# THE EFFECT OF CORPORATE GOVERNANCE ON PROFIT MANAGEMENT

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**ABSTRACT**
Earnings management is an intervention on the financial statements carried out by the management so that the company's performance looks optimal. This study aims to examine the effect of the audit committee, board of commissioners, and managerial ownership of company earnings management. This research was conducted on 30 mining companies listed on the Indonesia Stock Exchange from 2017 to 2021. The data used in this research is the financial report data of mining companies going public. Data analysis using multiple linear regression. The results of the study prove that the audit committee has an effect on earnings management. The existence of supervision by the audit committee can minimize the occurrence of earnings management. In addition, the board of commissioners and managerial ownership is proven to have no effect on earnings management.
***Keywords*:**Earnings Management, Audit Committee, Board of Commissioners, Managerial Ownership

## INTRODUCTION

Earnings management is the determination of accounting methods, principles and policies carried out by management for a specific purpose (Tamara et al, 2022). The company's efforts to manipulate information through earnings management practices have become the main factor that will cause these financial reports to no longer reflect the fundamental values of a company (Widyaningsih, 2017). Mechanisms for good corporate governance are characterized by the ownership of management, audit committees and independent commissioners.

Several studies related to earnings management have been carried out, but there are still inconsistent research results. The results of research by Tamara et al (2022) state that audit committee, profitability, company size have an effect on earnings management, while independent commissioners and managerial ownership have no effect on earnings management in property and real estate sector companies in 2016-2020. Rohmah and Meirini's research (2022) shows the effect of company size, profitability, managerial ownership, and gender diversity on earnings management in manufacturing companies in 2016-2020.

The results of Martias' research (2023), good corporate governance consists of managerial ownership, institutional ownership, independent commissioners and audit committees in fact proved not to have a significant influence on earnings management. The results of Febrianti's research (2023) show that managerial ownership and institutional ownership affect earnings management. Meanwhile, the proportion of independent commissioners and audit committees has no effect on earnings management. Lestari research results (2023) shows that the independent board of commissioners, audit committee expertise, managerial and institutional ownership have no effect on earnings management practices. Therefore, this study will re-examine corporate governance factors, namely the audit committee, board of commissioners and managerial ownership of earnings management.

The formulation of the problem in this study is how the influence of the audit committee, the board of commissioners and managerial ownership of the company's earnings management?. This study aims to examine and analyze the effect of the audit committee, board of commissioners and managerial ownership on company earnings management. This research was conducted on mining companies listed on the Indonesia Stock Exchange in the period 2017 to 2021.

## LITERATURE REVIEW

### 2.1. Agency Theory

The agency theory popularized by Jensen and Mackling in 1976 (in Agustia, 2013) states that the agency relationship is a contract between the agent and the principal. The Principal (owner) delegates authority to the Agent to manage the company. In this relationship a conflict of interest can occur because the agent acts not in accordance with the interests of the principal, thus triggering agency costs. Managers have incentives to increase their own welfare by using facilities entrusted by shareholders by shifting profits or replacing future costs to the current period or vice versa.

### 2.2. Profit management

Earnings management is an accounting policy that managers choose to influence earnings in order to achieve specific goals (Agustia, 2013). Senastri (2020) The pattern of Profit Management in general can be interpreted as a form or also a model but has the characteristics of regularity, including: (1) Taking A Bath, (2) Minimum Income, (3) Income Maximization or Income Maximization, (4) Income Profit Smoothing or Smoothing, (5) Revenue Timing and Expenses Recognition.

### 2.3. Audit Committee

The audit committee has separate duties in assisting the board of commissioners, especially those related to company accounting policies, internal controls, and the company's financial reporting system (Tamara et al, 2022). According to Reynard and Firdausi (2021) the audit committee is tasked with supporting the oversight function of management, this is done so that management is not opportunistic. The more members of the audit committee will improve the performance of the audit committee.

### 2.4. board of Commissioners

The board of commissioners in the company is tasked with supervising management performance. The board of independent commissioners is part of the company, which has the duty to supervise managers in reporting financial reports and to implement Good Corporate Governance standards, and independent commissioners must act independently (Tamara et al, 2022). Independent commissioners are directly elected by the shareholders at the general meeting of shareholders (GMS) (Sari and Widyarti, 2015).

### 2.5. Managerial Ownership

Managerial ownership is the large number of shares owned by managers in a company. Earnings management is largely determined by the motivation of company managers. Different motivations will produce different amounts of earnings management, such as between different managers who are also shareholders and managers who are not shareholders. it can be said that a certain percentage of share ownership by management tends to influence earnings management actions (Tamara et al, 2022).

### 2.6. Conceptual Framework

This study aims to examine the influence of the audit committee, the board of commissioners and management ownership of the company's earnings management which is described as follows:

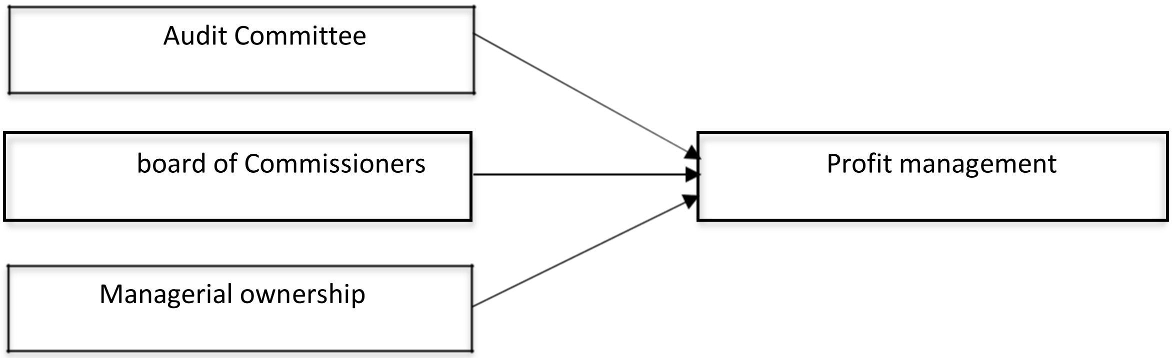


**Figure 1.** Concept Hypothesis

Hypothesis:
H1: Audit Committee influences earnings management
H2: The Board of Commissioners influences earnings management
H3: Managerial ownership affects earnings management

## RESEARCH METHODS

This research is included in the type of quantitative descriptive research which aims to analyze the influence of audit committee, board of commissioners, and managerial ownership variables on earnings management through hypothesis testing.

The population in this study are mining companies listed on the Indonesia Stock Exchange from 2017 to 2021. The sample selection in this study used a purposive sampling technique with the following criteria:

1. Mining industry sector companies listed on the Indonesia Stock Exchange in the period 2017 to 2021.
2. The company published financial statements and year reports for the period ended December 31.
3. Registered companies do not carry out mergers, acquisitions and transfers of business types.

Based on the predetermined criteria, the sample used in this study was obtained as many as 30 companies.

Source of data used in this research is secondary data. Secondary data is obtained in the form of records, as well as documents related to the company's financial and non-financial information listed in the financial reports and annual reports. Data obtained from the Indonesia Stock Exchange with a website*www.idx.co.id.*

The data analysis technique used in this research is multiple linear regression analysis. The regression equation model that explains the effect of the independent variables on the dependent variable is as follows:

$$ML = \alpha + \beta 1KA + \beta 2DK + \beta 3KM + e$$

Information:

| | |
|---|---|
| ML | = earnings management |
| α | = constant |
| β1 β2 β3 | = variable regression coefficient |
| ka | = audit committee |
| DK | = board of commissioners |
| km | = managerial ownership |
| e | = errors |

## RESULTS AND DISCUSSION

### 4.1. Descriptive Statistical Analysis

Descriptive statistics for each variable are presented in the following table.

**Table 1.**Descriptive statistics

| | N | Minimum | Maximum | Means | std. Deviation |
|---|---|---|---|---|---|
| km | 30 | 0.0000 | 0.7540 | 0.150380 | 0.2396825 |
| DK | 30 | 0.3333 | 0.5000 | 0.392063 | 0.0536178 |
| ka | 30 | 3,0000 | 5,0000 | 4,000000 | 0.5872202 |
| ML | 30 | -0.14 | 0.20 | 0.0063 | 0.07815 |
| Valid N (listwise) | 30 | | | | |

Source: processed research data, 2023

Variable descriptive statistical data obtained information that the average managerial ownership variable is 0.150380. It can be said that the percentage of managerial ownership in mining companies is relatively small because most of the company's shares are owned by other external parties. The average board of commissioners variable is 0.392063, this shows that the composition of the company's board of commissioners is 39%. The average audit committee variable is 4, indicating the average number of audit committees in a company is 4 people. The average earnings management variable is 0.0063, this value is very small indicating little earnings management that occurs in mining companies.

### 4.2. Classic assumption test

The research data to be processed meets the classic assumption criteria, namely the normality test, heteroscedasticity test, autocorrelation test and multicollinearity test. The research data shows that the data is normally distributed, free from autocorrelation, heteroscedasticity and multicollinearity so that the research data can be said to be free from bias and can be used to test the effect of the audit committee, board of commissioners and managerial ownership on company earnings management.

### 4.3. Model Feasibility Test

Before testing the hypothesis, a model feasibility test is carried out by looking at the R value$^2$which is presented in table 2 below.

**Table 2.**Model Feasibility Test

| Model | R | R Square | Adjusted R Square | std. Error of the Estimates |
|---|---|---|---|---|
| 1 | 0.580[a] | 0.337 | 0.260 | 0.06722 |

Based on the table above, it is known that the value of $R^2$of 0.337, this means that the influence of the audit committee, board of commissioners and ownership on earnings management is 33.7%, while the remaining 66.3% is influenced by other variables.

### Hypothesis testing

This study aims to examine the audit committee, board of commissioners and managerial ownership of earnings management. The results of hypothesis testing are presented in the following table.

**Table 3.**Hypothesis Test Results

| | | Unstandardized Coefficients | | standardized Coefficients | | |
|---|---|---|---|---|---|---|
| Model | | B | std. Error | Betas | t | Sig. |
| 1 | (Constant) | -0.098 | 0.126 | | -0.776 | 0.445 |
| | km | 0.105 | 0.053 | 0.322 | 1,990 | 0.057 |
| | DK | -0.397 | 0.234 | -0.272 | -1,697 | 0.102 |
| | ka | -0.061 | 0.021 | 0.458 | 2,847 | 0.009 |

Based on table 3 it is known that the results of multiple linear regression analysis obtained the following model:

$$ML = -0.098 + 0.105\ KM - 0.397\ DK - 0.061\ KA$$

The results of testing the hypothesis of the effect of managerial ownership on earnings management obtained a significance value of 0.057 ≥ 0.005 and a beta value of 0.105. This proves that managerial ownership has no effect on earnings management. Ownership of shares owned by management does not encourage the party to carry out earnings management. This may occur because of the equality of interests between shareholders and managers, because managers act as if they are interested in improving company performance, so management makes decisions by improving the quality of financial reports by not doing earnings management. The results of this study support the research of Tamara et al (2022),

The results of testing the hypothesis of the influence of the board of commissioners on earnings management obtained a significance value of 0.102 ≥ 0.005 and a beta value of -0.397. This proves that the board of commissioners has no effect on earnings management. This might happen because the existence of an independent commissioner cannot oversee the management of earnings carried out by management. The appointment of independent commissioners is only to comply with regulations so as not to be subject to legal sanctions, it is not intended to carry out good corporate governance. The board of commissioners is directly elected by the majority shareholder at the GMS, although the composition of the independent commissioners in carrying out their responsibilities is relatively large, they are not truly independent in carrying out their duties due to limited regulations from the majority shareholder. so it can not make the implementation of good corporate governance effectively to suppress the occurrence of earnings management. The results of this study support the research of Tamara et al (2022), Lestari (2023) and Febrianti (2023) which state that the board of commissioners has no effect on earnings management.

The results of testing the hypothesis of the influence of the board of commissioners on earnings management obtained a significance value of 0.009 ≤ 0.005 and a beta value of -0.397. This proves that the audit committee has an effect on earnings management. The more the number of audit committees in a company, the better the performance will be, the better the opportunity to evaluate financial statements so as to suppress earnings management. The greater the number of audit committees in a company, the greater the opportunity for each member to exchange expertise and in carrying out their duties in supervising earnings information can be said to be good, so that more and more members of the audit committee will be able to reduce managers' actions in managing earnings.

## CONCLUSIONS

Based on the results of this study it can be concluded that the audit committee has an effect on earnings management. Meanwhile, the board of commissioners and managerial ownership have no effect on earnings management. Influence of audit committee, board of commissioners and ownership managerial to earnings management of 33.7% while the rest there are other variables that affect earnings management. For future researchers, it is possible to add other variables that may influence company earnings management, including profitability, leverage, company size, gender diversity and others. In addition, companies should be able to pay attention to the factors that influence earnings management, namely the audit committee, the board of commissioners and managerial ownership so that they can evaluate and improve the company's performance in the future.

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