THE INFLUENCE OF GOOD CORPORATE GOVERNANCE TOWARD EARNINGS MANAGEMENT

Rizkya Samara Dewi[1], Bambang Agus Pramuka[2], Agung Praptapa[3],

[1]Universitas Jenderal Soedirman, rizkya.dewi@mhs.unsoed.ac.id, Indonesia
[2] Universitas Jenderal Soedirman, bambang.pramuka@unsoed.ac.id, Indonesia
[3]Universitas Jenderal Soedirman, agung.praptapa@unsoed.ac.id, Indonesia
[4]Universitas Jenderal Soedirman, christina.setyorini@unsoed.ac.id, Indonesia
*Rizkya Samara Dewi

Abstract

The purpose of this research is to find out whether some element of good corporate governance can affect the occurrence of earnings management with audit quality as a moderating variable in manufacturing companies listed in Indonesian Stock Exchange during 2017-2019. The independent variables include institutional ownership, independent board of commissioner, and audit committee with audit quality as a moderating variable. The dependent variable is earnings management which is measured by discretionary accrual with Modified Jones Model. The population of this research is 193 samples from companies listed at Indonesian Stock Exchange during 2017-2019. The sampling method used in this research is purposive sampling method. In addition, the data analysis method used is descriptive statistics, classical assumption test, multiple regression analysis, and sub-group moderated regression analysis. The result of this research indicates that the good corporate governance, which is represented by independent board of commissioner and audit committee have a negative effect while institutional ownership has effect on earnings management. Audit Quality strengthens the influence of independent board of commissioner on earnings management. However, audit quality cannot strengthen the influence of institutional ownership and audit committee on earnings management.

***Keyword**: Institutional ownership, independent board of commissioner, audit committee, audit quality, and earnings management.*

1. **Introduction**

The last result of the accounting process is a financial statement, a very important source of information in decision making for the users, both internal and external parties. Financial statements are arranged based on accounting standards finance and the principles it has set within a conceptual framework preparation of financial statements, with a purpose for the report to be truly reliable and able to influence the users in decision making. Arranging financial reports involving management, the board of commissioners, and shareholders for the process. Earnings management known as financial statements misused by management will affect the profit shown (Widyaningsih, 2017). Financial statements can be manipulated by inflating reported revenue as the common objective. To inflate revenue, firms can either commit fraud or manage earnings. Firms that have managed earnings, constrained in their ability to manage earnings (Perols &

Lougee, 2011). Managers start and develop a practice called earnings management, a chance that arises, born of opposing needs and relationships that cross among the different partners of the company. Managers have multiple reasons to manipulate results explained by a literature review (Jiang et al., 2020).

Good corporate governance is supposed to reduce fraud implemented by company managers and by the company owner, which can improve and generate trust from various parties to the company's performance as represented by the Financial Statements Company (Onasis, 2017). The corporate governance structure ensures the distribution of rights and responsibilities among the different parties in the organization and informs the decision-making rules and procedures which are institutional ownership, independent board of commissioner, audit committee as the independent variable in my research, and audit quality as moderating variable.

2. LITERATURE REVIEW

2.1. Agency Theory

According to Jensen & Meckling (1976:308), one or more people (principal) involving other people (the agent) who make a contract to carry out some services on their behalf which take part delegating some decision-making authority to the agent is the definition of an agency relationship. Agency problems arise when inside the work of the business enterprise there are conflicts of interest. Agents and principals (managers and shareholders) or among the principals such as shareholders and debtholders can make conflicts (Band, 1992).

2.2. Earnings Management

Earnings management is an attitude or decision of company managers to increase or decrease the level of profit on the company's financial statements. Managers make efforts, namely earnings management in reporting company performance to trick users, especially internal parties, or as a planned time for recognition of revenues, expenses, profits, and losses to reduce profit fluctuations. (Damanik, 2020). Company insiders keep their post and get more advantage by manipulating the financial information given to outsiders called earnings management. Usually, this happens in the form of income manipulation and income smoothing (Wang & Campbell, 2012).

2.3. Good Corporate Governance

According to the Cadbury Committee (1992), companies are directed and controlled by the system of corporate governance, also it defines as a set of regulation that explains the relationship among managers, creditors, shareholders, the government, employees, and internal and external stakeholders in honor to their rights and responsibilities. The system that regulates and controls the company to achieve balance is good corporate governance (Praptapa, 2009).

2.4. Audit Quality

Auditing serves as a tool that can be used to reduce uncertainty in the presentation of financial information. Auditing is also a process used to bring down the inconsistency among principals and agents by employing external parties to authorize financial statements. So that audit quality results can be used and help external parties to detect earnings management practices (Lidiawati and Asyik, 2016).

2.5. The Effect of Institutional Ownership on Earnings Management

According to Jensen & Meckling (1976), institutional ownership has an important role in minimizing agency conflicts that occur between managers. High institutional ownership can influence and minimize the occurrence of earnings management practices because it is able to oversee management actions in the presentation of financial statements.

The successful research that can show Institutional Ownership has a negative effect on earnings management are research results by Ajay and Madhumathi (2015), Sudiyanto (2016), Onasis (2017).
H1: Institutional Ownership has a negative effect on Earnings Management.

2.6. The Effect of Independent Board of Commissioner on Earnings Management

A board consisting of a larger independent board of commissioners has strong control over management decisions and it is the best position to carry out the monitoring function to create a company with good corporate governance so it can influence the possibility of deviations by managers (Suri & Dewi, 2018).

The successful research that can show independent board of commissioner has a negative effect on earnings management is research results by Syahreza et al. (2016), and Fatmawati (2018).
H2: Independent Board of Commissioners has a negative effect on Earnings Management.

2.7. The Effect of Audit Committee on Earnings Management

The greater the number of audit committees within the company can increase the supervisory functions so that the quality of reporting carried out by management is guaranteed and it can minimize the actions of the management in doing earnings management practices (Lidiawati & Asyik, 2016). The successful research that can show audit committee has a negative effect on earnings management is research results by Yendrawati (2015),and Lidiawati & Asyik (2016).
H3: Audit Committee has a negative effect on Earnings Management.

2.8. Audit Quality as a Moderating Effect on Institutional Ownership on Earnings Management

The size of the public accounting firm will greatly affect the independence and ability to detecting earnings management made by the company, so the big four public accounting firm can be said to be more capable of detecting earnings management than the non-big four public accounting firm (Hasty & Herawaty, 2017).
H4: Audit Quality strengthens the Influence of Institutional Ownership on Earnings Management.

2.9. Audit Quality as a Moderating Effect on Independent Board of Commissioner on Earnings Management

If a company increases the number of independent boards of commissioners and were added by using the big four public accounting firm, the potential for earnings management in the company can greatly reduce. This research in line with (Boedhi & Ratnaningsih, 2015), that audit quality affects earnings management.

H5: Audit Quality strengthens the Influence of the Independent Board of Commissioner on Earnings Management.

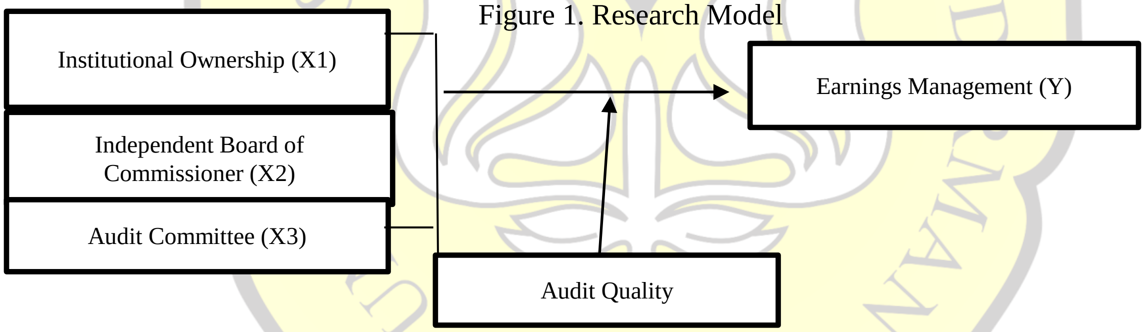
2.10. Audit Quality as a Moderating Effect on Audit Committee on Earnings Management

An auditor is a person who is entrusted with assessing, examining, or auditing the financial statements of an entity by following established procedures in professional standards. The quality of an auditor will determine the quality of the inspection carried out. Especially with the financial scandals that had occurred lately (Damanik, 2020). This research in line with Boedhi & Ratnaningsih (2015), that audit quality affects earnings management.

H6: Audit Quality strengthens the Influence of Audit Committee on Earnings Management.

2.11. **Research Model**

Figure 1. Research Model



2.12. **RESEARCH DESIGN**

- **Research Type**
  This research was conduct quantitative research with a correlational approach to finding out whether some element of good corporate governance can affect the occurrence of earnings management with audit quality as a moderating variable.

- **Research Object**
  The object of this research was the earnings management in the manufacturing companies, institutional ownership, independent board of commissioner, and audit committee with audit quality as a moderating variable.

- **Population and Sample**
  The population in this study were manufacturing companies listed on the Indonesian Stock Exchange (IDX) for the 2017 -2019 period. There are 193 manufacturing

companies listed on the IDX, and only 38 manufacturing companies that are publish successive financial reports over research period.
The research sample was taken with the purposive sampling method. From 38 manufacturing companies listed on the IDX. There are 14 companies do not contain the required data and 8 outliers. So that only 16 companies can be processed.

- **Types and Data Sources**
  Research data was in the form of secondary data sourced from manufacturing finance reports and annual reports for 2017-2019 compiled from the IDX website and *Fact Book* with documentation techniques.

2.13. OPERATIONAL DEFINITIONS OF RESEARCH VARIABLES

- **Dependent Variable (Y)**
  Earnings management is a decision to choose which course of action taken by managers to influence profits and to achieve some specific goals of reported earnings (Scott, 2009). Measurement of earnings management using The Modified Jones Model formula (Dechow et al., 2015). Discretionary accrual is an accrual component that has possibilities for managers to intervene in manipulating company profits.

$$\boxed{\mathbf{DACC_{it} = TACC_{it}/A_{it} - NDACC_{it}}} \qquad \mathbf{(1)}$$

- **Independent Variable (X)**
  The independent variables in this study are institutional ownership, independent board of commissioner, and audit committee.
- **Institutional Ownership**
  According to Jensen and Meckling (1976), institutional ownership has an important role in minimizing agency conflicts that occur between managers and shareholders. Institutional ownership is a factor from external parties that participate in investing and can detect earnings management. Institutional ownership can be seen from the total percentage share ownership of government institutions.

$$\text{Number of institutional shares} = \frac{\text{Number of shares ownedby institution}}{\text{Number of outstanding shares}} \times 100\% \qquad (2)$$

- **Independent Board of Commissioner**
  Independent commissioners have the main responsibility to encourage the implementation of the principles of good corporate governance. The existence of independent commissioners in the company serves as a counterweight in the retrieval process use decision to protect minority shareholders and other parties related to the company (Widyaningsih, 2017). Indicators for measuring independent board of commissioner adopted from (Riadiani & Agus Wahyudin, 2015), calculated from the percentage of the number of independent commissioners from outside the company divided by the total number of commissioners inside the company.

$$\text{The number of members of the board of commissioners} = \frac{\text{The number of the independent board of commissioners}}{\text{The total number of commissioners from the company}} \times 100\% \qquad (3)$$

- **Audit Committee**
  The Audit Committee is a body or committee formed by the board of commissioners to assist in conducting checks, examinations, and research. In principle, the main task of the audit committee is to assist the board of commissioners in performing the supervisory function of company performance (Lidiawati & Asyik, 2016). This study measured the audit committee by the total number of the audit committee.

Audit Committee = the total number of the audit committee

(4)

2.14. *Moderating Variable*

- **Audit Quality**
  Audit quality and the auditor are very important because as a form of assessment of the professional results of an auditor. Especially, in detecting, analyze, and report results to audit findings on client financial statements (Wiryadi and Sebrina, 2013). Audit quality is explained in dummy variables based on the external public accounting firm used by the company. Company those audited by big four public accounting firm have high quality (1), while non-big four public accounting firm have a low quality (0). The big four public accounting firms are Deloitte, Ernst and Young, KPMG, and PricewaterhouseCoopers (Hasty & Herawaty, 2017).

2.15. *DATA ANALYSIS METHOD*

The data analysis method in this study was carried out with descriptive statistics, classical assumption test (normality test, multicollinearity test, heteroscedasticity test, autocorrelation test), multiple regression analysis, and sub-group moderated regression analysis. Data processing is done by SPSS 25.

3. **RESULTS**

Table 2. Purposive Sampling Procedure.
Source: The result of the author

No.	Description	Population
1.	A manufacturing company listed on the IDX	193
2.	A manufacturing company listed on the IDX 2017-2019 period and publish successive financial reports over research period	38
2.	The company does not fulfill the completeness data needed during the 2017-2019	(14)
3.	Outliers	(8)
Research data sample = n		16
Final Sample Companies		48

3.1. **Data Analysis**

- **Descriptive Statistics**

Table 3. Descriptive Statistics of Research Variables.
Source: Data processed use SPSS 25

Research Variables	N	Minimum	Maximum	Mean	Std. Deviation
Institutional Ownership (X_1)	48	0.0508	0.9250	0.6982	0.2342
Independent Board of Commissioner (X_2)	48	0.3333	0.6000	0.4052	0.0811
Audit Committee (X_3)	48	2.0000	4.0000	2.8333	0.6631
Audit Quality (Z)	48	0.0000	1.0000	0.6250	0.4892
Earnings Management (Y)	48	-0.0115	0.0090	-0.0017	0.0039

Based on data in Table 3 above, it can be explained as follows:
N indicates the number of valid data for each variable is 48 data, while the number of missing data is zero, it means that all of research data are ready to process uses regression analysis. Audit committee variable has the highest value of minimum, maximum, mean and standard deviation data. Meanwhile, earnings management variable has the lowest value of minimum, maximum, mean, and standard deviation data.

3.2. **Classical Assumption Test**

- **Normality Test**

Table 4. Normality Test Result.
Source: Data processed use SPSS 25

No	Variable	Kolmogorov Smirnov Value	*Asymp. Sig.*	Judgment
1	Standardized Residual	1.160	0.136	Normal

From data in Table 4, it known that the asymptotic significant value of 0.136 is greater than 0.05. Therefore, the data of regression model within study is revealed a normal distribution.

- **Multicollinearity Test**

Table 5. Multicollinearity Test Result.
Source: Data processed use SPSS 25

No	Independent Variables	Tolerance	VIF Value	Judgment
1	Institutional ownership (X_1)	0.938	1.066	No multicollinearity
2	Independent board of commissioner (X_2)	0.863	1.159	No multicollinearity
3	Audit committee (X_3)	0.837	1.195	No multicollinearity

The tolerance value of all variables is greater than 0.1 and, also VIF value of institutional ownership, independent board of commissioner as well as the VIF value of audit committee variable each is less than 10. Hence, it can be stated that there is no multicollinearity in regression model.

- **Heteroscedasticity Test**

Table 6. Heteroscedasticity Test Result.
Source: Data processed use SPSS 25

No	Variables	Sig. Value	Judgment
1	Institutional ownership (X_1)	0.875	No heteroscedasticity
2	Independent board of commissioner (X_2)	0.348	No heteroscedasticity
3	Audit committee (X_3)	0.822	No heteroscedasticity

Refers to the result summary of heteroscedasticity test, it is obtained that significance value of institutional ownership, independent board of commissioner as well as the significance value of audit committee variable each is more than α (0.05). Hence, it can be stated that there is no heteroscedasticity in regression model.

- **Autocorrelation Test**

Table 7. Result Summary of Autocorrelation Test.

No	$DW_{statistic}$	Value of d_U	Value of $4 - d_U$	Judgment
1	1.983	1.671	2.329	No autocorrelation

Based on data in Table 7, it shows that value of $DW_{statistic}$ is 1.983. This value of $DW_{statistic}$ is compared with value of DW_{table} uses amount of research data (n) is 48; and total of independent variables (k) of 3; thus, it can be determined the value of $d_U = 1.671$. Because value of $DW_{statistic}$ is between d_U (1.671) and $4 - d_U$ (2.329), so it can be stated there is no autocorrelation in the regression model within study.

- **Multiple Regression Analysis**

Table 8. Result Summary of Multiple Regression Analysis.
Source: Source: Data processed use SPSS 25

No.	Independent Variables	Regression Coefficient	$t_{statistic}$		t_{table} (one tailed)
1.	Institutional Ownership (X_1)	-0.0004	-0.200	>	-1.680
2.	Independent Board of Commissioner (X_2)	-0.0157	-2.373	<	-1.680
3.	Audit Committee (X_3)	-0.0033	-4.064	<	-1.680
Constant		= 0.0145			
Coefficient of Determination		= 0.288			
$F_{statistic}$		= 5.941			

3.3. Goodness of Fit

- **Coefficient Determination**

Result summary of first multiple regression analysis in Table 8 shows that coefficient of determination (R square) is 0.288. It means that earnings management of manufacturing companies listed on Indonesia Stock Exchange year of 2017-2019 can be explained by institutional ownership, independent board of commissioner and audit committee variables of 28.80 percent, while the remaining of 71.20 percent can be explained by the other variables are not examined within study.

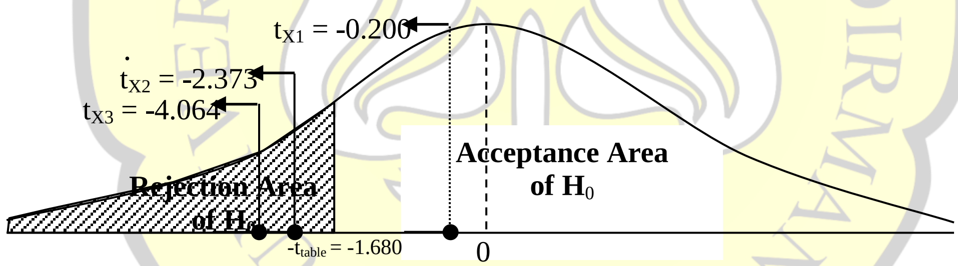
- **F-test**

  Based on the confidence level of 95% or the significant level (α) = 0.05 with degree of freedom (df) = (k-1) = (4-1) = 3; and (n-k) = (48-4) = 44, it known that the F_{table} value of 2.84 (Appendix 16). From multiple regression analysis result, it is obtained the $F_{statistic}$ value of 5.941 is greater than F_{table} value (2.84). Therefore, it can be explained that institutional ownership, independent board of commissioner and audit committee variables have the simultaneously effect on earnings management, or it can be stated that multiple regression model within study is fit with the research data (goodness of fit).

- **Significance Partially Effect Testing by T-test**

  To test the significance partially effect of institutional ownership, independent board of commissioner as well as audit committee on earnings management within study uses t-test result. Based on the confidence level of 95% (α = 0.05) and degree of freedom (df) = (n-k) = (48-4) = 44 with one tailed t-test, it known that the t_{table} value of 1.680 (Appendix 17). From the result summary of multiple regression analysis in Table 9 above, it known that $t_{statistic}$ value of institutional ownership variable (X_1) is -0.200, $t_{statistic}$ value of independent board of commissioner variable (X_2) of -2.373 and $t_{statistic}$ value of audit committee variable (X_3) is -4.064. T-test curve of multiple regression analysis can be described is as follows:

  Figure 1. t-Test Curve



- **Sub-Group Moderated Regression Analysis**
  - **First Sub-Group Moderated Regression Analysis and Chow Test**

    To test fourth hypothesis which state that audit quality strengthens the influence of institutional ownership on earnings management, it is used Chow-test based on first sub-group moderated regression analysis results.

Table 9. Result Summary of First Sub-Group Moderated Regression Analysis and Chow Test.
Source: Data processed use SPSS 25

No	Measurers	Results	F_{chow}	F_{table}	Judment
1	RSSr (Overall Group)	0.000718			
2	RSSr1 (Big Four Group)	0.000332			
3	RSSr2 (Non Big Four Group)	0.000376	0.649	4.08	Not Strengthen
4	RSSur (RSSr1 + RSSr2)	0.000708			

Based on the output of first sub-group moderated regression analysis in Table 9 above, it can be seen Restricted Residual Sum of Squares of overall group (RSSr) is 0.000718, Restricted Residual Sum of Squares of big four group (RSSr1) of 0.000332, and Restricted Residual Sum of Squares of non-big four group (RSSr2) is 0.000376. Based on these value and result calculation of first Chow-test in Appendix 12, it known that value of F_{chow} (0.649) is less than F_{table} value with degree of freedom (df) = (k) = 1; and (n1 + n2 – 2) = (30 + 18 - 2) = 46 is 4.08.

- **Second Sub-Group Moderated Regression Analysis and Chow Test**
  To test fifth hypothesis which state that audit quality strengthens the influence of independent board of commissioner on earnings management, it is used Chow-test based on second sub-group moderated regression analysis results.

Table 10. Result Summary of Second Sub-Group Moderated Regression Analysis and Chow Test. Source: Data processed use SPSS 25

No	Measurers	Results	F_{chow}	F_{table}	Judment
1	RSSr (Overall Group)	0.000709	5.686	4.08	Strengthen
2	RSSr1 (Big four Group)	0.000308			
3	RSSr2 (Non big four Group)	0.000323			
4	RSSur (RSSr1 + RSSr2)	0.000631			

Data in Table 10 shows that Restricted Residual Sum of Squares of overall group (RSSr) is 0.000709, Restricted Residual Sum of Squares of big four group (RSSr1) of 0.000308, and Restricted Residual Sum of Squares of non-big four group (RSSr2) is 0.000323. Based on these value and result calculation of second Chow-test in Appendix 12, it known that value of F_{chow} (5.686) is greater than F_{table} value (4.08).

- **Third Sub-Group Moderated Regression Analysis**
  To test sixth hypothesis which state that audit quality strengthens the influence of audit committee on earnings management, it is used Chow-test based on third sub-group moderated regression analysis results.

Table 11. Result Summary of Third Sub-Group Moderated Regression Analysis and Chow Test. Source: Data processed use SPSS 25

No	Measurers	Results	F_{chow}	F_{table}	Judment
1	RSSr (Overall Group)	0.000580	1.388	4.08	Not Strengthen
2	RSSr1 (Big Four Group)	0.000217			
3	RSSr2 (Non Big Four Group)	0.000346			
4	RSSur (RSSr1 + RSSr2)	0.000563			

Based on the output of third sub-group moderated regression analysis in Table 11 above, it can be seen Restricted Residual Sum of Squares of overall group (RSSr) is 0.000580, Restricted Residual Sum of Squares of big four group (RSSr1) of 0.000217, and Restricted Residual Sum of Squares of non-big four group (RSSr2) is 0.000346. Based on these value and result calculation of third Chow-test in Appendix 12, it known that value of F_{chow} (1.388) is less than F_{table} value with degree of freedom (df) = (k) = 1; and (n1 + n2 – 2) = (30 + 18 - 2) = 46 is 4.08.

3.4. Hypothesis Testing

- **First Hypothesis**
  Based on the result summary of multiple regression analysis in Table 8, it has got the $t_{statistic}$ value of institutional ownership variable (-0.200) is greater than $-t_{table}$ value (-1.680). Thus, Ho is accepted while Ha is rejected, so it can be seen institutional ownership has a negative but no significant effect on earnings management. Therefore, first hypothesis within study which states that institutional ownership has a negative effect on earnings management **is rejected.**
  Second Hypothesis

  Refers to the result of multiple regression analysis, it has got the $t_{statistic}$ value of independent board of commissioner variable (-2.373) is less than value of $-t_{table}$ (-1.680). Thus, Ho is rejected while Ha is accepted, so it can be seen independent board of commissioner has a negative and significant effect on earnings management. Therefore, second hypothesis which states that independent board of commissioner has a negative effect on earnings management **is accepted.**
- **Third Hypothesis**
  The result of multiple regression analysis in Table 8, it known that $t_{statistic}$ value of audit committee variable (-4.064) is also less than value of $-t_{table}$ (-1.680). Thus, Ho is rejected while Ha is accepted, it known that audit committee has a negative and significant effect on earnings management. Therefore, third hypothesis which states that audit committee has a negative effect on earnings management **is accepted.**
- **Fourth Hypothesis**
  Based on Chow-test calculation result of first sub-group moderated regression analysis in Table 9, it known that value of F_{chow} (0.649) is less than F_{table} value (4.08). Therefore, fourth hypothesis which states that audit quality strengthens the influence of institutional ownership on earnings management **is rejected**.
- **Fifth Hypothesis**

  Refers to Chow-test calculation result of second sub-group moderated regression analysis in Table 10, it known that value of (5.686) is greater than F_{table} value (4.08). Therefore, fifth hypothesis which states that audit quality strengthens the influence of independent board of commissioner on earnings management **is accepted**.
  Sixth Hypothesis

Following the chow-test calculation result of third sub-group moderated regression analysis in Table 11, it known that value of F_{chow} (1.388) is less than F_{table} value (4.08). Therefore, sixth hypothesis which states that audit quality strengthens the influence of audit committee on earnings management is rejected.

Table 12. The Result of Hypothesis Test.
Source: The result of the author

Hypothesis	Hypothesis Test	Test Result
H_1	Institutional Ownership has effect on Earnings Manangement	**Rejected**

H_2	Independent Board of Commissioners has a negative effect on Earnings Management	**Accepted**
H_3	Audit Committee has a negative effect on Earnings Management	**Accepted**
H_4	Audit Quality Cannot Strengthen the Influence of Institutional Ownership Earnings Management	**Rejected**
H_5	Audit Quality strengthens the Influence of the Independent Board of Commissioner on Earnings Management	**Accepted**
H_6	Audit Quality cannot strengthen the Influence of Audit Committee on Earnings Management	**Rejected**

4. Discussion

- **Direct Effect of Institutional Ownership on Earnings Management**
  Institutional ownership has effect on earnings management. This is because in general, the institution investors do not carry out its role effectively as sophisticated investors who can supervise or monitor the performance of management to limit management from take an action or policies that will have an impact on earnings management action. Institutional investors only run their role as transient investors (company temporary owners) which instead only focuses on profits that are short term. This causal relationship indicates the higher level of institutional ownership is not always followed by the lower level of earnings management of manufacturing companies listed on Indonesia Stock Exchange. Result within study is in line with the finding of prior studies conducted by Mangkusuryo (2017); Purnama (2017) as well as Banjarnahor and Yando (2018), concluded that institutional ownership (IO) has no significant effect on earnings management.
- **Direct Effect of Independent Board of Commissioner on Earnings Management**
  Independent board of commissioner has a negative effect on earnings management. This evidence shows that the higher level of independent board of commissioner is always followed by the lower level of earnings management of manufacturing companies listed on Indonesia Stock Exchange year of 2017-2019. Previous studies concluded that companies with a higher percentage of independent board of commissioners will be able to reduce earnings management practices within the company. Which means earnings management will decrease as far as independent board of commissioners increase. This result was consistent with the finding of previous studies conducted by Syahreza et al. (2016) as well as Fatmawati (2018), who concluded that independent board of commissioner has a negative effect on earnings management.
- **Direct Effect of Audit Committee on Earnings Management**
  Audit committee has a negative effect on earnings management. This causal relationship can be explained that the higher level of audit committee is always followed by the lower level of earnings management of manufacturing companies listed on Indonesia Stock Exchange year of 2017-2019. An audit committee with an expert background in finance is an effective party to reduce earnings management. This is because the audit committee

of financial experts really experienced in analyzing problems in financial statements, especially detecting fraud such as earnings management (Syahreza et al., 2016).

- **Moderating Effect of Audit Quality in the Influence of Institutional Ownership on Earnings Management**
  Audit quality cannot strengthen the influence of institutional ownership on earnings management of manufacturing companies listed on Indonesia Stock Exchange. This result indicates that manufacturing companies which were audited by big four public accounting firm has not been able to strengthen the influence of institutional ownership on earnings management.
- **Moderating Effect of Audit Quality in the Influence of Independent Board of Commissioner on Earnings Management**
  Audit quality strengthen the influence of independent board of commissioner on earnings management of manufacturing companies listed on Indonesia Stock Exchange. This result indicates that manufacturing companies which were audited by big four public accounting firm has able to strengthen the influence of independent board of commissioner on earnings management. It proven by the value of F_{chow} was greater than F_{table} value.
- **Moderating Effect of Audit Quality in the Influence of Audit Committee on Earnings Management**
  Audit quality cannot strengthen the Influence of audit committee on earnings management of manufacturing companies listed on Indonesia Stock Exchange. This result indicated that manufacturing companies which were audited by big four public accounting firm has not been able to strengthen the influence of audit committee on earnings management.

5. Conclusions

The conclusions obtained from the result of this study indicate that institutional ownership has effect on earnings management while independent board of commissioner and audit committee have a negative effect on earnings management. Audit quality strengthens the influence of independent board of commissioner on earnings management. However, audit quality cannot strengthen the influence of institutional ownership and audit committee on earnings management.

6. Implication

Institutional ownership has effect on earnings management, this shows that institutional ownership which are the majority shareholders such as banks, insurance companies, asset management companies, investment companies, and ownership by other institutions will encourage increased of optimal control over management actions, so if the institutional feel dissatisfied with managerial performance, then they will liquidate their shares. This makes the management parties feels pressured because of optimally supervision from the institutional side, with this pressure management will try to make decisions carefully. Independent board of commissioners has a negative effect on earnings management, this proves that the commissioner can demonstrate independence in carrying out their duties, because it can guarantee the transparency and disclosure of the company's financial statements, seek fair treatment of minority shareholders and other stakeholders to make the supervisory function run well. Audit Committee has a negative effect on earnings management, this matter shows that the audit committee is one of the factors that can trigger earnings management actions because audit committee members have not carried their duties optimally. However, to reduce the occurrence of earnings management, companies are expected work as well as possible in accordance with applicable procedures such as, overseeing financial reports, overseeing external audits, and analizing in depth the management carried out by management. Audit Quality as moderating variable cannot strengthen the influence of institutional ownership and audit committee on earnings management. However, audit quality strengthens the influence of independent board of commissioner on earnings management, this proves that audit quality is one of the important aspects to detect earnings management, by choosing a good auditor such as by choosing the big four public accounting firm or choosing a competent auditor. A quality audit is an audit carried out by a competent person and an independent person. A competent auditor is an auditor who has technological capabilities, understands, carries out the correct audit procedures, and uses the correct sampling method.

7. Research Limitation

- Indicators in this study were limited to the independent variables, namely institutional ownership, independent board of commissioner, and audit committee with the moderating variable audit quality, while many other variables can affect the earnings management such as managerial ownership, company size, leverage and many more.
- This study only used a sample of data for 3 years, namely 2017-2019 with the research object was the financial manufacturing companies.
- This study only used 16 samples of companies in the financial sector. The total of manufacturing companies are 193 and the rest of it has been eliminated (Table 2). In the next study, it is hoped that it can expand the research sample and increase the number of variables used so that the research results will be more useful for various parties.

References

Ajay, R., & Madhumathi, R. (2015). Institutional ownership and earnings management in India. Indian Journal of Corporate Governance, 8(2), 119-136.

Ajina, A., & Habib, A. (2017). Examining the relationship between Earning management and market liquidity. Research in International Business and Finance, 42, 1164-1172.

Band, D. (1992). Corporate governance: Why agency theory is not enough. European Management Journal, 10(4), 453–459.

Banjarnahor, H., & Yando, A. D. (2018). Mekanisme good corporate governance terhadap manajemen laba dengan kinerja keuangan sebagai variable moderasi. Jurnal Ilmiah Akuntansi dan Finansial Indonesia, 2(1), 29-40.

Boedhi, N. R., & Ratnaningsih, D. (2015). Pengaruh Kualitas Audit Terhadap Manajemen Laba Melalui Aktivitas Riil. Kinerja, 19(1), 84-98.

Accounting.binus.ac.id, 20 June 2017. Which was accessed on October 20, 2020.

https://accounting.binus.ac.id/2017/06/20/good-corporate-governance-gcg/#:~:text=Menurut%20Cadbury%20Commitee%20of%20United,dan%20kewajiban%20mereka%20atau%20dengan

Cornett, M. M., McNutt, J. J., & Tehranian, H. (2009). Corporate governance and earnings management at large U.S. bank holding companies. Journal of Corporate Finance, 15(4), 412–430.

Chen, Haiwei & Jory, Surendranath & Ngo, Thanh, 2020. Earnings management under different ownership and corporate governance structure: A natural experiment with master limited partnerships. The Quarterly Review of Economics and Finance, Elsevier, vol. 76(C), pages 139-156.

Dechow, P. M., Sloan, R. G., Sweeney, A. P., Sloan, R. G., & Sweeney, A. P. (2015). Detecting Earnings Management. Asian Financial Statement Analysis, 70(2), 73–105.

DeAngelo, L. E. (1981). Auditor size and audit quality. Journal of Accounting and Economics, 3(3), 183–199.

Damanik, H. (2020). Pengaruh Good Corporate Governance dan Kualitas Auditor Terhadap Manajemen Laba dengan Profitabilitas sebagai Variabel Moderating pada Perusahaan Manufaktur Sub Sektor Logam yang Terdaftar di Bursa Efek Indonesia. 10, 15–27

Fatmawati, Y. (2018). Pengaruh mekanisme good corporate governance terhadap manajemen laba (studi empiris pada perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia Tahun 2011-2015). JurnalAkuntansi, 6(1).

Gani, I., & Amalia, S. (2015). Alat Analisis Data: Aplikasi Statistik untuk Penelituan Bidang Ekonomi dan Sosial. Penerbit Andi.

Ghozali, Imam. (2018). Aplikasi Analisis Multivariate Dengan Program IBM SPSS 25. Semarang: Badan Penerbit Universitas Diponegoro.

Hasty, A. D., & Herawaty, V. (2017). Pengaruh Struktur Kepemilikan, Leverage, Profitabilitas dan Kebijakan Dividen terhadap Manajemen Laba dengan Kualitas Audit sebagai Variabel Moderasi. Media Riset Akuntansi, Auditing & Informasi, 17(1), 1-16.

Jiang, F., Ma, Y., & Wang, X. (2020). Multiple blockholders and earnings management. Journal of Corporate Finance, 64(June), 101689.

Jihene, F., & Moez, D. (2019). The Moderating Effect of Audit Quality on CEO Compensation and Tax Avoidance: Evidence from Tunisian Context. International Journal of Economics and Financial Issues, 9(1), 131.

Jensen, C., & Meckling, H. (1976). Theory of the firm: managerial behavior, agency costs, and ownership structure. Journal of Financial Economics 3, 305-360.

Kouaib, A., & Almulhim, A. (2019). Earnings manipulations and board's diversity: The moderating role of audit. Journal of High Technology Management Research, 30(2), 100356.

Komite Nasional Kebijakan Governance. (2006). Pedoman umum Good Corporate Governance Indonesia. Jakarta: KNKG.

Kompas.com, 15 January 2020. Which was accessed on October 20, 2020. https://money.kompas.com/read/2020/01/15/160600526/jejak-hitam-pt-hanson-international-manipulasi-laporan-keuangan-2016?page=all

Libby, R., Rennekamp, K. M., & Seybert, N. (2015). Regulation and the interdependent roles of managers, auditors, and directors in earnings management and accounting choice. Accounting Organizations and Society, 47, 25-42.

Lidiawati, N., & Asyik, N. F. (2016). Pengaruh Kualitas Audit, Komite Audit, Kepemilikan Institusional, Ukuran Perusahaan Terhadap Manajemen Laba. Jurnal Ilmu dan Riset Akuntansi (JIRA), 5(5).

Lipton, M., & Lorsch, J. W. (1992). A modest proposal for improved corporate governance. The business lawyer, 59-77.

Lozano, M. B., Martínez, B., & Pindado, J. (2016). Corporate governance, ownership, and firm value: Drivers of ownership as a good corporate governance mechanism. International Business Review, 25(6), 1333–1343.

Liputan6.com, 22 July 2015. Which was accessed on October 20, 2020. https://www.liputan6.com/bisnis/read/2277114/skandal-terungkap-ceo-toshiba-mundur

Mangkusuryo, Y., & Jati, A. W. (2017). Pengaruh Mekanisme Good Corporate Governance Terhadap Manajemen Laba. Jurnal Reviu Akuntansi dan Keuangan, 7(2), 1067-1080.

Myers, R. H., & Myers, R. H. (1990). Classical and modern regression with applications (Vol. 2, p. 488). Belmont, CA: Duxbury press.

Nagar, N., & Sen, K. (2016). Earnings management in India: Managers' fixation on operating profits. In Journal of International Accounting, Auditing, and Taxation (Vol. 26). Elsevier Inc.

Naftalia, V. C., & Marsono, M. (2013). Pengaruh Leverage Terhadap Manajemen Laba Dengan Corporate

Governance Sebagai Variabel Pemoderasi (Doctoral dissertation, Fakultas Ekonomika dan Bisnis).

Onasis, D. (2017). Pengaruh Good Corporate Governance terhadap Manajemen Laba Perusahaan Industri Manufaktur Basic Industri yang Terdaftar di Bursa Efek Indonesia. Jurnal Ilmu Komputer dan Bisnis, 8(1), 1847-1856.

Praptapa, A. (2009). Strategi Mengendalikan Organisasi. The Art of Controlling People, 1-154.

Purnama, D. (2017). Pengaruh Profitabilitas, Leverage, Ukuran Perusahaan, Kepemilikan Institusional dan Kepemilikan Manajerial Terhadap Manajemen Laba. Jurnal Riset Keuangan Dan Akuntansi, 3(1).

Perols, J. L., & Lougee, B. A. (2011). The relation between earnings management and financial statement fraud. Advances in Accounting, 27(1), 39-53.

Richardson, V.J. (2000). Information Asymmetry and Earnings Management: Some Evidence. Review of Quantitative Finance and Accounting 15, 325–347.

Riadiani, A. R., & Wahyudin, A. (2015). Pengaruh Good Corporate Governance Terhadap Manajemen Laba Dengan Financial Distress Sebagai Intervening. Accounting Analysis Journal, 4(3).

Suliyanto. (2018). Metode Penelitian Bisnis: untuk Skripsi, Tesis & Disertasi. Yogyakarta. ANDI

Sugiyono. (2017). Metode Penelitian Kuantitatif, Kualitatif, dan R&D. Bandung: Alfabeta, CV.

Syahreza, F., Pratomo, D., & Yudowati, S. (2016). Pengaruh Komisaris Independen Dan Komite Audit Terhadap Manajemen Laba (Studi Empiris Pada Perusahaan Manufakur Sub Sektor Makanan dan Minuman yang Terdaftar di dalam Bursa Efek Indonesia Tahun 2010-2013). E-Proceeding of Management, 3(2), 1552-1559.

Suri, N., & Dewi, I. P. (2018). Pengaruh Mekanisme Good Corporate Governance Terhadap Manajemen Laba (Studi pada Perusahaan Manufaktur Sektor Food and Beverages yang Terdaftar di Bursa Efek Indonesia periode 2012–2016). Jurnal Sains Manajemen & Akuntansi Volume X No.

Syofyan, A., & Herawaty, V. (2019). Pengaruh Good Corporate Governance Terhadap Financial Distress dengan Kualitas Audit sebagai Pemoderasinya. Prosiding Seminar Nasional Cendekiawan, (pp. 2-38).

Sudiyanto, Y., & Husaini, H. (2016). Pengaruh Kepemilikan Institusional, Kepemilikan Manajerial dan Leverage Terhadap Manajemen Laba dan Konsekuensinya Terhadap Nilai Perusahaan (Studi pada Perusahaan yang Melakukan Right Issue di Bursa Efek Indonesia Periode 2009-2013) (Doctoral dissertation, Universitas Bengkulu).

Scott, W. R. (2009). Financial Accounting Theory Fifth Edition. Toronto: Pearson Prentice Hall.

Sutino, E. R. D., & Khoiruddin, M. (2016). Pengaruh Good Corporate Governance Terhadap Manajemen Laba pada Perusahaan yang masuk dalam JII (Jakarta Islamic Index) tahun 2012-2013. Management Analysis Journal, 5(3).

Ujiyantho, M. A., & Agus Pramuka, B. (2007). Mekanisme Corporate Governance, Manajemen Laba dan Kinerja Keuangan (studi pada perusahaan go publik sektor manufaktur). Simposium Nasional Akuntansi X, Juli, 1–26.

Wang, Y., & Campbell, M. (2012). Corporate governance, earnings management, and IFRS: Empirical evidence from Chinese domestically listed companies. Advances in Accounting, 28(1), 189–192.

Watts, R. L., & Zimmerman, J. (1978). 1978_Watts and Zimmerman.pdf. The Accounting Review: Vol. LIII (Issue 1, pp. 112–134).

Wiryadi, A., & Sebrina, N. (2013). Pengaruh Asimetri Informasi, Kualitas Audit, dan Struktur Kepemilikan Terhadap Manajemen Laba. Wahana Riset Akuntansi, 1(2).

Widyaningsih, H. (2017). Pengaruh Corporate Governance Terhadap Manajemen Laba. Nominal: Barometer Riset Akuntansi dan Manajemen, 6(2), 91-107.

Yando, A. D. (2018). Pengaruh Asimetri Informasi terhadap Praktik Manajemen Laba. Jurnal Akuntansi Barelang, 3(1), 1-10.

Yendrawati, R. (2015). Pengaruh Dewan Komisaris Independen, Komite Audit, Kepemilikan Manajerial, dan Kepemilikan Institusional Terhadap Manajemen Laba. Jurnal Entrepreneur dan Entrepreneurship, 4(1, 2), 33-40