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Characteristics Of the Board of Commissioners, Financial Performance and Audit Quality on Earnings Management

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Abstract

Purpose: To examine the influence of Board of Commissioners Size, Independent Commissioners, Board Financial Expertise, Audit Committee Size, Audit Committee Independence, Audit Committee Basic Expertise in Finance and Accounting, Leverage, KAP Size, and Company Size. The Dependent Variable is Profit Management in manufacturing companies listed on the Indonesian Stock Exchange.
Research Methodology: The samples used in this study were 73 manufacturing companies listed on the Indonesia Stock Exchange for the 2018-2020 period, with a total of 219 samples. The analytical tool used to analyze the hypothesis is Eviews 10.
Results: The results show that the size of the Board of Commissioners, Independent Commissioners, and Leverage have a positive effect on Earnings Management. The Board of Commissioners' Financial Expertise and KAP Size have no effect on Earnings Management. Audit Committee Size, Audit Committee Independence, Audit Committee Financial Expertise and Company Size have a negative effect on Profit Management.
Limitations: This research sample uses manufacturing companies for the 2018-2020 period. Which is relatively small compared to the increase in years and other sectors.
Contribution: This research has important implications for preventing or at least being able to detect financial statement manipulation by management which can result in reduced integrity of a financial report.

Keywords: Board of Commissioners Size, Independent Commissioner, Board of Commissioners Financial Expertise, Audit Committee Size, Independent Audit Committee, Audit Committee Financial Expertise, Leverage, Company Size, KAP Size.

INTRODUCTION

Profit is the information in the financial statements that is the basis for making decisions for stakeholders, including shareholders. Shareholders use earnings and stock prices as the basis for assessing manager performance to make decisions, such as decisions about compensation for managers (Scott, 2015).
Earnings management is considered as the underlying reason for various widespread financial scandals, raising great concerns over the quality of financial information. Generally, earnings management can be done through two methods including accrual-based earnings management and real earnings management.

Accrual-based earnings management involves choosing certain accounting choices to manipulate reported earnings (El Diri, 2017).

According to Hery (2016) Earnings management is also carried out with the aim of meeting the expectations of external parties, such as investors and creditors. These external parties have an interest in the company's financial performance, where they want the company to continue to operate with good results. Earnings management can also be done with the aim of creating income smoothing. The practice of carefully timing the recognition of income and expenses in order to smooth out reported profits from one period to the next is known as income smoothing.

The case for airlines such as PT. Garuda Indonesia also practices earnings management. Since 2015 PT. Garuda Indonesia manipulated financial reports to make it look healthy by delaying debt payments. The delay is an effort to make financial reports good with increased profits so that users of information such as PT. Garuda Indonesia will see that PT. Garuda Indonesia has sound financial reports (Energyworld, 2016).

THEORITICAL REVIEW

Agency Theory

According to Jensen and Macling (1976) agency relationship is known as a contract in which a party who is domiciled as a principal binds another party who is positioned as an agent to carry out a job for the benefit of the principal accompanied by delegation of decision-making authority by the principal agent. Agency theory assumes that principals have an interest in maximizing their profits, while agents have an interest in continuing to try to maximize the fulfillment of their economic and psychological needs. Because the interests of the two parties are not always in line, conflicts of interest often occur. This condition is known as moral hazard, which is a situation that arises when the risks due to the actions of managers are not known by shareholders and of course this will lead to information asymmetry.

Profit Management

Earnings management is considered as the underlying reason for various widespread financial scandals, raising great concerns over the quality of financial information. Generally, earnings management can be done through two methods including accrual-based earnings management and real earnings management. Accrual-based earnings management involves choosing certain accounting choices to manipulate reported earnings (El Diri, 2017). According to Hery (2018) Earnings management is also carried out with the aim of meeting the expectations of external parties, such as inv

estors and creditors. These external parties have an interest in the company's financial performance, where they want the company to continue to operate with good results.

Size of the Board of Commissioners

According to Bonifasius (2016) the board of commissioners is an organ of the PT that is tasked with carrying out general and/or specific supervision, in accordance with the articles of association and providing advice to the directors. Thus, the main authority of the board of commissioners is to supervise and provide advice to the directors, so that their presence is a must.

Independent Commissioner

Independent commissioners are members of the board of commissioners who have no financial, management, share ownership and/or family relationships with other members of the board of commissioners, the Board of Directors and/or controlling shareholders or relationships with banks, which may affect their ability to act independently. (Bankers Association : 2016)

Financial Expertise of the Board of Commissioners

Commissioners who have accounting expertise are measured by the ratio of the number of commissioners who have accounting expertise and accounting expertise as well as financial expertise to the number of commissioners (Dwiharyadi, 2017).

According to Suleiman et al (2014) Board financial expertise is seen as another element in board characteristics that may have an impact on management income. In order to monitor the financial reporting process, directors must have accounting knowledge, to control manipulation and make information more transparent.

Size of the Audit Committee

Financial Services Authority Regulation Number 55/POJK.04/2015 of 2015 concerning the Establishment and Guidelines for the Implementation of Audit Committee Work ("OJK Regulation 55/2015"), the Audit Committee is a committee formed by and is responsible to the Board of Commissioners in assisting in carrying out the duties and function of the Board of Commissioners. Limited Liability Companies that are not issuers or public companies are not required to form an audit committee.

Independence of the Audit Committee

BRC recommends that the audit committee should only consist of commissioners who have no relationship with the company which might undermine their independence. Bapepam also stated the same thing. Based on Bapepam Circular Letter Number SE008/BEJ/12-2001, Independence can be interpreted as a party outside the listed company that has no business relationship and affiliation with: Listed company, Commissioners, Directors, and major shareholders of the listed company, and is able to provide professional opinion in a professional manner freely in accordance with professional ethics and does not favor the interests of anyone. An independent Audit Committee is required in monitoring earnings management. The role of monitoring will be stronger with the involvement of qualified auditors.

Audit Committee Financial Expertise

Based on the Financial Services Authority Regulation No. 55 /POJK.04/2015, members of the audit committee are required to be independent and at least one person who has skills in accounting or finance. In addition, members of the audit committee must understand financial statements, company business, especially those related to Issuer or Public Company services or business activities, audit processes, risk management, and laws and regulations in the Capital Market sector as well as other related laws and regulations.

Leverage

According to Agus Sartono (2012: 120) leverage is as follows: "Financial leverage shows the proportion of using debt to finance its investment. Companies that do not have leverage means using 100% of their own capital. Meanwhile, according to Kasmir (2015: 151) leverage is: "The solvency ratio or leverage ratio is the ratio used in measuring the extent to which a company's assets are financed with debt. This means how much debt is borne by the company compared to its assets. In a broad sense it is said that the solvency ratio is used to measure a company's ability to pay all of its obligations, both short term and long term if the company is liquidated.

Company Size

The relationship between firm size and earnings management is debatable. First, large economies of scale and scope can offer broad benefits to companies, reducing pressure to dress up the company's financial performance (Zamri et al, 2013). Another definition of company size according to Torang (2012: 93) is defined as "Organizational size is a context variable that measures the demands of organizational services or products."

Size of KAP

The Public Accounting Firm (KAP) is a business entity that has obtained permission from the Minister of Finance as a forum for public accountants to provide their services. To measure the size of KAPs, the researchers grouped them into two groups, namely auditors affiliated with the big four KAPs and local KAPs or non-big four KAPs which were then measured by dummy variables.

HYPOTHESES

Effect of Board Size Komisaris against Earnings Management

The first characteristic is the size of the Board of Commissioners. Based on agency theory, the board of commissioners is considered as the highest internal control mechanism, which is responsible for monitoring the actions of top management. Supervision is carried out so that the tendency of managers to carry out earnings management is reduced so that investors continue to give confidence to invest in the company. The larger the size of the board of commissioners, the greater the company's earnings management (Prastiti, 2013). Obigbemi et al (2016), the results of the study show that the size of the Board of Commissioners has a significant negative effect on Earnings Management.

H1: There is an effect of the size of the board of commissioners on earnings management

Influence of Independent Commissioners on Earnings Management

Many companies appoint independent commissioners as a form of fulfilling obligations under the regulations set by the stock exchange, namely listed companies must have independent commissioners. While the fact is that many independent commissioners do not have the ability and carry out their independence properly (Nanda, 2020). Yousef (2014) research results show that the Independent Commissioner has a significant negative effect on Earnings Management.

H2: There is an independent commissioner's influence on earnings management

The Influence of the Board of Commissioners' Expertise on Profit Management

The third characteristic is the Expertise of the Board of Commissioners. Commissioners can represent the interests of shareholders and sometimes have deep knowledge of financial performance considering that the function of the board of commissioners is to be responsible for the company's performance to shareholders. Therefore the expertise of the board of commissioners in accounting can increase the clarity

of reliable information to shareholders that the financial reports provided by management are in accordance with actual reality. Sari (2017) results show that the expertise of the Board of Commissioners has a negative effect on Profit Management.
H3: There is an influence of the board of commissioners' expertise on earnings management

The Effect of Audit Committee Size on Earnings Management
The fourth characteristic of an audit committee is the size of the audit committee. The size of the audit committee helps oversee the management (agent) that does not harm the owner (principal). The greater the size of the management oversight audit committee (agent) in carrying out financial reporting becomes more increasing. Based on the Decree of the Chairman of Bapepam Number: 29/PM/2004 which requires the contents of the audit committee to consist of at least three independent people. The number of audit committees tends to have members with varied expertise to monitor financial reporting practices carried out by management (agents) more effectively, so that the owner (principal) whether the resulting reports are of good quality and guaranteed (Baxter and Cotter, 2009). Salihi and Jibril (2015) show the results that Audit Committee Size has a significant negative effect on earnings management.
H4: There is an effect of audit committee size on earnings management

Influence of the Independent Audit Committee on Earnings Management
The independence of the audit committee in this study is a condition where the members of the audit committee must be recognized as independent parties. Members of the audit committee must be free from any obligations to listed companies. In addition, members also do not have a particular interest in a listed company and must be free from circumstances that could cause other parties to doubt their independence. The measurement of this variable uses the percentage of independent members according to BAPEPAM provisions on the total number of audit committee members. Latif (2015) and Isnaniati (2019) research results show that Audit Committee Independence has a negative effect on Earnings Management.
H5: There is an independent audit committee influence on earnings management

The Effect of Audit Committee Expertise on Earnings Management
The sixth characteristic is the audit committee's expertise in finance and accounting. Members with financial and accounting expertise can improve oversight of the function of the company owner (the principal) on management (agent) so as not to harm the company owner. Based on the Chairman's Decree Number 29/PM/2004 Bapepam states that one of the three audit committees must have an educational background in accounting and finance. Widiastuti (2016) shows the results that the Audit Committee's expertise in Finance and Accounting has a significant negative effect on Profit Management.
H6: There is an influence of audit committee expertise on earnings management

Effect of Leverage on Earnings Management
The solvency ratio or leverage ratio is the ratio used to measure the extent to which a company's assets are financed with debt. This means how much debt is borne by the company compared to its assets (Kasmir 2015). Jensen and Meckling
(1976) said that the problem of agency theory can be reduced by exercising self-restraint such as increasing the amount of debt. The greater the amount of debt, the more cash funds issued by the company to pay

interest and installments so that it will reduce the amount of cash funds stored in the company. Dewi et al (2019) research results state that Leverage has a negative effect on Profit Management.
H7: There is an effect of leverage on earnings management

Effect of Company Size on Earnings Management
From these definitions, it can be concluded that company size influences earnings management practices, where both small and large companies do not rule out earnings management. because managers only want to benefit themselves, and this is also done to attract investors to invest their shares in the company by manipulating company profits by reporting the company's financial statements not in actual conditions (Amelia & Hernawati, 2016). Mei Khanh (2018) shows the results of Company Size having a significant negative effect on Profit Management.
H8: There is an influence of company size on earnings management

The Effect of KAP Size on Earnings Management
Companies will look for public accounting firms (KAP) with high credibility, because to increase the credibility of external party financial statements as users of financial reports, companies prefer large public accounting firms (KAP). In addition, large public accounting firms (KAP) are generally regarded as quality audit providers so that public accounting firms (KAP) become independent and maintain their image in the business environment. Basically, companies will not replace public accounting firms (KAP) if they have a reputation, because investors will have more confidence in accounting data produced by reputable auditors (Dimas, 2019). Suci & Haryanto (2018) research results show that BIG 4 has a significant negative effect on Profit Management.
H9: There is an effect of KAP size on earnings management

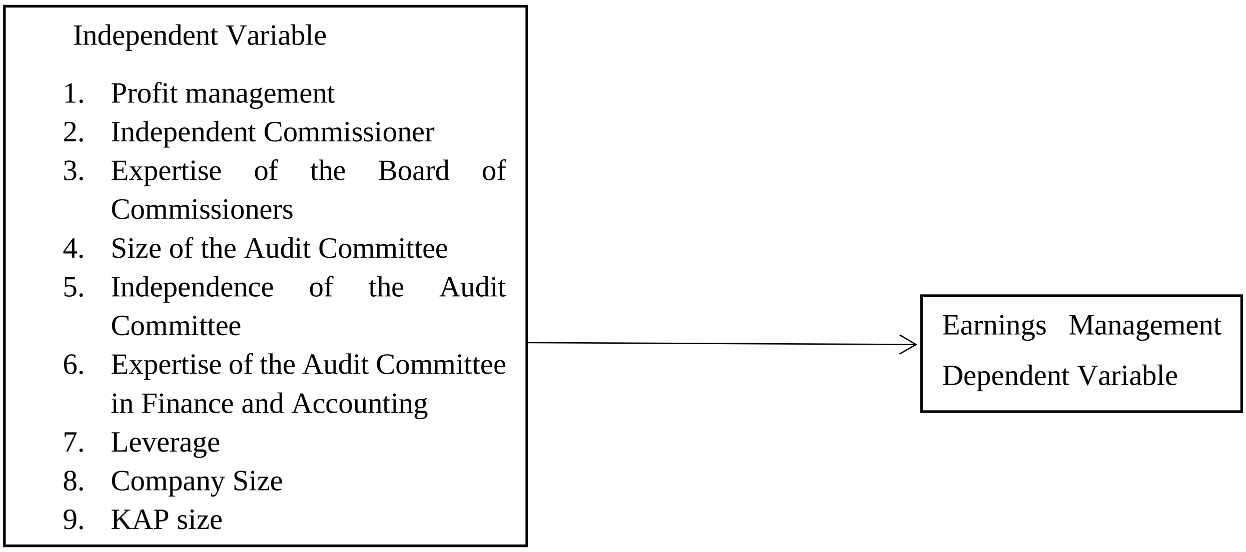


Figure 2.1 Framework for Thought

RESEARCH METHOD
This study uses a causal relationship research design. Causal research is research to determine the effect of one variable on another. This study aims to determine the Effect of Board Characteristics on Earnings Management. The samples used in this study were 73 manufacturing companies listed on the Indonesia

Stock Exchange for the 2018-2020 period, with a total of 219 samples. The analytical tool used to analyze the hypothesis is Eviews 10. The criteria used in taking the research sample are:

a A manufacturing company that has been listed for 3 consecutive years on the Indonesia Stock Exchange for the 2018-2020 period.
b Manufacturing companies that do not publish complete financial reports during the 2018-2020 period.
c Manufacturing companies that did not turn a profit during 2018-2020.
d Manufacturing companies listed on the Indonesia Stock Exchange using the dollar.

The following is the regression model used in this study:

$Y= \alpha + \beta 1\ X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + e$

Information:
Y : Profit Management
α : Constant
X1: Size of the Board of Commissioners
X2: Independent Commissioner
X3: Board of Commissioners Financial Expertise
X4: Size of the Audit Committee
X5: Audit Committee Independence
X6: Audit Committee Financial Expertise
X7: Leverage
X8: Enterprise Size
X9: KAP size
ε : error

Following are the operational variables used in this study:

Table 3.1 Variable Measurement Scale

No	Variabel	Iindicator	Scale
1.	Profit management (Jones Mo?del)	TA = NIit – CFOit TAit / Ai, t-1 = α1 (1 / Ai, t-1) + α2 (ΔREVit / Ai, t-1) + α3 (P / Ai, t-1) + Ɛit NDAit = α1 (1/Ai, t-1) + α2 ((ΔREVit - ΔRECit) / Ai, t-1) (PPEit / Ai, t-1) DAit = (TA / Ai, t-1) – NDAit	Ratio
2.	The size of the board of commissioners	UDK = Total Members of the Board of Commissioners	Nominal
3.	Independent Commissioner	$KI = \frac{Independent\ Board\ of\ Commissioners}{TTotal\ Board\ of\ Commissionersotal\ Dewan\ Komisairs}$	
4.	Keahlian Keuangan Dewa Komisaris bidang Keuang dan Akuntansi	$Board\ of\ Commissioners\ Financial\ Expertise = \frac{JmlFinancial\ Expertise\ Member}{Jml\ Member\ of\ the\ Board\ of\ Commissioners}$	Ratio
5.	Audit Committee Size	Audit Committee = Number of Audit Committee Members	Nominal

6.	Independensi Komite Aud	$Independensi\ Komite\ Audit = \frac{Komite\ Audit\ IndeIndependent\ Audit\ Committeependen}{TotaTotal\ Audit\ Committeel\ Komite\ Audit}$	Ratio
7.	Financial expertise of the Board of Commissioners Finance and Accounting	$Audit\ Committee\ Financial\ expertise = \frac{Jml\ Financial\ Expertise\ Member}{Jml\ Audit\ Committee\ Member}$	Ratio
8.	Leverage	$LEV = \frac{TTotal\ DebT}{Total\ Equity}$ x 100%	Ratio
9.	KAP size	Dummy variable, value 1 if the company is audited by KAP big-4, 4 and 0 otherwise	Nominal
10.	Company Size	Size = Ln Total Asset	Ratio

RESULTS

Descriptive Statistics

Table 4.1 presents descriptive statistics for this study. Based on table 4.1, it can be seen that the average earnings management (DA) is 0.003 which is smaller than the standard deviation of 0.068, indicating that earnings management is not a strategy often used by manufacturing companies listed on the Indonesia Stock Exchange. These findings indicate the success of good governance mechanisms, so that it is proven to have reduced earnings management figures in manufacturing companies listed on the Indonesia Stock Exchange.

The average acquisition of the Size of the Board of Commissioners (UDK) is 4.17 which is greater than the standard deviation of 1.79. It is known that the minimum value of the size of the board of commissioners is 2.00 people, one of which is PT. Wahana Interfood Nusantara Tbk. The maximum value of the size of the board of commissioners is 10.00, namely PT. Astra International Tbk. During the research period, it shows that the standard deviation value is smaller than the average value, which means that the data variation is good or homogeneous. From the average size of the board of commissioners, manufacturing companies tend to experience a decline. with a small number of commissioners, it causes a lack of monitoring in corporate governance oversight in a company.

The average gain of Independent Commissioners (KI) is 0.39. The standard deviation value is 0.09. The maximum value is 5.00, namely PT. Chitose International Tbk and a minimum value of 0.25, namely PT. Gudang Garam Tbk. This means that the average percentage of the number of independent commissioners to the total number of commissioners in the sample company's board of commissioners is 39%. The average of the composition of the independent board of commissioners of all members of the board of commissioners in the composition of the board of commissioners of the sample companies complies with the Financial Services Authority Regulation Number 33/POJK.04/2014 concerning Directors and Board of Commissioners of Issuers or Public Companies which states that the number of commissioners independent must at least 30% (thirty percent) of the total number of members of the board of commissioners. This means that the average composition of the independent board of commissioners is good because it has exceeded the existing provisions. The standard deviation value of 0.09 is smaller than the average value of the variable, reflecting that the sample composition of the independent commissioners is less varied.

The average acquisition of the Board of Commissioners' Financial Expertise (KKDK) is 0.31. The standard deviation value is 0.21. Minimum value of 0.00 and maximum value of 1.00 means that with a minimum of 0 members of the board of commissioners by PT. Akasha Wira International Tbk and a maximum of 1 which means members are experienced in accounting.

The average acquisition of Audit Committee Size (UKA) is 3.05. The standard deviation value is 0.21. Minimum value of 3.00 one of which is PT. Indocement Tunggal Prakarsa Tbk. Maximum score of 4.00 one of which is PT. Semen Indonesia Tbk. The average value is greater than the standard deviation value, meaning that the average number of audit committees in the sample companies is 3 people. The average size of the audit committee is in accordance with the Decree of the Chairman of the Capital Market and Financial Institution Supervisory Agency Number: Kep-643/Bl /2012 concerning the Formation and Work Implementation Guidelines of the Audit Committee which states that the Audit Committee consists of at least 3 (three) members. This means that the average size of the audit committee is good because it complies with existing regulations.

The average acquisition of Audit Committee Independence (IKA) is 0.99. The minimum value of 0.75 is one of them by PT. Charoen Pokphand Indonesia Tbk. The maximum score is 1.00, one of which is by another company, which means that the members of the independent audit committee consist of more than one person or the total value of the audit committee and independent audit is the same. The standard deviation value of 0.03 is quite small, which means that most of the samples have met the independent membership requirements.

The average acquisition of Audit Committee Financial Expertise (KKKA) is 0.81, meaning that the sample companies in this study have an average of 1-2 committee members who are skilled and knowledgeable about finance. The standard deviation value is 0.21. Minimum score of 0.25 by PT. Sreeya Sewu Indonesia and a maximum score of 1.00, one of which is by PT. Kedawung Setia Industrial Tbk means with a minimum of 1 person and a maximum of 4 people. This shows that all of the sample companies have complied with Bapepam regulations which state that the audit committee must have at least one member with an educational background and expertise in accounting and/or finance.

Leverage average gain (Lev) 0.68. The standard deviation value is 0.48. Minimum score of 0.07 by PT. Indonesia Fibreboard Industry Tbk. Maximum score of 2.26 by PT. Satyamitra Kemas Lestari Tbk means that the smallest total assets are financed using corporate debt of 0.07 and the largest total assets are financed using corporate debt of 2.26. While the average value of leverage is 0.68, meaning the total assets financed by company debt are still relatively low and the company's total debt is smaller than its total assets so that the financial condition of the sample companies is still relatively good. The standard deviation value is 0.48 (smaller than the mean), this shows that the data is less varied

The average acquisition of company size (Size) is 28.61, which is greater than the standard deviation of 1.58. It is known that the maximum value is 33.4, namely PT. Astra International Tbk and a minimum score of 25.8, namely PT. Wahana Interfood Nusantara Tbk. This shows that the company has limited assets compared to other manufacturing sector companies, so that the company is less attractive to potential investors in investing. The mean value that is greater than the standard deviation indicates that the data is homogeneous, the data distribution is good.

The average acquisition of KAP size is 0.32. The standard deviation value is 0.46. The minimum value is 0.00, one of which is PT. Semen Baturaja Tbk. The maximum value of the error by PT. Indocement Tunggal Prakarsa Tbk 1.00. 0.3% of the companies that were examined used KAP Big Four with a rating of 1 for those using the Big Four and a rating of 0 for those who did not use the Big Four audit. Data analysis in this study was carried out using logistic regression because the dependent variable is dichotomous in nature (turning KAP and not changing KAP).

Table 4.1 Descriptive Statistics

	DAIT	UDK	KI	KKDK	UKA	IKA	KKKA	LEV	SIZE	KAP
Mean	0.003574	4.173516	0.399783	0.311678	3.050228	0.994292	0.815068	0.681704	28.61440	0.324201
Maximum	0.195752	10.00000	0.833333	1.000000	4.000000	1.000000	1.000000	2.262423	33.49453	1.000000
Minimum	-0.17752	2.000000	0.250000	0.000000	3.000000	0.750000	0.250000	0.071274	25.81548	0.000000
Std. Dev.	0.068717	1.791169	0.090715	0.214979	0.218916	0.037427	0.218117	0.486959	1.588193	0.469148

Chow test

The Chow test is used to find out which model is the best between the common effect and the fixed effect. Based on the output table above, it appears that the prob. the chi-square for the estimation results of the Chow test is 0.0001. Because the value prob. chi-square is less than 0.05, then the model chosen is the Fixed Effects Model.

Table 4.2 Chow test

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

Effects Test	Statistic	d.f.	Prob.
Cross-section F	1.487989	(72,137)	0.0238
Cross-section Chi-square	126.525343	72	0.0001

Hausman test

The Hausman test was conducted to determine the best choice between the fixed effect model and the random effect model. Based on the output table above, it can be seen that the prob. chi-square for the estimated results of the Hausman test is 0.0101. Because the value prob. chi-square is less than 0.05, it can be concluded that the approach uses the Fixed Effect model.

Table 4.3 Hausman Test

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

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.

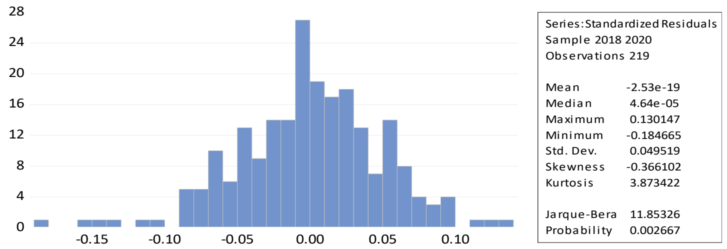
Cross-section random	21.649370	9	0.0101

Classical Assumption Test

a. Normality Test

The normality test is carried out by looking at the probability value of Jarque Bera (Wati, 2018). The Jarque-Bera Prob value shows a number of 11.85 > 0.05, so it can be concluded that the data is normally distributed.

Table 4.4.1 Normality Test



b. Multicollinearity Test

Based on the output table above, it can be seen that the correlation coefficient value between the independent variables is <0.8, so it can be concluded that there is no multicollinearity between each independent variable in this study.

Table 4.4.2 Multicollinearity Test

	DAIT	UDK	KI	KKDK	UKA	IKA	KKKA	LEV	SIZE	KAP
DAIT	1	0.0380	0.0964	0.0648	-0.0123	-0.0329	-0.1581	0.1757	0.0325	-0.0550
UDK	0.0380	1	-0.0395	-0.0699	0.2701	-0.2588	-0.0613	0.1950	0.6500	0.4131
KI	0.0964	-0.0395	1	-0.0405	-0.1094	0.1460	0.0020	0.0484	-0.1141	-0.0295
KKDK	0.0648	-0.0699	-0.0405	1	-0.0433	0.0463	0.0553	-0.0507	-0.0298	0.0512
UKA	-0.0123	0.2701	-0.1094	-0.0433	1	-0.6646	-0.1408	0.0785	0.2834	0.1533
IKA	-0.0329	-0.2588	0.1460	0.0463	-0.6646	1	0.1861	-0.0742	-0.3236	-0.1553
KKKA	-0.1581	-0.0613	0.0020	0.0553	-0.1408	0.1861	1	-0.0539	-0.2020	-0.0502
LEV	0.1757	0.1950	0.0484	-0.0507	0.0785	-0.0742	-0.0539	1	0.1764	-0.0884
SIZE	0.0325	0.6500	-0.1141	-0.0298	0.2834	-0.3236	-0.2020	0.1764	1	0.5545
KAP	-0.0550	0.4131	-0.0295	0.0512	0.1533	-0.1553	-0.0502	-0.0884	0.5545	1

c. Heteroscedasticity Test

Shown by the value of Prob.Chi square(2) on Obs*R-squared which is 0.0072. Because the p value is 0.0072 <0.05, it can be concluded that the model in this study experienced heteroscedasticity violations in the regression model. So to overcome this symptom, the selected model, namely the fixed effect model, will be given a weight.

Basically, the common effect and fixed effect models will occur in multiples heteroscedasticity budget because these two models use the OLS (Ordinary Least Square) assumption, only the random effect model does not have heteroscedasticity violations because it already uses the GLS (Generalize Least Square) assumption.

So to treat heteroscedasticity violations in the fixed effect model, the model must be weighted and compared with a model without weight (Wati, 2018). The following is a comparison of the fixed effect model.

Table 4.4.3 Heteroscedasticity Test

Heteroskedasticity Test: Glejser
Null hypothesis: Homoskedasticity

F-statistic	2.670408	Prob. F(9,209)	0.0059
Obs*R-squared	22.58632	Prob. Chi-Square(9)	0.0072
Scaled explained SS	24.10424	Prob. Chi-Square(9)	0.0041

d. Autocorrelation Test

Shown by the value of Prob.Chi square(2) on Obs*R-squared which is 0.7130. Because the p value is 0.7130 > 0.05, accept H0 or which means there is no autocorrelation.

Table 4.4.4 Autocorrelation Test

Breusch-Godfrey Serial Correlation LM Test:
Null hypothesis: No serial correlation at up to 2 lags

F-statistic	0.320697	Prob. F(2,207)	0.7260
Obs*R-squared	0.676481	Prob. Chi-Square(2)	0.7130

Hypothesis Testing

a. Test of the Coefficient of Determination (R2)

Based on the output results, it can be seen that the Adjusted R-Square value is 52%. This shows that earnings management can be explained 52% by the variables Size of the Board of Commissioners, Independent Commissioners, Financial Expertise of the Board of Commissioners, Size of the Audit Committee, Independent Audit Committee, Audit Committee Financial Expertise, Leverage, Company Size and KAP Size. While the remaining 48% is influenced by other variables that are not examined

b. Statistical Test F

Based on the output results, it can be seen that the Prob value (F-statistic) is 0.000 which is lower than 0.05 so it can be concluded that the model in this study is declared fit.

c. Statistical Test t

Based on the results of the partial test output (t test) above, the following results are obtained:

The Board of Commissioners Size Variable (UDK) obtains a probability value of 0.0003 <0.05, so H1 is accepted. This means that the size of the board of commissioners has a positive and significant effect on earnings management.
The Independent Commissioner variable (KI) obtains a probability value of 0.0113 <0.05, so H2 is accepted. This means that the independent commissioner has a positive and significant effect on earnings management.
The Board of Commissioners' Financial Expertise variable (KKDK) obtains a probability value of 0.9106 > 0.05, so H3 is rejected. This means that the financial expertise of the board of commissioners has a positive and insignificant effect on earnings management.
The Audit Committee Size variable (UKA) has a probability value of 0.0000 <0.05, so H4 is accepted. This means that audit committee size has a negative and significant effect on earnings management.
The Audit Committee Independence Variable (IKA) obtains a probability value of 0.0001 <0.05, so H5 is accepted. This means that the independence of the audit committee has a negative and significant effect on earnings management.
The Audit Committee Financial Expertise variable (KKKA) obtains a probability value of 0.0205 <0.05, so H6 is accepted. This means that the audit committee's financial expertise has a negative and significant effect on earnings management.
Leverage variable (Lev) obtains a probability value of 0.0000 <0.05, so H7 is accepted. This means that leverage has a positive and significant effect on earnings management.
Company Size variable (Size) obtains a probability value of 0.0000 <0.05, so H8 is accepted. This means that company size has a negative and significant effect on earnings management.
The KAP size variable (KAP) obtains a probability value of 0.7851 > 0.05, so H9 is rejected. This means that KAP size has a positive and insignificant effect on earnings management.

Table 4.5.3 Statistical Test t

No	Arah Hipotesis	Variable	Coefficient	Prob.	Kesimpulan
1	+	UDK	0.006041	0.0003	Diterima
2	+	KI	0.107153	0.0113	Diterima
3	+	KKDK	0.003580	0.9106	Ditolak
4	-	UKA	-0.156687	0.0000	Diterima
5	-	IKA	-0.710978	0.0001	Diterima
6	-	KKKA	-0.078807	0.0205	Diterima
7	+	LEV	0.091039	0.0000	Diterima
8	-	SIZE	-0.149019	0.0000	Diterima
9	+	KAP	0.010527	0.7851	Ditolak

d. Panel Data Regression Analysis

Based on the results of data processing, the form of the regression equation is obtained as follows:

$$DA = 5,382098 + 0,006041\ UDK + 0,107153\ KI + 0,003580\ KKDK - 0,156687\ UKA - 0,710978\ IKA - 0,078807\ KKKA + 0,091039\ LEV - 0,149019\ SIZE + 0,010527\ KAP + e$$

DISCUSSION

The Effect of Board of Commissioners Size on Profit Management

The size of the board of commissioners has a positive effect on earnings management. Thus, the size of the board of commissioners is a strategy that is often carried out by a company. Referring to agency theory, supervision is carried out by the board of commissioners in order to minimize management taking earnings management actions. The role of the board of commissioners in carrying out the oversight function of the company's operations by management has made an effective contribution to the results of the process of preparing quality financial reports or the possibility of avoiding fraudulent financial statements so that they can limit and suppress profits made by the company. This is because according to Bapepam-LK Regulation Number IX.I.5 the number of independent commissioners must represent at least 30% of the number of commissioners on the board of commissioners, the more independent members of the board of commissioners the higher the quality of the supervisory process carried out by this board with the increasing number of parties independent in companies that demand transparency in the company's financial reporting.

This research is in line with Kankanamage's research (2015) which states that board size has a significant positive effect on earnings management. However, it is different from the results of research conducted by Suleiman et al (2014) which stated that the size of the board of commissioners has no effect on earnings management.

Influence of Independent Commissioners on Earnings Management

Independent commissioners have a positive and significant effect on earnings management, with the presence of independent commissioners it is hoped that the tendency to fraudulent financial statements can be reduced and their existence is not only a complement because the commissioners have legal responsibility. The larger the size of the board of commissioners, the greater the earnings management carried out by the company, so this study indicates that the size of the independent board of commissioners is not the main determinant in carrying out the effectiveness of the functions and duties of the independent board of commissioners because of the possibility of adding independent members of the board of commissioners in a company only aims to comply with formal provisions and is not intended to enforce good corporate governance, while majority shareholders still play many roles.

This research is in line with previous research, namely Bala et al (2015). However, it is contrary to research conducted by Suleiman et al (2014) which states that independent commissioners have a negative effect on earnings management. Likewise what was done by Amelia (2016) which stated that independent commissioners had no effect on earnings management.

The Influence of the Board of Commissioners' Financial Expertise on Profit Management

The Board of Commissioners' Financial Expertise has no effect on Earnings Management. This research is supported by the results of research from Bala (2015) which states that the financial expertise of the board of commissioners has no effect on earnings management. The results of this study prove that the board of commissioners who are experts in finance have not been able to influence the decline in earnings management. This is due to the fact that the formation of a board of commissioners who have financial expertise is only based on applicable regulations, and the function of the board of commissioners is as a supervisor and adviser and does not act as an operational decision maker because the task of making operational decisions is the responsibility of the board of directors. However, it is different from the research conducted by Dwiharyadi (2017) and Sari (2017) which states that the financial expertise of the board of commissioners has a negative effect on earnings management.

The Effect of Audit Committee Size on Earnings Management

Audit committee size has a negative effect on earnings management. This means that the higher the proportion of independent audit committee members will be able to reduce earnings management practices that occur in companies. The existence of an audit committee in a company can reduce earnings management practices which are the result of opportunistic actions taken by managers. This is due to the fact that independent audit committee members will be able to express their attitudes and opinions more freely in counteracting earnings management practices because these audit committee members will not be subject to strong pressure from management. Companies that have an audit committee will inhibit earnings management behavior by management. The existence of an audit committee is expected to be able to find practices or treatments that conflict with the principle of information disclosure early on, so that it is expected to reduce earnings management practices (Murhadi, 2009, in Setyarso, 2015).

This research is supported by Salihi (2015) who states that audit committee size has a negative effect on earnings management. In contrast to research conducted by Supriyaningsih (2016) which states that audit committee size has a positive effect on earnings management. And research conducted by Prastiti (2013) which states that audit committee size has no effect on earnings management.

Influence of Audit Committee Independence on Earnings Management

The independence of the Audit Committee has a negative effect on earnings management. In line with research conducted by Prastiti (2013) which states that audit committee independence has a negative effect on earnings management. Previous studies state that the independence of the audit committee affects the decrease in earnings management due to more effective oversight. This is in accordance with the premise of agency theory which argues that independent audit committees provide effective oversight of management. The performance of the audit committee becomes effective if its members have independence in expressing attitudes and opinions. In contrast to research conducted by Widiastuti (2016) which states that audit committee independence has no effect on earnings management. Likewise with research conducted by Mursalmina (2019) which states that audit committee independence has a positive effect on earnings management.

The Influence of the Audit Committee's Financial Expertise on Earnings Management

The Audit Committee's Financial Expertise has a negative effect on earnings management. The results of the descriptive statistical test in this study obtained an average audit committee expertise result of 0.81 or 81% indicating that the sample companies have met the minimum percentage requirements of having one member of the audit committee who is an expert in accounting or finance. This is in accordance with the Regulation of the Financial Services Authority (OJK) Number 55POJK.04/2015 concerning the Establishment and Guidelines for the Implementation of the Work of Audit Committees, which in the regulation states that it is mandatory to have at least one member with an educational background and expertise in accounting and finance. This research is supported by Widiastuti (2016) which states that the audit committee's financial expertise has a negative effect on earnings management. An audit committee that has expertise in accounting and finance is expected to reduce opportunistic earnings management. However, it is different from the research conducted by Hariani et al (2020) which states that the audit committee's financial expertise has no effect on earnings management. Likewise with Dwiharyadi's research (2017) which states that the audit committee's financial expertise has a positive effect on earnings management.

Effect of Leverage on Earnings Management

Leverage has a positive effect on earnings management. The greater the leverage ratio, the higher the value of the company's debt. Thus, the proportion of debt is higher than its assets and tends to manipulate in the form of earnings management. In agency theory, expressed by Jensen and Meckling (1976), companies with a high proportion of debt in their capital structure will have greater monitoring costs. These supervisory costs arise because of the owner's interest in the company to oversee management's actions in managing the funds and facilities provided by the owner to run the company. That way, high leverage must be responsible for carrying out obligations to meet the information needs of creditors and shareholders. This research is in line with research conducted by Prastiti (2013) which states that leverage has a positive effect on earnings management.

However, it is different from the research conducted by Salihi (2015) which states that leverage has no effect on earnings management. Likewise, it is different from research conducted by Dewi (2019) which states that leverage has a negative effect on earnings management.

Effect of Company Size on Earnings Management

Company size has a negative effect on earnings management. This condition illustrates that an increase in firm size will lead to a decrease in earnings management. This shows that large companies will limit earnings management practices more than small companies. Larger companies have less motivation to do earnings management. This happens because shareholders and outsiders in large companies are considered more critical than small companies. A larger investor base is found in large companies, so large companies will be under stronger pressure to present reliable financial reports.

This research is supported by the research of Mai Khanh and Khuong (2018) which states that company size has a negative and significant effect on earnings management. In contrast to research conducted by Uwuigbe (2015) which states that company size has a positive effect on earnings management. Likewise with research by Oscar and Haridahyani (2019), which states that company size has no effect on earnings management.

The Effect of KAP Size on Earnings Management

KAP size has no effect on earnings management. This is in line with research conducted by Oscar (2019) which states that KAP size has no effect on earnings management, which means that Big 4 KAPs cannot or are unable to detect earnings management practices in a company. In contrast to research conducted by Rahmadani (2018) which states that KAP size has a negative effect on earnings management. Likewise with research conducted by Rajeevan (2019) which states that KAP size has a positive effect on earnings management.

CONCLUSIONS AND SUGGESTIONS

A. Conclusion

The size of the Board of Commissioners has a positive effect on Profit Management, which means that a smaller number of members of the Board of Commissioners has an advantage over a large number of Commissioners because it affects the level of company performance in manufacturing companies listed on the IDX. The Independent Commissioner has a positive effect on Earnings Management, the existence of an independent commissioner is expected to reduce the tendency of fraudulent financial reporting and its presence in manufacturing companies listed on the IDX. The Board of Commissioners' Financial Expertise has no effect on Earnings Management, which means that the Board of Commissioners' Financial Expertise is not a practice that is often carried out by the board of commissioners to carry out earnings management in manufacturing companies listed on the IDX. The size of the Audit Committee has a negative effect on Earnings Management, which means that the existence of an audit committee can find practices or treatment that is contrary to the principle of information disclosure at an early age in manufacturing companies listed on the IDX. The independence of the Audit Committee has a negative effect on Earnings Management, which means that the Independence of the Audit Committee is a practice that is often carried out by audit committees to manage earnings in manufacturing companies listed on the IDX. The Audit Committee's Financial Expertise has a negative effect on Earnings Management, which means that audit committees that have expertise in accounting and finance can reduce earnings management to carry out earnings management in manufacturing companies listed on the IDX. Leverage has a positive effect on Profit Management, which means that a high level of leverage will motivate managers to carry out earnings management with the aim of increasing company profits in manufacturing companies listed on the IDX. Company size has a negative effect on Profit Management, the greater the total assets owned by a company, the lower the level of earnings management in manufacturing companies listed on the IDX. KAP size has no effect on Earnings Management, which means that KAP size is not a practice that is often carried out by audit committees to manage earnings in Manufacturing companies listed on the IDX.

B. SUGGESTIONS

Based on the conclusions that have been described by the researcher, future researchers are expected to explore using other measures to prove their effect on other factors. The hypothesis that was rejected is most likely due to the insufficient number of samples, where the use of E-views in an analytical tool requires a large sample, so it is recommended to re-examine with loose sample criteria. For Entities, financial expertise has a positive effect on earnings management, for this reason, shareholders are expected to apply informal control over an action that will be carried out by audit committees through a religious perspective in influencing behavior, report results and decisions that will be taken by audit committees. With the limitations experienced by researchers in sampling, especially regarding the Financial Expertise of the Board of Commissioners, it would be nice if there were provisions that required the Board of Commissioners to have experience in finance and accounting in this section.

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