Proportion of Independent Board of Commissioners, Effectiveness of Audit Committee, Quality of Internal and External Auditors on Earnings Management (Empirical Study on State-Owned Enterprises Registered in Indonesia Stock Exchange 2016-2019)

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ABSTRACT: This study aims to examine the effect of the proportion of independent commissioners, the effectiveness of the audit committee, the quality of internal and external auditors on earnings management. The population of this research is State-Owned Enterprises listed on the IDX for the period 2016-2019. The sample obtained was 13 companies using the purposive sampling method. The analysis technique used is Multiple Linear Regression. Results show that the independent variables in this study simultaneously had a negative effect on earnings management. The proportion of independent commissioners and the quality of external auditors partially have a negative effect on earnings management. The effectiveness of the audit committee, the competence, and objectivity of the internal auditors do not have a significant effect on earnings management. Independent parties can carry out more optimal supervision, so it is suggested that the company can consider the appropriate composition of the seats on the independent board of commissioners and external auditors who can carry out their duties independently.

Keywords: Independent Commissioner, Audit Committee, Internal Auditor, External Auditor, Earnings Management.

I. INTRODUCTION

Financial reports are a medium of communication between companies and interested parties. Financial statements are used as a means for managers to account for their performance on the company's owner resources (Kurniawan & Satrya, 2020). An important parameter used in assessing manager performance is profit. Therefore, to be able to produce financial reports that look good, managers tend to take earnings management actions (Gayatri & Wirasedana, 2021). The theory behind the conduct of earnings management is agency theory in which there is a conflict of interest between the agent (manager) and the principal (Al-Rassas & Kamardin, 2016). Efforts by company managers to intervene or influence information in financial statements with the aim of tricking stakeholders who want to measure the performance of company management are called earnings management (Suartama & Sukartha, 2020). State-owned enterprises as the largest economic actor in Indonesia are expected to be able to continue to grow and develop so that they can compete in an increasingly open era. One example of a case of earnings management in a state-owned company in Indonesia is the case of PT Garuda Indonesia (Persero) Tbk.

The case of PT Garuda Indonesia (Persero) Tbk that occurred in 2019, where in 2018 PT Garuda Indonesia (Persero) Tbk recorded a net profit of US $ 809 thousand, inversely proportional to 2017 which lost US $ 216.58 million. This performance is considered suspicious because in the third quarter of 2018 the company still suffered a loss of US $ 114.08 million. The net profit recorded in 2018 was obtained because PT Garuda Indonesia (Persero) Tbk recognized the collaboration with PT Mahata Aero Teknologi, which amounted to US $ 293.94 million as revenue, even though the funds should still be receivables. If the nominal value of the cooperation is not recognized as revenue, the company will actually still experience a loss of US $ 244.96 million. In this case, it was found that the Public Accounting Firm, Tanubrata Sutanto Fahmi Bambang & Partners had conducted an audit that was not in accordance with Financial Accounting Standards and Public Accountant, Kasner Sirumapea committed serious violations of opinion (independent auditor's report). The board of commissioners should not have signed the financial report at the General Meeting of Shareholders if it was suspected that there was a violation in the preparation of the financial report. The audit committee and the internal auditors who are responsible for overseeing the preparation of the company's financial statements
should be able to detect earlier suspected errors in recording financial statements. However, in reality independent reports have not been able to ensure that the financial statements have been presented in accordance with applicable regulations and standards (Firmanti et al., 2019).

Earning management, which is a deviation, can be prevented by the existence of Good Corporate Governance (GCG). GCG as a set of regulations that regulates the relationship between shareholders, company management, creditors, government, employees, as well as other internal and external stakeholders and the growth of company integrity (Jayanimitta et al., 2020). With the existence of an independent board of commissioners and an audit committee, it is hoped that it can minimize the occurrence of earnings management in companies, especially state-owned Enterprises (Hasibuan & Wirawati, 2020). Octavia (2017) stated that the independent board of commissioners has a negative effect on earnings management. While Siregar & Herawaty (2016) stated that the independent board of commissioners has no effect on earnings management.

The audit committee assists the board of commissioners to ensure the effectiveness of the internal control system and the effectiveness of the implementation of the external and internal auditors' duties (Indrawan & Damayanti, 2020). Imaam & Khamoussi (2016) stated that the effectiveness of the audit committee has a negative effect on earnings management, meanwhile Lestari & Murtanto (2018) stated that the effectiveness of the audit committee has no effect on earnings management. The company audit committee can also be assisted by the formation of an internal auditor as a complement to the existence of the internal governance framework. The existence of an internal auditor function as a consulting service that can be developed on the effectiveness of risk management, control, and governance processes. Alzoubi (2019) stated that the quality of internal auditors has a negative effect on earnings management.

A good financial report is a financial report that gets an unqualified opinion from the results of an external audit. The external auditor is tasked with verifying the accuracy of the company's financial statements and then providing an opinion on the company's financial statements whether they have been fairly presented or not. Agyei-Mensah & Yeboah (2019), Nawaiseh (2016) stated that quality of external auditors has a negative effect on earnings management. Based on a review of the case of PT Garuda Indonesia (Persero) Tbk, it can be seen that the biggest problem that occurs lies in the quality of the external auditors, wherein this case the external auditors who are expected to be objective and independent in assessing the company's financial statements are apparently not immune to violating the opinion, given on these financial statements. Based on the case of earnings management, this is the reason for the researcher to choose the population of SOEs listed on the Indonesia Stock Exchange (IDX) and the independent variables related to earnings management. The novelty of this study with previous research lies in the addition of new variables, namely the proportion of independent board of commissioners and proxies used to measure the quality of internal auditors using competence and objectivity of internal auditors which are still relatively little used in previous studies. Based on the description above, it can be concluded that the research hypothesis is as follows:

H1: The proportion of independent commissioners has a negative effect on earnings management.
H2: The effectiveness of the audit committee has a negative effect on earnings management.
H3a: Internal auditors' competence has a negative effect on earnings management.
H3b: Internal auditors' objectivity has a negative effect on earnings management.
H4: The quality of external auditors has a negative effect on earnings management.

![Fig. 1 Conceptual framework](image-url)
II. RESEARCH METHODS

The research design in this study is a quantitative approach (positivism) in an associative form. The research location used in this study is a SOE that is listed on the Indonesia Stock Exchange 2016-2019. The reason for choosing the location of this research is because there are cases of earnings management practices and has complete information about well-organized company financial data. The population used in this study were all State-Owned Enterprises listed on the IDX for the 2016-2019 period, totaling 15 companies. The sample used in this study amounted to 13 companies. The sampling method used in this research is the purposive sampling method. The criteria used are SOEs that are listed on the Indonesia Stock Exchange (IDX) and publish financial reports, consecutive annual reports from 2016-2019, and present complete data that will be used in this study, including data related to earnings management, board independent commissioners, audit committee, internal and external auditors. The data collection method used in this research is the non-participant observation data collection method. The data analysis technique used in this study is multiple linear regression analysis (multiple linear regression method) with the help of the Statistical Package for the Social Sciences (SPSS) application version 24.

III. RESULTS AND DISCUSSION

Table 1. Results of Multiple Linear Regression Analysis

<table>
<thead>
<tr>
<th>Variable</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>.155</td>
<td>.050</td>
<td>3.109</td>
<td>.003</td>
</tr>
<tr>
<td>Proportion of Independent Commissioners (X1)</td>
<td>-.002</td>
<td>.001</td>
<td>-.306</td>
<td>-.001</td>
</tr>
<tr>
<td>Effectiveness of the Audit Committee (X2)</td>
<td>-.001</td>
<td>.001</td>
<td>-.158</td>
<td>1.141</td>
</tr>
<tr>
<td>Internal Auditor Competence (X3a)</td>
<td>-.005</td>
<td>.021</td>
<td>-.035</td>
<td>-.237</td>
</tr>
<tr>
<td>Internal Auditor Objectivity (X3b)</td>
<td>-.039</td>
<td>.018</td>
<td>-.307</td>
<td>2.136</td>
</tr>
</tbody>
</table>

Y = 0.155 – 0.002X1 – 0.001X2 – 0.001X3a – 0.005X3b – 0.039X4 + e
Adjusted R Square : .174

Table 1 indicate, The adjusted R^2 value in this study is 0.174 which means that 17.4 percent of the variation in earnings management variables is jointly influenced by the variable proportion of the independent board of commissioners, the effectiveness of the audit committee, the quality of internal auditors, and the quality of external auditors, while the remaining 82.6 percent is influenced by other factors that are not included in the regression model of this study.

The proportion of the Independent Board of Commissioners to Earnings Management

Based on the results of multiple linear regression analysis in this study, the t-test significance value of the proportion of independent commissioners is 0.046 which is smaller than the real level of 0.05 with a β value of -0.002, which means H1 is accepted. The β value of -0.002 indicates that when the proportion of independent commissioners in SOE at IDX for the 2016-2019 period increases by one unit, then earnings management will decrease by 0.002. So it can be concluded that the proportion of independent commissioners has a negative effect on earnings management. Lestari & Murtanto (2018) which states that the proportion of independent commissioners has a negative effect on earnings management. This indicates that the right proportion of independent commissioners has an impact on earnings management practices carried out by the company. This is because the independent board of commissioners is a board of commissioners that is not affiliated with other boards of commissioners and shareholders so that in this case the independent board of commissioners can maintain its objectivity in carrying out the oversight function of the policies and the management of the company so that the decision-making process cannot be influenced by parties. others who may have an interest (Indriawati et al., 2017). This right then improves the implementation of the GCG mechanism in the company and the supervision can run more effectively. Agency theory explains that an independent board of commissioners is needed by a board of commissioners to supervise and control the actions of directors, concerning their opportunistic behavior.

The Effectiveness of the Audit Committee on Earnings Management

Based on the results of multiple linear regression analysis in this study, the t-test significance value of the effectiveness of the audit committee is 0.260 which is greater than the real level of 0.05 with a β value of.
The significance value of the t-test for internal auditor objectivity as measured by the proxy of the head of the internal auditor from inside or outside the company before serving as the chief auditor of 0.814 which is greater than the real level of 0.05 indicates that the competence of internal auditors does not have a significant effect on earnings management because internal auditors who work in the auditing field for a short period will still try to carry out their duties professionally. The proportion of the independent board of commissioners has a negative effect on earnings management because the independent board of commissioners in the decision-making process and the implementation of supervision cannot be influenced by other interested parties so that it can minimize the occurrence of earnings management practices. The effectiveness of the audit committee does not have a significant effect on earnings management because the implementation of supervision cannot be influenced by other interested parties so that it can minimize the occurrence of earnings management practices. Therefore, the audit committee meetings do not have a significant effect on earnings management because the internal auditors who work in the auditing field for a short period will still try to carry out their duties professionally.

**IV. CONCLUSION**

Anzelya (2020) states that the objectivity of the internal auditors has no effect on earnings management. In this study, it was found that the competence of internal auditors which is proxied by the length of time the internal auditors have worked in the auditing field does not have a significant effect on earnings management. In this study, it was found that the competence of internal auditors which is proxied by the length of time the internal auditors have worked in the auditing field does not have a significant effect on earnings management because internal auditors who work in the auditing field for a short period will still try to carry out their duties professionally.

Based on the results of multiple linear regression analysis in this study, the significance value of the t-test for the competence of internal auditors as measured by the proxy of internal auditors' experience working in the auditing field is 0.454 which is greater than the real level of 0.05 which means that the hypothesis $H_{1a}$ is rejected. The β value of -0.001 indicates that when the internal auditors have long work experience working in the auditing field at SOE at IDX for the 2016-2019 period, it increases by one unit, then earnings management will decrease by 0.001. So it can be concluded that the competence of internal auditors does not have a significant effect on earnings management. In this study, it was found that the competence of internal auditors which is proxied by the length of time the internal auditors have worked in the auditing field does not have a significant effect on earnings management because internal auditors who work in the auditing field for a short period will still try to carry out their duties professionally.

The significance value of the t-test for internal auditor objectivity as measured by the proxy of the head of the internal auditor from inside or outside the company before serving as the chief auditor of 0.814 which is greater than the real level of 0.05 which means and the hypothesis $H_{1b}$ is rejected. The β value of -0.001 indicates that when the internal auditors have long work experience working in the auditing field at SOE at IDX for the 2016-2019 period, it increases by one unit, then earnings management will decrease by 0.001. So it can be concluded that the competence of internal auditors does not have a significant effect on earnings management. In this study, it was found that the competence of internal auditors which is proxied by the length of time the internal auditors have worked in the auditing field does not have a significant effect on earnings management because internal auditors who work in the auditing field for a short period will still try to carry out their duties professionally.

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**IV. CONCLUSION**

The proportion of the independent board of commissioners has a negative effect on earnings management because the independent board of commissioners in the decision-making process and the implementation of supervision cannot be influenced by other interested parties so that it can minimize the occurrence of earnings management practices. The effectiveness of the audit committee does not have a significant effect on earnings management because audit committee meetings are only mandatory in respect of the prevailing regulations, this causes the meeting to be less effective and less qualified so that no matter how many audit committees hold meetings, it does not affect earnings management. Internal auditors' competence which is proxied by the length of time that the internal auditors have worked in the auditing field does not have a significant effect on earnings management because internal auditors who work in the auditing field for a short period will still try to carry out their duties professionally according to their competencies regardless of the number. Years the internal auditor worked in the auditing field. Internal auditors' objectivity does not have a significant effect on earnings management because the proportion of the independent board of commissioners has a negative effect on earnings management. So it can be concluded that the competence of internal auditors does not have a significant effect on earnings management because internal auditors who work in the auditing field for a short or long period of time, they will still try to carry out their duties professionally according to their competencies regardless of the number.
the company, they will still try to maintain the principle of objectivity as an auditor. The quality of external auditors has a negative effect on earnings management because big four auditors have more experience in solving problems with financial reports, their experience can detect frauds committed in financial statements early. Investors should pay attention to factors that can influence the company’s earnings management practices. The decision to invest must be based on data that can ensure its credibility so that the decision can produce the expected profit.

For company management to be able to consider the number of independent commissioners needed by the company and to choose an external auditor with a good reputation so that the financial information generated can be used optimally by interested parties. In this study, the average value of the variable proportion of the independent board of commissioners was 43.6874. The lowest score is owned by PT. Semen Indonesia (Persero) Tbk in 2019, while the highest score is owned by the banking sector, namely PT. Bank Rakyat Indonesia (Persero) Tbk and PT. Bank Negara Indonesia. So it can be concluded that the banking sector requires more independent board of commissioners than other sectors with a value above average, this is because the banking sector has a principle of trust in which banks must ensure that the supervision of operational activities is carried out maximally and is free from manipulation of financial information in order to maintain the trust of its customers.

For future researchers to use other independent variables that are not used in this study, for example, such as the characteristics of the commissioners. This is intended because in this study only 17.4 percent could explain the influence of the dependent variable on earnings management so that it is hoped that further researchers will be able to find more diverse evidence regarding other factors that can affect earnings management. The research object is expected to be expanded to other business fields that have problems and situations in accordance with the topic of earnings management and the selection of the research period can be added according to the researchers’ considerations.

REFERENCES


