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The Influence of Good Corporate Governance Mechanism and Company Size on Profit Management with Audit Quality as a Moderating Variable in Palm Oil Plantation Company Listed on Indonesia Stock Exchange Period Year 2017-2021

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Abstract

Earnings management is an action taken by managers by engineering company profits to be higher, lower, or always the same for several periods. Earnings management actions have caused several scandalous cases, including Enron, Merck, World Com, PT Kimia Farma Tbk and PT Garuda Indonesia (Persero). Therefore, the way to overcome this is by implementing the Good Corporate Governance mechanism and auditing financial statements by using the services of a quality accountant such as the big four. The type of research used is causal research. The population in this study were all oil palm plantation companies listed on the Indonesia Stock Exchange during 2017-2021, totaling 24 using purposive sampling technique, the research sample was 14 companies for 5 years from 2017-2021, so the total observations in this study became 70 companies. Statistical test using descriptive statistics and Partial Least Square (PLS). The results of the study partially show that the proportion of independent commissioners has a negative effect on earnings management and audit quality is able to moderate the effect of managerial ownership, institutional ownership and firm size on earnings management while audit quality is not able to moderate the effect of the proportion of independent commissioners and audit committees on earnings management. It can be concluded that the existence of a good corporate governance mechanism in this case the proportion of independent commissioners and audit quality can pressure companies not to carry out earnings management.

Keywords: *Managerial Ownership; Institutional Ownership; Proportion of Independent Commissioners; Audit Committee; Company Size; Earnings Management; Audit Quality*

Introduction

Financial statements are one of the important information for interested parties in making decisions. One of the most important information awaited by interested parties is profit. Earnings management is an action taken by managers by engineering company profits to be higher, lower, or always the same for several periods. Earnings management occurs because of the interests of each party, this is related to agency theory. Earnings management actions have led to several well-known accounting reporting scandal cases, including Enron, Merck, World Com, PT Lippo Tbk, PT Kimia Farma Tbk, and PT Garuda Indonesia (Persero). These cases can occur due to the lack of implementation of the Good Corporate Governance (GCG) mechanism which is a system that regulates and controls the company to create added value for all stakeholders. Several good corporate governance mechanisms are manifested by managerial ownership, institutional ownership, the proportion of independent commissioners and independent audit committees.

Company size is a value that shows the size of the company. Large companies get more attention from external parties such as investors, creditors and the government. Investors in investing will usually choose companies that are able to show good performance so that the invested capital will obtain profitable results. Examination of financial statements by public accounting firms can also be used as monitoring of possible earnings management actions. However, the audit of financial statements conducted by auditors has different qualities. An audit conducted by a public accounting firm affiliated with the big four is one of the preventions of earnings management.

Based on the description above, the researchers are interested in conducting research on: "The Influence of Good Corporate Governance Mechanisms and Company Size on Earnings Management with Audit Quality as a Moderating Variable in Oil Palm Plantation Companies Listed on the Indonesia Stock Exchange for the 2017-2021 Period".

The hypothesis in this study:

H1: Good corporate governance with managerial ownership as a proxy has an effect on earnings management.
H2: Good corporate governance with institutional ownership as a proxy has an effect on earnings management.
H3: Good corporate governance with the proportion of independent commissioners has an effect on earnings management.
H4: Good corporate governance with audit committee proxy has an effect on earnings management.
H5: Firm size has an effect on earnings management.
H6: Audit quality can moderate the relationship between good corporate governance and managerial ownership as a proxy for earnings management.
H7: Audit quality can moderate the relationship between good corporate governance and institutional ownership as a proxy for earnings management.
H8: Audit quality can moderate the relationship between good corporate governance and the proxy of the proportion of independent commissioners on earnings management.
H9: Audit quality can moderate the relationship between good corporate governance and the audit committee's proxy for earnings management.
H10: Audit quality can moderate the relationship between firm size and earnings management.

Method

This research approach uses a quantitative research approach. The purpose of quantitative research is to test the established hypotheses. (Sugiyono, 2016:11). The type of research used in this study is descriptive statistics. The object of this research is managerial ownership, institutional ownership, proportion of independent commissioners, audit committee, firm size, audit quality and earnings management. The subjects of this research include oil palm plantation companies listed on the Indonesia

Stock Exchange from 2017-2021. Data collection techniques used by researchers in this study are documentation and library techniques while the type of data used is secondary data. Secondary data is data obtained indirectly through intermediaries such as books, articles, documents, and others (Sugiyono, 2014). The research data was obtained from the Indonesia Stock Exchange in the form of annual reports of oil palm plantation companies for 2017-2021 through the official website www.idx.co.id.

Population is a generalization area consisting of objects/subjects which have certain qualities and characteristics set by the researcher to be studied and then draw conclusions (Sugiyono, 2017). Populationin this study is a palm oil plantation company listed on the Stock ExchangeIndonesian effect period 2017-2021.Total company populationOil palm plantationThere are 24 issuers listed on the Indonesia Stock Exchange for the period 2017-2021. The sample is part of the number and characteristics possessed by the population (Sugiyono, 2017). The sampling technique used in This research is saturated sampling, namely the technique of determining the sample with census to examine the entire population because the relative population is slightly less than 50. CompanyOil palm plantationwho do not publish financial statementsaudited period 2017-2021 is 10 issuers so that a saturated sample is obtainedOil Palm Plantation companies 2017-2021 to 70 issuers.

No	Criteria	Total
1	The population of palm oil plantation companies listed on the Indonesia Stock Exchange	**24**
2	Oil Palm Plantation Companies that do not publish audited financial statements for the 2017-2021 period	**(10)**
	Oil Palm Plantation Company Sample	**14**
	Observational data from the survey (14 x 5)	**70**

Earnings management measurement is done by calculating discretionary accruals. Measurement of discretionary accruals as a proxy for earnings quality (earnings management) uses the Jones Model (1991) modified by Dechow et al. (1995). This model is used because it is considered the best model in detecting earnings management (Siallagan and Machfoedz 2006). Managerial ownership is measured by the total percentage of the number of outstanding shares owned by the management of the total outstanding share capital of the company. Institutional ownership is measured by the total shares owned by the company divided by the number of shares outstanding. The proportion of independent commissioners is measured by the percentage of the number of independent commissioners from the total number of company commissioners. The audit committee is measured by the percentage of the number of audit committees that come from independent commissioners from the total number of audit committee members. Company size is calculated using the natural logarithm of the company's total assets. The use of natural logarithm values is intended to avoid the problem of natural data that are not normally distributed (Ghozali, 2013:35). An auditor is good if it is included in the big four, while an auditor is not good if it is not audited by the big four. If audited with the big four, it is given a value of 1, otherwise if it is audited not with KAP, the big four is given a value of 0. The use of natural logarithm values is intended to avoid the problem of natural data that are not normally distributed (Ghozali, 2013:35). An auditor is good if it is included in the big four, while an auditor is not good if it is not audited by the big four. If audited with the big four, it is given a value of 1, otherwise if it is audited not with KAP, the big four is given a value of 0. The use of natural logarithm values is intended to avoid the problem of natural data that are not normally distributed (Ghozali, 2013:35). An auditor is good if it is included in the big four, while an auditor is not good if it is not audited by the big four. If audited with the big four, it is given a value of 1, otherwise if it is audited not with KAP, the big four is given a value of 0.

The data analysis method used in this study is a statistical analysis method usingdescriptive statistics and Partial Least Square (PLS). According to Ghozali (2008), Partial Least Square is a very powerful analytical method with a distribution free approach (not based on many assumptions). This research is a study that aims to explain the existing phenomena by using numbers to describe the characteristics of individuals or groups and to analyze them using statistics. The use of descriptive statistical methods aims to describe or provide an overview of data. Which in general, the object can be described in the form of graphs, diagrams accompanied by simple statistical analysis. The inner model analysis is carried out by assessing the significance of the path coefficients or t-values of each path between the research variables. The magnitude of the coefficient value or the inner model shows the magnitude of the influence of the exogenous or independent variables and endogenous or dependent variables. The value of the standardized coefficient path 0.1 means that the effect of exogenous variables on endogenous variables is significant (the greater the value, the greater the effect). However, it can also be seen from the path coefficient value/score indicated by the t-statistic value of 1.96 for the two-tailed test and 1.64 for the one-tailed test at = 5%. The final result of testing the statistical model as well as the significance of the model is carried out using the bootstrap method (non-statistical method) because PLS does not use the assumption of normally distributed data. The results of the significance test will be used as the basis for testing the research hypothesis.

Results and Discussion

Research Results Analysis

A. Descriptive statistics

Descriptive statistical analysis provides a description or description of a data seen from the average value (mean), median value (median), standard deviation, variance, max, min, sum, range, kurtosis and skewness of each variable. The variables studied were independent variables, namely managerial ownership, institutional ownership, proportion of independent commissioners, audit committees, company size, moderating variable, namely audit quality, and the dependent variable, namely earnings management. Based on the data for each of these variables, a descriptive analysis using SmartPLS was tested so that the following results were obtained:

No.	Name	Type	Missing	Mean	Median	Scale Min	Scale Max	Standard Deviation
1	Manajemen Laba (Y)	MET	0	0.000	0.000	-0.007	0.003	0.001
2	Kepemilikan Manajerial (X1)	MET	0	0.060	0.000	0.000	0.413	0.111
3	Kepemilikan Institusional (X2)	MET	0	0.667	0.747	0.031	0.924	0.219
4	Proporsi Dewan Komisaris Independen (X3)	MET	0	0.347	0.333	0.000	0.600	0.117
5	Komite Audit (X4)	MET	0	0.383	0.333	0.000	0.667	0.127
6	Ukuran Perusahaan (X5)	MET	0	16.183	16.268	14.482	17.513	0.812
7	Kualitas Audit (Z)	0|1	0	0.529	1.000	0.000	1.000	0.499

Source: Processed by Researchers (2022)

Based on the table above, which was run on Smart PLS, it shows the average (mean), min, max, and standard deviation of the variables Earnings Management (Y), Managerial Ownership (X1), Institutional Ownership (X2), Proportion of Independent Commissioners (X3), Audit Committee (X4), Company Size (X5) and Audit Quality (Z).

B. Model Analysis

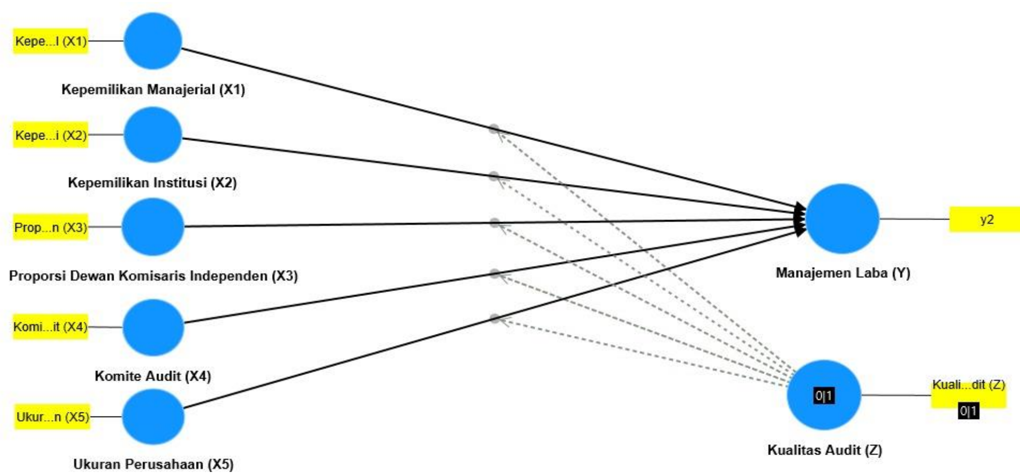

Figure B1 Variable and Indicator Model

Source: Processed by Researchers (2022)

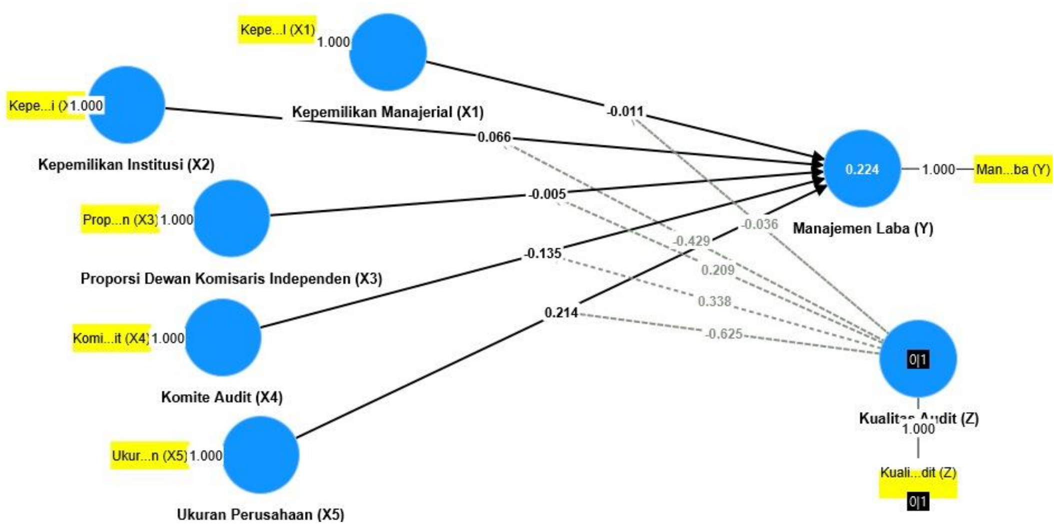

Figure B2 PLS Algorithm Calculation Result Model

Source: Processed by Researchers (2022)

C. Structural Model Analysis (Inner Model)

C1. R-Square

R-Square		R-Square Adjusted
Variable	**Score**	**Score**
Earnings Management (Y)	0.918	0.902

Source: Processed by Researchers (2022)

Based on the table above, the R-Square Adjusted value has a value of 0.902. This value can be interpreted that the variables X and Z, namely Managerial Ownership, Institutional Ownership, Proportion of Independent Board of Commissioners, Audit Committee, Company Size and Audit Quality in their influence on Earnings Management, have an influence of 90.2%, while the remaining 9.8% is influenced by by other variables or factors other than the variables used in the study.

C2. Path Coefficient Test

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
Kepemilikan Institusional (X2) -> Manajemen Laba (Y)	-0.133	-0.095	0.107	1251	0.211
Kepemilikan Manajerial (X1) -> Manajemen Laba (Y)	0.001	0.024	0.079	0.011	0.991
Komite Audit (X4) -> Manajemen Laba (Y)	-0.033	-0.069	0.140	0.239	0.811
Kualitas Audit (Z) -> Manajemen Laba (Y)	-1642	-1636	0.131	12550	0.000
Proporsi Dewan Komisaris Independen (X3) -> Manajemen Laba (Y)	-0.259	-0.273	0.121	2136	0.033
Ukuran Perusahaan (X5) -> Manajemen Laba (Y)	0.101	0.078	0.081	1.240	0.215
Kualitas Audit (Z) x Ukuran Perusahaan (X5) -> Manajemen Laba (Y)	-0.690	-0.659	0.133	5.195	0.000
Kualitas Audit (Z) x Kepemilikan Manajerial (X1) -> Manajemen Laba (Y)	0.292	0.250	0.131	2.220	0.026
Kualitas Audit (Z) x Komite Audit (X4) -> Manajemen Laba (Y)	-0.100	-0.061	0.152	0.660	0.510
Kualitas Audit (Z) x Kepemilikan Institusional (X2) -> Manajemen Laba (Y)	0.907	0.845	0.223	4.059	0.000
Kualitas Audit (Z) x Proporsi Dewan Komisaris Independen (X3) -> Manajemen Laba (Y)	0.225	0.242	0.130	1.733	0.083

Sourc
e: Processed secondary data, 2022

Based on the results of the Path Coefficients analysis in the table above, a structural equation model can be made as follows:

Y = 0.001 X1- 0.133 X2- 0.259 X3– 0.033 X4+0.101 X5

D. Hypothesis Test

The research hypothesis can be declared accepted if the value of T-Statistics> 1.96 (t-table) and P-Values <0.05. The following are the results of the hypothesis tests obtained by the inner model in this study:

Hypothesis	**Influence**	**Original Sample**	**T-Statistics**	**P-Values**	**Result**
H1	X1 -> Y	0.001	0.011	0.991	Rejected
H2	X2 -> Y	-0.133	1.251	0.211	Rejected
H3	X3 -> Y	-0.259	2.136	0.033	Received
H4	X4 -> Y	-0.033	0.239	0.811	Rejected
H5	X5 -> Y	0.101	1,240	0.215	Rejected
H6	Z*X1 -> Y	0.292	2,220	0.026	Received
H7	Z*X2 -> Y	0.907	4.059	0.000	Received
H8	Z*X3 -> Y	0.225	1,733	0.083	Rejected
H9	Z*X4 -> Y	-0.100	0.660	0.510	Rejected
H10	Z*X5 -> Y	-0.690	5.195	0.000	Received

Source: Processed secondary data, 2022

Hypothesis Test:

1. H1 Hypothesis test

The original sample value is 0.001 with a significance greater than 5% as indicated by the t-statistic value of 0.011 which indicates that managerial ownership has no positive effect on earnings management. The first hypothesis is rejected.

2. H2 Hypothesis Test

The original sample value is -0.133 with a significance greater than 5% as indicated by the t-statistic value of 1.251 which indicates that institutional ownership has no negative effect on earnings management. The second hypothesis is rejected.

3. H3 Hypothesis Test

The original sample value is -0.259 with a significance of less than 5% which is indicated by the t-statistic value of 2.136 which indicates that the proportion of independent commissioners has a negative effect on earnings management. The third hypothesis is accepted.

4. H4 Hypothesis Test

The original sample value is -0.033 with a significance greater than 5% as indicated by the t-statistic value of 0.239 which indicates that the audit committee has no negative effect on earnings management. The fourth hypothesis is rejected.

5. H5 Hypothesis Test

The original sample value is 0.101 with a significance greater than 5% as indicated by the t-statistic value of 1.240 which indicates that company size has no positive effect on earnings management. The fifth hypothesis is rejected.

6. H6 Hypothesis Test

The original sample value is 0.292 with a significance of less than 5% as indicated by the t-statistic value of 2.220 which indicates that audit quality is able to moderate the effect of managerial ownership on earnings management. The sixth hypothesis is accepted.

7. H7 Hypothesis Test

The original sample value is 0.907 with a significance of less than 5% which is indicated by the t-statistic value of 4.059 which indicates that audit quality is able to moderate the effect of institutional ownership on earnings management. The seventh hypothesis is accepted.

8. H8 Hypothesis Test

The original sample value is 0.225 with a significance greater than 5% as indicated by the t-statistic value of 1.733 which indicates that audit quality is not able to moderate the effect of the proportion of independent commissioners on earnings management. The eighth hypothesis was rejected.

9. H9 Hypothesis Test

The original sample value is -0.100 with a significance greater than 5% which is indicated by the t-statistic value of 0.660 which indicates that audit quality is not able to moderate the influence of the audit committee on earnings management. The ninth hypothesis is rejected.

10. H10 Hypothesis Test

The original sample value is -0.690 with a significance of less than 5% as indicated by the t-statistic value of 5.195 which indicates that audit quality is able to moderate the effect of firm size on earnings management. The tenth hypothesis is accepted.

Discussion of Research Results

➢Effect of Managerial Ownership on Earnings Management

Based on the results of the study, partially managerial ownership has no significant effect on earnings management. The existence of cooperation between the company's management and other parties including shareholders and stakeholders in making financial decisions with the aim of maximizing the working capital owned will increase the value of the company. In reality, the unification of the interests of the two parties often creates problems. The existence of problems between managers and shareholders is called an agency problem. In the concept of the theory of the firm (Jensen, 1976), the agency problem will cause the company's financial goals not to be achieved, namely increasing the value of the company by maximizing shareholder wealth.

The results of this study occur because the percentage of managerial ownership in oil palm plantation companies is small (6% on average) so that the tendency to carry out earnings management is unlikely.

The results of this study are in line with research conducted by Saftiana (2017), Inggriani & Nugroho (2020), Karina (2021) and Wati (2022) which state that managerial ownership has no significant effect on earnings management. And contrary to research by Nainggolan (2018) and Evodila (2020) which states that managerial ownership has a significant effect on earnings management. The difference in the results of this study is caused by differences in the object of research and the period of the financial statements studied.

➢Effect of Institutional Ownership on Earnings Management

Based on the results of the study, partially institutional ownership has no significant effect on earnings management. This is because in general institutional investors do not carry out their roles effectively as sophisticated investors who can supervise or monitor management performance to limit management in taking actions or policies that will have an impact on earnings management actions. Institutional investors only carry out their role as transient investors (temporary owners of the company) which only focus on short-term profits, so that institutional ownership does not necessarily increase effective monitoring of management which will affect management policies in carrying out earnings management.

The results of this study are in line with research conducted by Saftiana (2017), Inggriani & Nugroho (2020), Karina (2021) and Wati (2022) which state that institutional ownership has no significant effect on earnings management. And contrary to research by Nainggolan (2018) and Widjaja & Karjono (2022) which states that institutional ownership has an effect on earnings management. The difference in the results of this study is caused by differences in the object of research and the period of the financial statements studied.

➢The Effect of the Proportion of Independent Commissioners on Earnings Management

Based on the results of the study, partially the proportion of independent commissioners has a significant effect on earnings management. This is due to the proportion of independent commissioners who oversee the company's operating activities, especially management activities in reporting financial statements so that managers will be careful in reporting financial statements. An independent board of commissioners oversees the actions of managers so as not to harm the parties with an interest in the financial statements. So that the existence of an independent board of commissioners in the company will reduce earnings management actions which can result in reduced quality of financial reports.

Based on the results obtained in this study, the results are in line with those of Widjaja & Karjono (2022) which show that the mechanism of good corporate governance in this case the proportion of independent commissioners has a significant effect on earnings management. And contrary to research conducted by Setiawan (2018), Putri & Prasetyo (2020) which states that the proportion of independent commissioners has no effect on earnings management. The difference in the results of this study is caused by differences in the object of research and the period of the financial statements studied.

- **Influence of the Audit Committee on Earnings Management**

Based on the results of the study, partially the audit committee has no significant effect on earnings management. This result occurs because the formation of an audit committee in a palm oil plantation company is based only on meeting the regulations of the Financial Services Authority Regulation Number 55/POJK.04/2015 concerning the Establishment and Guidelines for the Work Implementation of the Audit Committee so that in its implementation the audit committee is less effective and optimal in developing and implement control processes to minimize earnings management practices.

Based on the results obtained in this study, the results are in line with those carried out by Putri & Prasetyo (2020), Mohammad (2020) and Handayani & Hebrew (2020) which show that the mechanism of good corporate governance in this case the audit committee has no effect on management. profit. And contrary to research conducted by Astuti., et al. (2021) and Widjaja & Karjono (2022) which state that the audit committee has an effect on earnings management. The difference in the results of this study is caused by differences in the object of research and the period of the financial statements studied.

- **Effect of Firm Size on Earnings Management**

Based on the results of the study, partially the size of the company has no significant effect on earnings management. The ineffectiveness of company size due to strict supervision from the government, analysts and investors who participate in running the company causes managers not to dare to practice earnings management. Tight supervision will prevent managers from practicing earnings management, because it is likely that the government, analysts and investors will find out so that this can damage the image and credibility of the company's managers.

Based on the results obtained in this study, the results are in line with those of Saftiana (2017), Agustia & Suryani (2018), Arianti., et al. (2019) and Rere., et al (2020) which state that firm size has no significant effect on earnings management. This study contradicts the research of Muiz & Ningsih (2020), Inggriani & Nugroho (2020), Karina (2021), Surjandari., et al. (2021), Astuti., et al. (2021) and Karina & Soenarno (2022) and Wati., et al. (2022) which states that firm size has an effect on earnings management. The difference in the results of this study is caused by differences in the object of research and the period of the financial statements studied.

- **Effects of Managerial Ownership, Institutional Ownership, Proportion Independent Board of Commissioners, Audit Committee and Company Size on Earnings Management with Audit Quality as Moderating Variable**

Based on the results of the study, it shows that audit quality is able to moderate the effect of managerial ownership, institutional ownership and firm size on earnings management, while the proportion of independent commissioners and audit committees cannot be moderated by audit quality, its effect on earnings management.

Previously, managerial ownership, institutional ownership and firm size had no significant effect on earnings management. The existence of the audit quality variable as a moderator strengthens the relationship between managerial ownership, institutional ownership and firm size on earnings management. The audit quality variable adds to the view that KAP, both big four and non-big four, can reduce the opportunity for management to practice earnings management.

Audit quality is not able to moderate the effect of the proportion of independent commissioners and audit committees on earnings management. This proves that the existence of parties who do not have any interest in the company structure can not reduce earnings management. This is because audit quality is not a factor that strengthens the relationship between the independent board of commissioners and the audit committee on earnings management. However, the effectiveness of the control mechanism depends on the values, norms, and beliefs accepted within an organization as well as the role of the independent board of commissioners and the audit committee in controlling activities over management. In addition, audits conducted on public companies in Indonesia have a specific purpose, for example to conduct tenders. Companies to be able to participate in the tender are required to issue audited financial statements. This causes the company to conduct an audit of the financial statements. Thus, audits conducted by qualified or unqualified public accounting firms in the context of companies conducting tenders, are not based on management awareness to increase the effectiveness of company controls.

Conclusion

Based on the results of the study, several conclusions can be drawn as follows: (1) Managerial ownership has no effect on earnings management in oil palm plantation companies on the Indonesia Stock Exchange for the 2017-2021 period. (2) Institutional ownership has no effect on earnings management in oil palm plantation companies on the Indonesia Stock Exchange for the 2017-2021 period. (3) Board proportion Independent commissioners have an effect on earnings management of oil palm plantation companies on the Indonesia Stock Exchange for the 2017-2021 period. (4) The audit committee has no effect on earnings management for oil palm plantation companies on the Indonesia Stock Exchange for the 2017-2021 period. (5) The size of the company does not influence on earnings management in oil palm plantation companies on the Indonesia Stock Exchange for the period 2017-2021. (6) Audit quality can moderate the influence of ownership managerial on earnings management in oil palm plantation companies on the Indonesia Stock Exchange for the period 2017-2021. (7) Audit quality can moderate the effect of institutional ownership on earnings management in oil palm plantation companies on the Indonesia Stock Exchange for the 2017-2021 period. (8) Audit quality cannot moderate the effect of the proportion of independent commissioners on earnings management in oil palm plantation companies on the Indonesia Stock Exchange for the 2017-2021 period. (9) Audit quality cannot moderate the influence of the audit committee on earnings management in oil palm plantation companies on the Indonesia Stock Exchange for the 2017-2021 period. (10) Audit quality can moderate the effect of company size on earnings management in oil palm plantation companies on the Indonesia Stock Exchange for the 2017-2021 period.

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