

Audit Committee Characteristics on Profit Management in Bursa Efek Indonesia on year 2018-2021

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Abstract: This study aims to determine the effect of audit committee characteristics on earnings management in manufacturing companies in the Basic Industry and Chemical sectors listed on the Indonesia Stock Exchange, including size, independence, and frequency of audit committee meetings. The Multiple Linear Regression Analysis approach was used in the analysis of this research data. All 63 manufacturing companies in the basic and chemical industry sectors listed on the Indonesia Stock Exchange in 2018-2021 constitute the population of this study. Purposive sampling was used to collect samples from 33 different companies. Partial test findings show that size, independence, and frequency of audit committee meetings have a negative and significant effect on earnings management. Researchers suggest adding years of research to increase the accuracy of the findings.

Keywords: Earnings management, audit committee, Indonesian stock exchange.

INTRODUCTION

Profit is an index that is often used in assessing company performance and is used as a guide in making decisions, it is also a concern for stakeholders. PT Garuda Indonesia (Persero) Tbk is one of several Indonesian companies that are victims of profit-related phenomena. According to its annual report, PT Garuda Indonesia (Persero) Tbk posted a net profit of US\$ 809.4 thousand in 2018, when in fact it made a loss. PT Garuda Indonesia (Persero) Tbk has been proven to have carried out earnings management so that the net profit of its financial statements was higher but actually suffered a loss. The fraud was carried out to make the company's financial statements look good in the eyes of investors. (cnnindonesia.com, 24 April 2019).

There are many cases that have not been disclosed to the public regarding earnings management carried out by companies. In connection with the earnings management case carried out by PT Garuda Indonesia (Persero) Tbk, researchers are interested in examining earnings management. Many researches on the Characteristics of the Audit Committee has been carried out in previous years. Based on the results of Widijayal's research, Joelyn Veronica (2022), the results of his research show that the size of the audit committee has a positive effect on earnings management, while the independence of the audit committee and the number of audit committee meetings have no effect on earnings management. Based on the research results of Ria Karina (2020), the results of her research show that audit committee size, audit committee expertise and audit committee meetings have no effect on earnings management. Margaret

A.R. Sihombing, Hery Laksito (2017), the results of his research show that the size of the audit committee, the number of audit committee meetings, and the tenure of the audit committee chairman have a negative effect on earnings management.

The results of the research above show that there are inconsistencies in the results of research findings regarding earnings management. Where there is a research gap, that is, there are differences in research results between previous researchers, possibly caused by differences in the companies that are sampled and the year period of data used in each study. Because of this difference, researchers are interested in re-examining how much influence the audit committee characteristics have on earnings management.

With the formulation of the problem, does the size of the audit committee affect earnings management, does the independence of the audit committee affect earnings management, and does the number of audit committee meetings affect earnings management. Based on the formulation of the problem, this study aims to determine whether the size of the audit committee, the independence of the audit committee and the number of audit committee meetings have an effect on earnings management

LITERATURE REVIEW

Agency Theory

Agency theory is a theory related to the relationship between the owner of the company (principal) and the manager (agent). This agency

theory creates a model regarding a contractual relationship between managers and owners.

Good Corporate Governance

One of the strategies to increase shareholder and creditor trust based on business financial reports and ensure the quality of the company's financial reports is assessed appropriately is through GCG. In this case, in turn, increases the likelihood that the company will attract and retain both investors and creditors.

Profit management

Profit Management is management's involvement in the process of external financial reporting with the aim of benefiting itself. (Siallagan, 2020)

One measurement of Profit Management is to use the modified Jones model approach. Jones developed a model of earning management by dividing the company's total accruals by abnormal accruals or (Discretionary Accruals).

Audit Committee

Based on BAPEPAM Decision No. Kep-29/PM/2004 states: "An audit committee is a committee formed by the board of commissioners in order to help carry out its duties and functions." (Priya, 2017)

RESEARCH METHODS

The research design used in this study is a quantitative descriptive study. This research was conducted at manufacturing companies in the basic industrial and chemical sectors listed on the Indonesia Stock Exchange (IDX), by observing and analyzing the research object which consisted of the variables studied, namely the audit committee size variable (X1), independent- Audit committee density (X2) and number of audit committee meetings (X3) are independent variables, while earnings management variables (Y) are dependent variables. The population in this study are manufacturing companies in the basic industrial and chemical sectors listed on the Indonesia Stock Exchange (IDX) during 2018-2021, totaling 63 companies. Sampling was carried out by purposive sampling technique which met the criteria so that a total of 33 companies were obtained. Data collection is done through documentation. The data source was obtained from the Indonesia Stock Exchange in the form of company financial reports. After all the data has been collected, then the normally distributed data is processed using multiple linear regression analysis in the SPSS (Statistical For Social Science) version 22 program. Then, the hypothesis is tested using a partial test/t test.

RESULTS AND DISCUSSION

Table 1: Multiple linear regression

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	.156	.004		36.851	.000
Audit Committee Size	-.017	.001	-.646	-12.005	.000
Audit Committee Independence	-.021	.005	-.214	-3.875	.000
Number of Audit Committee Meetings	-.001	.000	-.142	-2.646	.009

a. Dependent Variable: Earning Management
(Source: processed with SPSS Version 22)

The equation for multiple linear regression analysis is as follows:

$$Y = 0.156 - 0.017X_1 - 0.021X_2 - 0.001 X_3 + e$$

A. Hypothesis Test Results (T Test)

Coefficient testing reveals a negative and statistically significant relationship between Audit Committee Size, Audit Committee Independence, and the number of audit committee meetings on earnings management.

B. The Effect of Audit Committee Size on Earnings Management

The Audit Committee Size variable (X1) has a value of t = -12,005 with a significance level of 0.000 which is less than a significance level of 0.05 (5%). This indicates that X1 is accepted. That is, the size of the Audit Committee has a significant negative effect on earnings management. These results are in accordance with the hypothesis that has been made, where the

greater the size of the Audit Committee, the less earnings management can occur.

The results of this study are in line with the results of research conducted by Kadek Trisna Dwiyantri, Meyta Astriena (2018) who managed to prove that there is a negative relationship between Audit Committee Size and Earnings Management. This indicates that the larger the size of the Audit Committee, the more likely it is to prevent Earnings Management from occurring.

C. Effect of Audit Committee Independence on Earnings Management

The Audit Committee Independence variable (X2) has a value of $t = -3.875$ with a significance level of 0.000 which is less than a significance level of 0.05 (5%). This indicates that X2 is acceptable. This means that the Independence of the Audit Committee has a significant negative effect on Earnings Management. These results are in accordance with the hypothesis that has been made, where the higher the Audit Committee Independence, the less earnings management can occur. The results of this study are in line with the results of research conducted by Novita Dwi Permana-sari (2015) who succeeded in proving that there is a negative relationship between Audit Committee Independence and Earnings Management. This indicates that the greater the Independence of the Audit Committee, then the Profit Management can be minimized.

D. Effect of the Number of Audit Committee Meetings on Earnings Management

The variable Number of Audit Committee Meetings (X3) has a value of $t = -2,646$ with a significance level of 0.009 which is less than the significance level of 0.05 (5%). This indicates that X3 is acceptable. This means that the number of audit committee meetings has a significant negative effect on earnings management. This result is in accordance with the hypothesis that has been made, where the higher the number of Audit Committee Meetings, the lower the occurrence of earnings management can be.

The results of this study are also in line with the theory which states that the higher the number of Audit Committee Meetings, the smaller the chance for Earnings Management to occur. POJK No. 55/POJK-04/2015 states that the Audit Committee holds regular meetings at least 1 (one) time in 3 (three) months. Audit Committee meetings can be held if attended by more than 1/2 (one-half) the number of members

CONCLUSION

This study aims to determine the effect of the Characteristics of the Audit Committee, namely Audit Committee Size, Audit Committee Independence, Number of Audit Committee Meetings on Profit Management in manufacturing companies in the Basic Industry and Chemical sectors which are listed on the Indonesian Stock Exchange using a sample of 33 companies during the 2018 period. -2021. So that the number of samples (n) is 30×4 (years) = 132 samples. From the results of the research and discussion conducted, the following conclusions are obtained:

1. The size of the Audit Committee has a significant negative effect on Earnings Management. This means that the larger the size of the Audit Committee can minimize the occurrence of Earnings Management.
2. The independence of the Audit Committee has a significant negative effect on Earnings Management. These results indicate that where the higher the Audit Committee Independence, it can minimize the occurrence of Earnings Management.
3. The number of Audit Committee Meetings has a significant negative effect on Earnings Management. This result is in line with the theory which states that the higher the number of Audit Committee Meetings, the smaller the chance for Earnings Management to occur

Based on the existing limitations, suggestions that can be given for further research are as follows:

1. For further research to add data from all manufacturing companies listed on the Indonesia Stock Exchange
2. For further research it is expected to add years of research observation so that the results obtained will be more accurate.

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Source of support: Nil; **Conflict of interest:** Nil.

Cite this article as:

Gaol, M.B.L., Samosir, H.E.S. and Hutagalung, J.F. "Audit Committee Characteristics on Profit Management in Bursa Efek Indonesia on year 2018-2021." *Sarcouncil Journal of Entrepreneurship and Business Management* 2.6 (2023): pp 1-4.