0.6999 > 0.05 then the conclusion does not occur heteroscedasticity.

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Hypothesis Test
T Test
Here are the results of the t-test:

Table 10
T Test Results

Variable	*Coefficient*	T-Statistic	Probability
C	-1,145281	-1,993802	0,0489
Characteristics Of Audit Committee (X1)	0,719993	2,606769	0,0105
Managerial Ownership (X2)	0,008697	0,254009	0,8000
Auditor Reputation (X3)	0,068649	2,259443	0,0260

Data source: data processed using Eviews 10, 2026

Based on the table, the Audit Committee characteristic variable (X1) obtained a coefficient value of 0.719993 and a prob value of 0.0105 (<0.05), it is stated that the Audit Committee characteristic variable has a positive effect on the financial Distress of Islamic Banking in Indonesia in 2019-2025. Managerial ownership variable (X2) obtained a coefficient value of 0.008697 and a prob value of 0.8000 (>0.05), it is stated that the managerial ownership variable does not affect the financial Distress of Islamic Banking in Indonesia in 2019-2025. Auditor reputation variable (X3) obtained a coefficient value of 0.068649 and a prob value of 0.0260 (<0.05), it was stated that the Auditor reputation variable had a positive effect on the financial Distress of Islamic Banking in Indonesia in 2019-2025.

F Test (Simultaneous Test)
Here are the f test results:

Table 11
F Test Results

Hypothesis	Variable	F-Statistics	Probability
H4	Characteristics of the Audit Committee, managerial ownership and Auditor reputation -> *Financial Distress*	4,387423	0,006038

Data source: data processed using EViews 10, 2026

Based on the table, the F-statistic value is 4.387423, and the value of Prob. F statistic of 0.006038 < 0.05, then together/simultaneously the characteristics of the Audit Committee, managerial ownership, and Auditor reputation

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simultaneously affect the financial Distress of Islamic Banking in Indonesia in 2019-2025.

Coefficient Of Determination Test (R^2)

The coefficient of determination test is used for the purpose of knowing how far the regression line is formed to represent the group of observed data. The greater the value of R2 (close to 1, the better it will be to use the program EViews 10. Here are the results of the coefficient of determination test:

Table 12
Coefficient of Determination Test Results

R-squared	*Adjusted R-squared*
0,115294	0,089016

Data source: data processed using EViews 10, 2026

The R-squared value of 0.115294 (11.5294%) means that the characteristics of the Audit Committee, managerial ownership and Auditor reputation variables affect the financial Distress variables of Islamic Banking in Indonesia in 2019-2025 by 11.5294% the rest is influenced by other variables that are not included in the model.

Discussion

The results of the panel data regression analysis showed that the Audit Committee characteristic variables had a positive and significant effect on Financial Distress in Sharia commercial banks in Indonesia for the period 2019-2025, indicated by a regression coefficient of 0.719993 and a probability value of 0.0105. Theoretically, the audit committee is designed as part of internal governance in charge of supervision in order to suppress agency conflicts. However, these findings indicate that the presence and intensity of the characteristics of the audit committee—such as the frequency of meetings or the composition of expertise is not fully optimal in reducing potential financial distress, but rather in line with the dynamics of increased supervision when banks begin to detect potential financial risks. These results support the view that the effectiveness of Internal Audit Committee supervision is crucial in detecting and responding to early signals of financial difficulties so as not to worsen. This finding is also in line with research that emphasizes the importance of the role of the audit committee as a mechanism for the prevention and early detection of financial distress in the banking industry.

Furthermore, the test of managerial ownership variables resulted in a regression coefficient of 0.008697 with a probability value of 0.8000, which means that managerial ownership does not significantly affect the Financial Distress of

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Islamic banking during the period 2019-2025. In the framework of Agency Theory, ownership of shares by management should serve to align the interests of managers and owners of capital (principal) in order to minimize high-risk behavior. However, empirical facts in the field show that the portion of managerial share ownership in the Islamic banking industry in Indonesia is still relatively small or relatively limited. The implication is that the low level of managerial ownership has not been able to be a strong enough incentive for managers to change financial decision-making behavior significantly in mitigating the risk of financial distress. This finding is in line with the academic argument that the portion of managerial ownership that is too small is not effective in mitigating financial risk and in line with the debate literature that found no effect of managerial ownership on potential financial distress.

The auditor's reputation variable obtained a regression coefficient value of 0.068649 and a probability value of 0.0260, which means that the Auditor's reputation has a positive and significant effect on Financial Distress in Islamic banking in Indonesia for the period 2019-2025. This result is in line with signaling Theory, where the use of the services of a reputable public accounting firm (KAP) serves as a positive signal to the market that the bank is committed to transparency, independence, and high audit quality. Highly reputable KAP has a stronger capacity and independence to identify financial anomalies and provide early warning or early warning related to banking health conditions. Therefore, external supervision from reputable auditors is effectively able to capture and reflect the potential instability or level of financial distress risk of the company more accurately. This is in line with the view that the use of high-quality auditors reduces information asymmetry and provides an early signal of the company's potential financial difficulties.

Simultaneously, the F-test results showed an F-statistic value of 4.387423 with a probability value of 0.006038, which proves that the characteristics of the Audit Committee, managerial ownership, and auditor reputation together (simultaneously) have a significant effect on Financial Distress in Sharia commercial banks in Indonesia for the period 2019-2025. The integration between the internal control mechanism (characteristics of the audit Committee and managerial ownership) and external control (auditor reputation) proved to play an important role in determining the picture of the financial condition of Islamic banking. The implementation of good Corporate Governance as a whole combines these two dimensions of supervision so that the bank can systematically evaluate and control financial stability risks. This simultaneous result is in line

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with the corporate governance framework which states that the effectiveness of financial supervision requires a harmonious combination of internal and external pillars of the company.

CONCLUSION

Based on the results of the panel data regression analysis and the discussion that has been presented, it can be concluded that partially, the characteristics of the Audit Committee and the Auditor's reputation have a positive and significant effect on financial distress in Sharia commercial banks in Indonesia for the period 2019-2025, while managerial ownership does not have a significant effect due; simultaneously, the three internal and external governance variables proved to have a significant effect on financial distress with an explanatory power contribution of 11.53%, thus confirming the crucial role of strengthening the audit Committee mechanism and the independence of reputable auditors as early detection and transparency instruments to mitigate the risk of financial difficulties and maintain the sustainability of the Islamic banking industry in Indonesia.

The practical implications of this study emphasize the importance for the management of Islamic commercial banks and the Financial Services Authority (OJK) to not simply make the existence of reputable audit committees and Kaps a mere regulatory formality, but rather optimize their substantive supervisory role as an early warning system against potential financial crises; while for further research, considering the relatively limited value of the coefficient of determination, it is advisable to expand the scope of the model by integrating variables of internal financial ratios, macroeconomic indicators, special Sharia governance variables and applying comparative methods of alternative bankruptcy prediction models such as Bankometer Model or Altman Z-Score in order to obtain a more in-depth and comprehensive picture of financial risk.

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