DAWI
ISSN : 3025-292X
Vol. 1, No. 2 (Juni, 2023)
Pp. 95-100

The Effect of the Proportion of the Board of Commissioners, Audit Committee, Asymmetric Information and Company Size on Earnings Management Practices

Muhammad Ridho
Universitas Islam Negeri Sultan Syarif Kasim Riau, Pekanbaru
Email : m.ridho@uin-suska.ac.id

Nasrullah Djamil
Universitas Islam Negeri Sultan Syarif Kasim Riau, Pekanbaru
*Email : nasrullah.djamil@uin-suska.ac.id

ARTICLE INFO :

Keywords :

Earnings Management, Corporate Governance, Independent Board of Commissioners, Audit Committee and Asymmetric Information

----
Article History :

Received :2023-03-04
Revised : 2023-05-28
Accepted :2023-06-28
Online :2023-06-30

ABSTRACT

The objective of this study was to empirically determine whether there is a correlation between the proportion of the board of commissioners, audit committee, information asymmetry, and company size with earnings management in the consumer goods manufacturing companies sector listed on the Indonesia Stock Exchange during the years 2010-2012. The study aims to clarify any potential links between the identified variables. Data was extracted from the financial statements of each sample company, which were publicly available on the websites www.idx.co.id and ICMD. The study employed purposive sampling, gathering data from 15 companies over a period of three years, resulting in a total of 45 observations. The independent variables include the proportion of the board of commissioners, audit committee, information asymmetry, and company size, while earnings management serves as the dependent variable. The findings from our study utilizing panel data and regression models demonstrate that neither the proportion of the board of commissioners, audit committee, information asymmetry, nor company size have any impact on earnings management either partially or concurrently.
.

INTRODUCTION

Financial statements are a reflection of the company's condition because they contain information about the company's financial position, management performance reports, cash flow reports, and statements of changes in financial position. The financial statements also show how much management performance is and are a source of evaluating management performance. In the financial statements that are used as a benchmark for assessing management performance is to see the amount of profit that can be achieved by the company. With this performance assessment, it can encourage deviant behavior which will benefit certain parties, one of which is earnings management. Earnings management is a choice of accounting methods that is deliberately chosen by management for specific purposes (Veronica and Siddharta, 2005).

Earnings management actions have led to several widely known accounting reporting scandal cases, including Enron, Merck, WorldCom, and the majority of other companies in the United States (Cornett et al., 2006). Several cases also occurred in Indonesia in 2001, such as PT Lippo Tbk and PT Kimia Farma Tbk also involving financial reporting that began with the detection of manipulation (Boediono, 2005), as well as the case of PT Ancora that occurred in 2008, as published on the website (www.kompas.com) said PT Ancora allegedly manipulated financial statements to avoid tax payments by engineering reports of debt interest payments and receipts from foreign donations.

Corresponding Author : Nasrullah Djamil

DAWI

ISSN : 3025-292X

Vol. 1, No. 2 (Juni, 2023)

Pp. 95-100

In agency theory, the emergence of earnings management is also influenced by conflicts of interest between management and owners. This arises when the agent and principal try to fulfill their personal interests. The manager as an agent knows more internal information about the company than the principal, so the manager must provide information about the company's condition to the owner. Information submitted by managers sometimes does not match the actual condition of the company because managers tend to report something that maximizes their utility. This situation is known as asymmetric information

Asymmetric information that occurs between management (agent) and the owner (principal) provides an opportunity for managers to act opportunistically, namely for the sake of obtaining personal gain (Ujiyanto and Bambang, 2007). This information asymmetry then triggers the emergence of earnings management practices in the company. Rahmawati, et al (2006) conducted research on the effect of information asymmetry on earnings management in banking companies listed on the JSO which found that information asymmetry has a significant positive effect on earnings management, which means that the greater the information asymmetry between managers and investors, the greater the earnings management actions taken by management.

According to Veronica and Siddharta (2005), corporate governance mechanisms include mechanisms such as institutional ownership, composition of the board of commissioners, and audit committee, audit quality. Meanwhile, according to Nasution and Setiawan (2007) corporate governance includes the composition of the board of commissioners, the size of the board of commissioners and the audit committee. Indonesia uses a two-tie board system in carrying out good corporate governance, where in this system every company listed on the Jakarta Stock Exchange is required to have two boards, the board of directors and the board of commissioners. The board of directors is the party that carries out management in the company, while the board of commissioners is the party that oversees the course of corporate governance carried out by management, in this case the board of directors.

LITERATURE RESEARCH

A. Agency Theory

The concept of agency theory according to Anthony and Govindarajan (2005: 269), Djamil (2022) is that an agency relationship exists when one party (principal) hires another party (agent) to perform a service and, in doing so, delegates decision-making authority to the agent. In a corporation, the shareholders are the principals and the CEO is their agent. The shareholders hire the CEO to act in accordance with the interests of the principal. One of the key elements of agency theory is that principals and agents have different preferences or goals. Agency theory assumes that each individual is solely motivated by his or her own self-interest, resulting in a conflict of interest between the principal and the agent. The principal is motivated to enter into a contract to make himself prosperous with the profitability of his company always increasing.

Eisenhardt (1989) in Ujiyantho and Bambang (2007) states that agency theory uses three assumptions of human nature, namely: (a) humans are generally self-interested, (b) humans have limited thinking power regarding future perceptions (bounded rationality) and (c) humans are always risk averse. Based on the assumption of human nature, managers as humans will act opportunistically, namely prioritizing their personal interests.

B. Corporate Governance

Cadbury Committee (1992), Corporate governance is a system that directs and controls the company with the aim of achieving a balance between the power of authority necessary for the company to ensure its continued existence and accountability to stakeholders. This relates to the regulation of the authority of owners, directors, managers, shareholders and so on.

OECD (2004), Corporate governance is a set of rules that determine the relationship between shareholders, management, creditors, government, employees and other internal and external stakeholders with respect to their rights and obligations, or in other words, a system that directs and controls the company. Stijn Claessens (2003), states that, the notion of corporate governance can be included in two categories. The first category is more inclined to a series of corporate behavior patterns measured through performance, growth, financing structure, treatment of shareholders and stakeholders.

C. Independent Commissioner.

Independent commissioners are commissioners who are not members of management, majority shareholders, officials or in any other way directly or indirectly related to the majority shareholders of a

Corresponding Author : Nasrullah Djamil

ISSN : 3025-292X
Vol. 1, No. 2 (Juni, 2023)
Pp. 95-100

company that oversees company management. in essence, independent commissioners are a mechanism to provide guidance and direction to company managers (Surya and Yustiavandana. 2008: 135).

METHODS

The population in this study are manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange (IDX) for the period 2010-2012. Based on the sampling criteria above, the number of samples obtained was 32 companies, from these companies there were 16 companies that did not publish financial reports in a row and 1 company the data was incomplete, so that there were 15 companies that met the criteria multiplied by 3 observation periods, then 45 financial reports were obtained as samples.

Hypothesis testing using Ordinary Least Square (OLS) using panel data regression with the assumption that the intercept and slope coefficients are constant over time.

RESULTS

Table 1.
Hypothesis Test

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	.164	.172		.954	.346
Proporsi dewan komisaris	-.001	.001	-.139	-.835	.409
Komite audit	-.059	.068	-.132	-.856	.397
Asimetri informasi	4.081E-5	.000	.017	.001	.916
Ukuran perusahaan	-.002	.006	-.061	-.375	.710

Source : Data

Based on the table above, it can be seen that the regression model in this study is:

$$Y= 0,164 + (-0,001\ X_1) + (-0,059\ X_2) + 0,0000408\ X_3 + (-0,002\ X_4) + e$$

The description of the panel data regression equation model is as follows:

Based on the results of partial hypothesis testing or the t test, it can be seen that the variable proportion of the board of commissioners has no effect on earnings management, this is evidenced by the t value (-0.835) < t table (2.021) with a significance level of 0.409, thus (H1) is rejected, meaning that independent commissioners cannot inhibit earnings management. This is due to the lack of effectiveness of the supervisory function carried out by independent commissioners in reducing manipulation of deviant behavior by management. This is due to the general characteristics inherent in business entities in companies in Indonesia, such as the control of company ownership in the hands of certain parties, which makes the supervision that should be carried out by independent commissioners ineffective.

Based on the results of testing the second hypothesis partially or t test, it can be seen that the variable existence of the audit committee has no effect on earnings management, this is evidenced by the t value (-0.856) < t table (2.021) with a significance of 0.397. Thus (H2) is rejected, meaning that the presence or absence of an audit committee in a company is unable to reduce earnings management actions. This is because the audit committee in a company has not carried out its duties properly, such as internal supervision and financial reporting systems in order to assist the board of commissioners in carrying out its supervisory function of the company, besides that the weak implementation of the concept of good corporate governance in Indonesia has caused the audit committee to be unable to implement corporate governance principles, including the principles of fairness, transparency, accountability and responsibility in reducing earnings management actions.

Based on the results of testing the third hypothesis partially or the t test, it can be seen that the information asymmetry variable has no effect on earnings management, this is evidenced by the t value (0.022)

Corresponding Author : Nasrullah Djamil

Vol. 1, No. 2 (Juni, 2023)
ISSN : 3025-292X
Pp. 95-100

< t table (2.021) with a significance of 0.916, thus (H3) is rejected. This is because earnings management carried out by management does not see from the large or small existence of information asymmetry that occurs between managers and owners. This thinking is inseparable from Positive Accounting Theory, which proposes three hypotheses of the motivation for earnings management, namely: 1) the bonus plan hypothesis, 2) the debt equity hypothesis, and 3) the political cost hypothesis (Belkaoui 2007: 189).

Based on the results of testing the fourth hypothesis partially or the t test, it can be seen that the company size variable has no effect on earnings management, this is evidenced by the t value (-0.375) < t table (2.021) with a significance of 0.710, thus (H4) is rejected. This explains that large and small companies have no effect on earnings management actions. This means that large and small companies tend to take earnings management actions without worrying about company management getting pressure to present transparent financial reports from investors and the government. This thinking is inseparable from the fact that company managers have a tendency to take actions that only benefit themselves regardless of the size of the company they manage. This is based on agency theory which is known as the assumption of human nature, which is based on the nature of these basic human assumptions, managers as humans will act to achieve their prosperity (Eisendhart, 1989 in Ujiyantho and Pramuka 2006).

Based on the results of simultaneous testing or the F test, it is found that there is no effect of the proportion of the board of commissioners and audit committee, information asymmetry and company size on earnings management in manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange. This is evidenced by the value of F count (0.483) < F table (2.605) with a significant 0.748. This shows that (H5) is rejected, it means that the proportion of the board of commissioners, audit committee, information asymmetry and company size together or simultaneously has no impact on earnings management.

CONCLUSIONS

1. Based on the results of testing the first hypothesis partially or individually, it shows that the variable proportion of the board of commissioners has no effect on earnings management practices in manufacturing companies in the consumer goods industry sector listed on the IDX.
2. Based on the results of testing the second hypothesis partially or individually, it shows that the audit committee variable has no effect on earnings management practices in manufacturing companies in the consumer goods industry sector listed on the IDX.
3. Based on the results of testing the third hypothesis partially or individually, it shows that the information asymmetry variable has no effect on earnings management practices in manufacturing companies in the consumer goods industry sector listed on the IDX.
4. Based on the results of testing the fourth hypothesis partially or individually, it shows that the company size variable has no effect on earnings management practices in manufacturing companies in the consumer goods industry sector listed on the IDX.
5. Based on the results of testing the fifth hypothesis simultaneously or the F test, it shows that together the proportion of the board of commissioners, audit committee, information asymmetry and company size has no effect on earnings management practices in manufacturing companies in the consumer goods industry sector listed on the IDX.
6. The low R2 value indicates that earnings management can be explained by the variables of the proportion of the board of commissioners, audit committee, information asymmetry and company size very little, while most of it is influenced by other variables not included in the research model.

BIBLIOGRAPHY

Andayani, Tutut Dwi. 2010. Pengaruh Karakteristik Dewan Komisaris Independen terhadap Manajemen Laba. Tesis S-2, Program Studi Magister Sains Akuntansi Universitas Diponegoro.

Ariefandi, Yudhi. 2007. Pengaruh asimetri informasi dan ukuran perusahaan terhadap cost of capital pada perusahaan go publik di Indonesia. Skripsi UNRI. Pekanbaru.

Anthony, Robert N dan Govindarajan, Vijay. 2005. Management Control System. Buku 2. Jakarta: Salemba Empat.

Corresponding Author : Nasrullah Djamil

ISSN : 3025-292X
Pp. 95-100

Badan Pengawas Pasar Modal. 2004. Kep-29/PM/2004 Pembentukan dan Pedoman Kerja Komite Audit. http://www.google.com (Online). Diakses Tanggal 30 Desember 2013

Belkaoui, dan Ahmed Riahi. 2006. Teori Akuntansi. Buku 2. Edisi Kelima. Jakarta: Salemba Empat.

Christina T, Theresia. 2011. Pengaruh Asimetri informasi, corporate governance,dan ukuran perusahaan terhadap manajemen laba. Skripsi S-1, Program Studi Akuntansi UPN Veteran Yogyakarta.

Djamil, N. (2022). Developing an Auditing Interactive Electronic Textbook With Google Slide and Quizizz. Al-Ishlah: Jurnal Pendidikan, 14(2), 1903-1918.

Djamil, N. (2018). *Pemeriksaan Akuntan Publik* (1st ed.). Rajawali Pers.

FCGI. 2003. “Peranan Dewan Komisaris dan Komite Audit dalam Pelaksanaan Corporate governance (Tata Kelola Perusahaan)”. Indonesian Company Law. Available on-line at www.fcgi.or.id

Gideon SB, Boediono. (2005). Kualitas Laba: Studi Pengaruh Mekanisme Corporate Governace dan Dampak Manajemen Laba dengan Menggunakan Analisis Jalur. Simposium Nasional Akuntansi VIII.

Ghozali, Imam. 2005. Aplikasi Analisis Multivariate dengan Program SPSS, Edisi 3. Badan Penerbit UNDIP.

Haryati, Nani Sugi. 2010. Pengaruh asimetri informasi, ukuran perusahaan dan kepemilikan manajerial terhadap manajmen laba pada perusahaan yang tergabung dalam kelompok LQ 45 di BEI. Skripsi UIN. Pekanbaru.

Kaihatu, T. S. 2006, “Good Corporate Governance dan Penerapannya di Indonesia”, Jurnal Manajemen dan Kewirausahaan, Vol. 8, No. 1, h. 1-9.

Komite Nasional Kebijakan Governance, Pedoman Umum Good Corporate Governance Indonesia, 2006.

Midiastuty, P., Machfoedz, M., 2003. “Analisis Hubungan Mekanisme Corporate governance dan Indikasi Manajemen Laba.” Simposium Nasional Akuntansi VI.

Nasser, E.M. & Herlina. (2003). Pengaruh Size, Profitabilitas dan Leverage terhadap Perataan Laba pada Perusahaan go Publik. Jurnal Ekonomi, Vol. 7(3), hal. 291- 305.

Nasution, Marihot dan Doddy Setiawan. 2007. “Pengaruh Corporate governance Terhadap Manajemen Laba di Industri Perbankan Indonesia”, Simposium Nasional Akuntansi X.

Nuryaman. 2008. “Pengaruh Konsentrasi Kepemilikan, Ukuran Perusahaan, dan Mekanisme Corporate governance Terhadap Manajemen Laba”. Simposium Nasional Akuntansi XI. Pontianak.

Prasetyanti, Enggar. 2011.” Pengaruh karakteristik komite audit dan ukuran kantor akuntan publik terhadap manajemen laba”. Skripsi S1 Fakultas Ekonomi Universitas Atma Jaya Yogyakarta.

Priyanto, Dewi, 2008. Mandiri Belajar. MediaKom, Yogyakarta.

Rahmawati, dkk. 2007. “Pengaruh Asimetri Informasi terhadap Praktik Manajemen Laba pada Perusahaan Perbankan Publik yang terdaftar di Bursa Efek Jakarta”, Simposium Nasional Akuntansi IX.

Raymond, Ryan P. 2011. “Pengaruh corporate governance terhadap praktek manajemen laba pada perusahaan go public di indonesia”, Skripsi, Fakultas Ekonomi Universitas Diponegoro,Semarang.

Sartono, Agus. 2004. Manajemen Keuangan, Teori dan Aplikasi. Edisi Keempat. Yogyakarta : BPFE.

Sekaran, Uma 2006 “metodologi untuk bisnis”, edisi pertama – jakarta: selemba empat.

Subramanyam,dkk. (2010). Analisi laporan keuangan. Edisi 10 – jakarta : selemba empat.

Surya, Indra dan Yustiavandana Ivan. 2008. Penerapan Good Corporate Governance : mengesampingkan hak istimewa demi kelangsungan usaha. Edisi pertama - jakarta : kencana

Sugiyono, 2012. Metode Penelitian Kuantitatif Kualitatif Dan R&D. Alfabeta, Bandung.

Sulaiman, Wahid, 2004. Analisis Regresi Menggunakan SPSS Contoh Kasus Dan Pemecahannya. Andi, Yogyakarta.

Ujiyantho, Moh. Arief dan Bambang Agus P. 2007. “Mekanisme Corporate governance, Manajemen Laba dan Kinerja Keuangan” ,Simposium Nasional Akuntansi X

Veronica, Sylvia dan Siddharta Utama. 2005. “Pengaruh Struktur Kepemilikan, Ukuran Perusahaan, Dan Praktek Corporate governance Terhadap Pengelolaan Laba (Earnings Management)”, Simposium Nasional Akuntansi VIII

Wedari, Linda Kusumaning. 2004. “Analisis Pengaruh Proporsi Dewan Komisaris Dan Keberadaan Komite Audit Terhadap Aktivitas Manajemen Laba”, Simposium Nasional Akuntansi VII.

Corresponding Author : Nasrullah Djamil