The Effect Of Audit Committee Characteristics On Earnings Management: A Case Study Of Non-Financial Bumn Companies In Indonesia For The Period 2018-2022

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ABSTRACT

This study aims to further investigate the effect of audit committee characteristics on earnings management practices, as measured by earnings management, in non-financial state-owned companies. This research uses quantitative methodology and data sources are obtained from secondary data. This analysis technique uses multiple regression analysis techniques, classical assumption tests and hypothesis testing, the data observations used in this study were 55. The findings of this study indicate the results of the study that audit committee activity has no significant effect on earnings management so that H1 is not supported, the audit committee size variable shows the results of a significant negative effect on earnings management so that H2 is supported, In line with H1, audit committee competence has no significant effect on earnings management so that H3 is not supported.

INTRODUCTION

In this era of globalization, state-owned enterprises (SOEs) have faced increasingly complex challenges in maintaining their financial stability and performance. One indicator of financial performance that is often used is the company's profit. Profit is important because it not only affects stakeholders' perceptions of the company's performance, but also reflects the effectiveness of management in managing its assets, liabilities, and equity (Sprouse, 1978).

Earnings management practices are also indicated in PT PLN (Persero) with a significant increase in net profit. In 2018, PT PLN's net profit was boosted to Rp 11.6 trillion or jumped 162 percent compared to the same period the previous year. This is the impact of the emergence of compensation income posts worth Rp 23.17 trillion, which even this account has just appeared in PT PLN's financial statements. The increase in net profit was also supported by the presence of

net other income which was recorded to increase 359.34 percent from Rp3.40 trillion in 2017 to Rp15.66 trillion in 2018. In the financial report, PLN explained that revenue from the government was a receivable from the government recognized as revenue of Rp7.45 trillion. Previously, this note did not appear in the 2017 financial position report.   This pattern has similarities with Garuda, which uses accounts receivable as an account that is played in manipulating profits, but PT PLN still recognizes revenue as stipulated in PSAK 23. However, this phenomenon shows an effort to increase company profits by using creative accounting principles. PT PLN conducts customized transactions to increase profits (CNN Indonesia, 2019).

These two large companies are increasingly in the spotlight because they are part of the State-Owned Enterprises (SOEs) that are closely tied to society. The main focus of SOEs is to optimize economic added value for Indonesia through its various business activities, including in international markets. However, two cases of SOEs that experienced significant profit fluctuations may raise doubts about the quality of their financial statements and accounting practices. One area that can affect earnings fluctuations is the use of earnings management, also known as earnings management. Earnings management refers to changes in accounting accounts that do not come from real transactions, but come from accounting policies applied by the company (Xu et al., 2007).

One mechanism that can influence discretionary accounting practices is the presence of an audit committee in the company (Darmawati, 2003). The audit committee has an important role in overseeing the company's financial reporting and ensuring the integrity of financial information presented to the public. audit committee evaluation usually involves an assessment of five main criteria, namely audit committee independence, audit committee size, audit committee expertise, audit committee activity, and audit committee presence (Handoko & Ramadhani, 2017). The inclusion of audit committee independence and audit committee presence is not included in this study. The independence and presence variables are no longer used due to the requirement that all existing audit committee members must come from impartial parties. This implies no family relationship, no company share ownership, and no managerial executive positions (as stated in the Financial Services Authority Regulation No.55 /POJK.04/2015 section three on Membership Requirements and Term of Office). This study uses three different independent variables in the study, namely audit committee activity, audit committee size, and audit committee expertise. This study aims to further investigate the effect of audit committee characteristics on earnings management practices, as measured by earnings management, in non-financial SOEs. This study is different from previous studies because it uses the size of the current period (2018-2022) and focuses on the population of non-financial SOEs. This study will identify whether the composition of audit committee members, the number of audit committee meetings, and the level of expertise of audit committee members have an influence on fluctuations in corporate profits. It is hoped that this study can provide deeper insights into the relationship between internal oversight by audit committees and the quality of financial reporting of non-financial SOEs, as well as the contribution of non-financial SOEs in the Indonesian economy.

LITERATURE REVIEW

Earning Management

Earnings management refers to actions that are deliberately taken in the external financial reporting process, with the intention of obtaining personal gain (Schipper, 1989). According to (Widyantoro et al., 2023) earnings management is a practice carried out by companies to adjust their financial statements to look better than their actual performance. This practice is often referred to as profit equalization, which is a way for entity management to increase or decrease profits by reducing profit fluctuations from year to year.

Audit Committee

Based on (OJK, 2015) the audit committee is a committee formed and responsible to the board of commissioners in helping carry out the duties and functions of the board of commissioners. The audit committee plays an important role in assisting the board of commissioners in carrying out its oversight responsibilities for adequate and effective risk management, financial reporting, control, and good governance (IFC, 2018). Issuers, public companies, and companies listed in Indonesia must establish an audit committee and prepare and disclose an audit committee charter that includes the following:

a. Authority, duties, and responsibilities of the audit committee
b. Composition, structure, and membership requirements
c. Working procedures
d. Meeting policy
e. Reporting system to disclose committee activities
f. Policy on handling complaints/reports regarding irregularities in financial reporting
g. Term of office of audit committee members

METHODS

The data in this study uses quantitative data types and data sources obtained from secondary data. This study uses secondary data from the annual report published by the company. The data analysis technique used in this research is quantitative analysis technique. Quantitative analysis techniques are measured by analyzing a problem that is realized quantitatively. This analysis technique uses multiple regression analysis techniques, classical assumption tests and hypothesis testing.

RESULTS

Table 1 Descriptive Statistical Test After Outlier

Descriptive Statistics					
	N	*Min*	*Max*	*Mean*	*Std. Dev*
Earnings Management (DAC)	55	-1,12	0,58	-0,0520	0,38350
Aktivitas Komite Audit (X1)	55	4,00	7,00	5,5273	0,87886
Ukuran Komite Audit (X2)	55	2,00	6,00	3,8909	0,95593
Kompetensi Komite Audit (X3)	55	1,60	4,00	2,8978	0,49966
Revenue Growth (Z1)	55	-0,41	0,67	0,0438	0,17174
Intensity Assets (Z2)	55	0,07	0,90	0,4560	0,25698
Debt Structure (Z3)	55	0,00	0,32	0,0915	0,08569
Company Size (Z4)	55	14,56	18,72	16,9062	1,24275

Source: data processed (2024)

Based on Table 1, the following is a descriptive statistical test analysis for each variable.

a. Earnings Management (DAC):
   The average value of earnings management (DAC) as the dependent variable is negative (-0.0520), indicating that companies have a tendency not to perform earnings management by utilizing the accrual approach. This is reinforced by the small standard deviation value (0.38350), indicating that the DAC data is concentrated around the average. The minimum

value of DAC (-1.12) and the maximum (0.58) indicate that there is variation in the level of earnings management between companies, although overall it is low.

b. Audit Committee Activity (ACact):

The average value of variable X1 ACact (5.5273) indicates that the audit committee is active in carrying out its duties. Although there is variation in audit committee activity between firms (standard deviation 0.87886), the average shows commitment to their role. The minimum (4.00) and maximum (7.00) values of ACact indicate that there is variation in the frequency of meetings and the level of participation of audit committee members between companies.

c. Audit Committee Size (ACsize):

The average value of the variable X2 ACsize (3.8909) indicates that the size of the audit committee is ideal. The fairly large spread of ACsize values (standard deviation 0.95593) shows the variation in the number of audit committee members between companies. The minimum value of ACsize (2.00) and the maximum (6.00) indicate that there is variation in the number of audit committee members considered ideal between companies.

d. Audit Committee Competence (ACcomp):

The average value of variable X3 ACcomp (2.8978) indicates that the competence of the audit committee is quite good. The small spread of ACcomp values (standard deviation 0.49966) indicates that the level of competence between companies is relatively homogeneous. The minimum value of ACcomp (1.60) and the maximum (4.00) indicate that there are variations in the educational background and work experience of audit committee members between companies.

e. Revenue Growth (RG):

The average value of control variable 1 (Z1) RG (0.0438) indicates that the company's revenue growth is stable with relatively small. Although there is variation in revenue growth between firms (standard deviation 0.17174), the average indicates stability in financial performance. The minimum value of RG (-0.41) and the maximum (0.67) indicate that there are companies that experienced a decrease in revenue and companies that experienced an increase in revenue.

f. Asset Intensity (IA):

The average value of control variable 2 (Z2) IA (0.456) indicates that firms use their assets efficiently. The considerable spread of IA values (standard deviation 0.2569) indicates variation in the efficiency of asset use between companies. The minimum value of IA (0.07) and the maximum (0.90) indicate that there is variation in the level of efficiency of asset use between companies.

g. Debt Structure (DS):

The average value of control variable 3 (Z3) DS (0.0915) indicates that the company's debt structure is healthy. The small distribution of DS values (standard deviation 0.08569) indicates that the debt structure between companies is relatively homogeneous. The minimum value of DS (0.00) and the maximum (0.32) indicate that there is variation in the level of financial risk between companies.

h. Company Size (CS):

The average value of control variable 4 (Z4) CS (16.906) indicates that the company is in the large category. The sizable spread of CS values (standard deviation 1.2427) indicates variation in company size. The minimum value of CS (14.56) and the maximum (18.72) indicate that there is variation in total assets between companies.

Normality Test

This study uses a normality test based on the Kolmogorov-Smirnov Test by looking at the Asymp. Sig. (2-tailed), can be seen in the following table:

Table 2 Normality Test

One-Sample Kolmogorov-Smirnov Test		Unstandardized Residual
N		70
Normal Parameters [a,b]	Mean	0,0000000
	Std. Deviation	0,92316121
Most Extreme Differences	Absolute	0,115
	Positive	0,064
	Negative	-0,115
Test Statistic		0,115
Asymp. Sig. (2-tailed)		.022[c]

Source: data processed (2024)

Based on Table 2, the Kolmogorov-Smirnov normality test, the Asymp. Sig. (2-tailed) value of 0.022. This figure indicates that there is a 2% probability of getting a Kolmogorov-Smirnov value that is more extreme than observed. As this probability is smaller than the commonly used significance level ($α$ = 0.05), the observed sample data is categorized as not normally distributed. Therefore, an alternative attempt is needed to deal with non-normally distributed data by analyzing outliers.

Table 3 Normality Test After Outliers

One-Sample Kolmogorov-Smirnov Test		Unstandardized Residual
N		55
Normal Parameters [a,b]	Mean	0,0000000
	Std. Deviation	0,31746563
Most Extreme Differences	Absolute	0,113
	Positive	0,080
	Negative	-0,113
Test Statistic		0,113
Asymp. Sig. (2-tailed)		,075[c]

Source: data processed (2024)

Based on Figure 3, the Asymp. Sig. (2-tailed) value is 0.075. This figure indicates that there is a 7.5% probability of obtaining a Kolmogorov-Smirnov value that is more extreme than observed. Since this probability is greater than the commonly used significance level ($α$ = 0.05), the observed sample data is categorized as normally distributed.

Figure 1 Histogram Normality

Source: data processed (2024)

Figure 2 P-Plot Normality
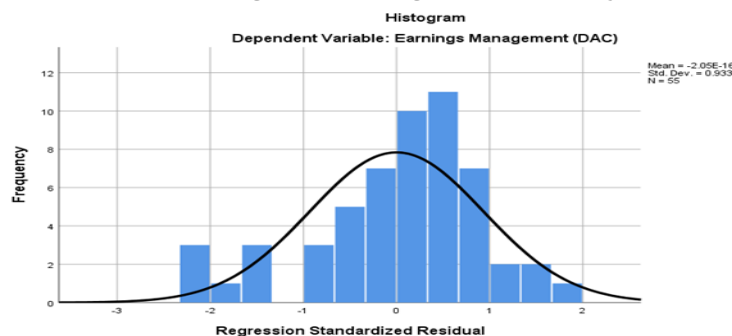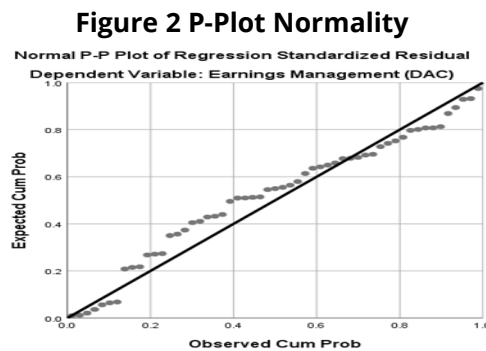
Source: data processed (2024)

Based on Figure 9, it can be seen that the histogram is symmetrical and bell-shaped, in line with Figure 10 which shows that the points on the P-Plot follow the diagonal line so that both of these support the interpretation that the data is normally distributed.

So a revision is made in determining the research object after eliminating outlier data, as follows:

Table 4 Determination Of Research Samples After Outliers

Description	Company
SOE companies listed during the research period (2018-2022)	41
Financial-based SOE companies during the research period (2018-2022)	(4)
Non-financial BUMN companies that did not publish annual reports regularly during the research period (2018-2022)	(11)
Non-financial BUMN companies that do not have data information related to financial statements, activities, audit committee size and competence. during the research period (2018-2022)	(11)
Non-financial BUMN companies that do not present their financial statements in rupiah currency units.	(1)
Number of Samples	**14**
Total Sample (14x5)	**70**
Outlier Data	**15**
Total	**55**

Based on Table 4 then the number of data observations used in this study is 55 which meets the classical assumption test and the next hypothesis.

Multicollinearity Test
Table 5 Multicollinearity Test

Coefficients[a]		
Model	Collinearity Statistics	
	Tolerance	VIF
1 (Constant)		
Aktivitas Komite Audit (X1)	0,925	1,081
Ukuran Komite Audit (X2)	0,771	1,297
Komptensi Komite Audit (X3)	0,785	1,274
Revenue Growth (Z1)	0,931	1,074
Intensity Assets (Z2)	0,402	2,489
Debt Structure (Z3)	0,531	1,884
Company Size (Z4)	0,643	1,554
a. Dependent Variable: Earnings Management (DAC)		

Source: data processed (2024)

The multicollinearity test results in Table 5 show that the tolerance values for all independent variables (X1 ACact, X2 ACsize, X3 ACcomp) and control variables (Z1 RG, Z2 IA, Z3 DS, Z4 CS) are above the recommended 0.10 limit, with a range between 0.402 to 0.925. In addition, the Variance Inflation Factor (VIF) value is also below the threshold value of 10, with a range between 1.074 to 2.489. Based on these criteria, it can be concluded that there is no multicollinearity among the independent or control variables.

Heteroscedasticity Test
Table 6 Glejser Heteroscedasticity Test

Model		Unstandardized		Standardized Coefficients	t	Sig.
		B	Std. Error			
1	(Constant)	-1,255	2,404		-0,522	0,608
	Aktivitas Komite Audit (X1)	0,212	0,169	0,283	1,249	0,227
	Ukuran Komite Audit (X2)	0,045	0,176	0,060	0,256	0,800
	Komptensi Komite Audit (X3)	0,222	0,265	0,205	0,836	0,413
	Revenue Growth (Z1)	0,040	1,296	0,009	0,031	0,976
	Intensity Assets (Z2)	0,289	0,800	0,141	0,361	0,722
	Debt Structure (Z3)	0,969	2,643	0,120	0,367	0,718
	Company Size (Z4)	0,000	0,134	0,000	0,001	0,999

a. Dependent Variable: ABS_RES

Source: data processed (2024)

Based on the analysis of the heteroscedasticity test with the Glejser test on the regression model with the dependent variable 'ABS_RES' and the independent variables of audit committee activity, audit committee size, audit committee competence, as well as the control variables revenue growth, asset intensity, debt structure, and company size, there are no symptoms of heteroscedasticity in the regression model. This conclusion was obtained after transforming the data using 'ABS_RES' as the dependent variable, because in the previous analysis there were symptoms of heteroscedasticity. These results indicate that the assumption of homoscedasticity is met with evidence of all significance values > 0.05.

Autocorrelation Test
Table 7 Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.561[a]	0,315	0,213	0,34029	0,870

a. Predictors: (Constant), Company Size, Debt Structure, Revenue Growth, Aktivitas Komite Audit, Kompetensi Komite Audit, Ukuran Komite Audit, Intensity Assets

b. Dependent Variable: Earnings Management (DAC)

Source: data processed (2024)

Based on Table 7, the results of the Durbin-Watson (DW) test with a DW value of 0.870, and seen in the dw table k = 7 obtained dL = 1.294, and dU = 1.8607, it can be concluded that there is autocorrelation in the regression model. This is appropriate if the DW value is smaller than dL or greater than (4-dL) then the null hypothesis is rejected, which means there is autocorrelation. Therefore, the Cochrane-Orcutt method is used as one of the methods that can be used to overcome autocorrelation problems in regression models. The Cochrane-Orcutt method is performed by calculating the ˆ value (autocorrelation coefficient) using the error value in the regression model with the following results.

Table 8 Autocorrelation Test After Cochranne-Orcutt

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.433[a]	0,188	0,064	0,25335	1,867

a. Predictors: (Constant), Company Size, Lag_X1, Revenue Growth, Lag_X3, Debt Structure, Lag_X2, Intensity Assets

b. Dependent Variable: Lag_Y

Source: data processed (2024)

Based on Table 8, the Durbin-Watson (DW) test results with a value of DW = 1867, and seen in the DW table k = 7 obtained dL = 1.294, and dU = 1.8607, it can be concluded that there is

no autocorrelation in the regression model. This is in accordance with the analysis that the DW value> dL = 1.294, which means this indicates that there is no positive autocorrelation in the regression model. Furthermore, the DW value < 4 - dU = 2.1393. This indicates that there is no negative autocorrelation in the regression model. Based on the analysis of the DW value and dL and dU, it can be concluded that there is no autocorrelation in the regression model. This shows that the residuals of the regression model are not correlated with each other, so the regression results are valid and reliable.

Multiple Linear Regression Analysis Test

Multiple linear regression is used to model the relationship between one dependent variable (response variable) and two or more independent variables (predictor variables) in statistics. The main objective of multiple linear regression is to predict the value of the dependent variable based on the values of the given independent variables. In more detail, the test results can be seen in the following table.

Table 9 Multiple Linear Regression Test

Coefficients^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0,106	0,825		0,128	0,899
	Aktivitas Komite Audit (X1)	0,085	0,055	0,196	1,559	0,126
	Ukuran Komite Audit (X2)	-0,124	0,055	-0,308	-2,243	0,030
	Kompetensi Komite Audit (X3)	0,128	0,105	0,166	1,220	0,229
	Revenue Growth (Z1)	-0,075	0,279	-0,034	-0,268	0,790
	Intensity Assets (Z2)	-0,579	0,284	-0,388	-2,038	0,047
	Debt Structure (Z3)	-1,129	0,742	-0,252	-1,521	0,135
	Company Size (Z4)	-0,009	0,046	-0,028	-0,188	0,852
a. Dependent Variable: Earnings Management (DAC)						

Source: data processed (2024)

Based on Table 9, the regression model for this study is as follows: DAC = 0.106 + 0.085 ACact - 0.124 ACsize + 0.128 ACcomp - 0.075 RG - 0.579 IA - 1.129 DS - 0.009 CS + e

From the regression model, it can be concluded: Of course, the following is a variable analysis based on the adjusted regression model:
1. Audit Committee Activity (ACact): Regression coefficient (0.085). Interpretation: Each one-unit increase in audit committee activity will lead to a (0.085) increase in earnings management (DAC), assuming other variables remain constant.
2. Audit Committee Size (ACsize): Regression coefficient (-0.124). Interpretation: Each one-unit increase in audit committee size will result in a decrease (-0.124) in earnings management (DAC), assuming other variables remain constant.
3. Audit Committee Competence (ACcomp): Regression coefficient (0.128). Interpretation: Each one-unit increase in audit committee competence will result in an increase (0.128) in earnings management (DAC), assuming other variables remain constant.
4. Revenue Growth (RG): Regression coefficient (-0.075). Interpretation: Each one-unit increase in revenue growth will result in a decrease (0.075) in earnings management (DAC), assuming other variables remain constant.
5. Asset Intensity (IA): Regression coefficient (-0.579). Interpretation: Each one unit increase in asset intensity will result in a decrease (0.579) in earnings management (DAC), assuming other variables remain constant.

6. Debt Structure (DS): Regression coefficient (-1.129). Interpretation: Each one unit increase in debt structure will result in a decrease (1.129) in earnings management (DAC), assuming other variables remain constant.
7. Company Size (CS): Regression coefficient (-0.009). Interpretation: Each one-unit increase in firm size will result in a decrease (0.009) in earnings management (DAC), assuming other variables remain constant.

Uji Pengaruh Simultan (Uji F)
Tabel 10 Uji Pengaruh Simultan (Uji F)

ANOVA^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2,500	7	0,357	3,084	,009^b
	Residual	5,442	47	0,116		
	Total	7,942	54			
a. Dependent Variable: Earnings Management (DAC)						
b. Predictors: (Constant), Company Size, Debt Structure, Revenue Growth, Aktivitas Komite Audit, Kompetensi Komite Audit, Ukuran Komite Audit, Intensity Assets						

Source: data processed (2024)

The results of the F test analysis are as follows: There is one regression model that tests the effect of independent variables and control variables on earnings management (DAC). The independent variables tested include audit committee activity (ACact), audit committee size (ACsize), audit committee competence (ACcomp), as well as control variables of revenue growth (RG), asset intensity (IA), debt structure (DS), and company size (CS). This regression model shows the F test result of 3.084 with a significance (Sig.) of 0.009.This indicates that the regression model as a whole has a significant influence on earnings management (DAC), because the significance value (Sig.) is lower than the confidence level used (usually 0.05). Thus, we can accept the hypothesis that at least one independent variable has a significant influence on the dependent variable, which is earnings management (DAC).

Partial Effect Test (T Test)
Based on Table 4.11, it can be analyzed the partial influence between the dependent variable on the dependent by focusing on the interpretation of the t value and significance. Then the following results are obtained:
a. Audit Committee Activity (X1 ACact)
   From the analysis results, the audit committee activity variable has a positive effect on earnings management (DAC), with a t value of 1.559 and a significance (Sig.) of 0.126> 0.05. This indicates that increasing the activity of the Audit Committee has the potential to increase earnings management practices. Thus, hypothesis H1 which states the negative effect of audit committee activity on earnings management is not supported.
b. Audit Committee Size (X2 ACsize)
   The audit committee size variable also has a significant negative effect on earnings management (DAC), with a t value of -2.243 and a significance (Sig.) of 0.030 <0.05. This means that the larger the audit committee size, the less likely earnings management practices will occur. Therefore, hypothesis H2 which states the negative effect of audit committee size on earnings management is supported.
c. Audit Committee Competence (X3 ACcomp):
   The analysis shows that audit committee competence also has a significant negative effect on earnings management (DAC), with a t value of 1.220 and a significance (Sig.) of 0.299 < 0.05. This indicates that the higher the audit committee competence, the higher the earnings

management practice. Thus, hypothesis H3 which states a negative effect of audit committee competence on earnings management is also not supported.

d. Control Variables:

Control variables, such as revenue growth (Z1 RG), debt structure (Z3 DS), and firm size (Z4 CS) have no significant influence on earnings management (DAC), because their significance values are 0.790, 0.135, and 0.852, respectively, which are greater than 0.05. In contrast to the asset intensity control variable (Z2 IA) with a significance value of 0.047 <0.05 and t -2.038, which means that this variable shows a significant negative direction where an increase in asset intensity will reduce earnings management practices.

Test Coefficient of Determination (R² Test)
Table 11 Test Of The Coefficient Of Determination (R² Test)

Model Summary [b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.561[a]	0,315	0,213	0,34029
a. Predictors: (Constant), Company Size, Debt Structure, Revenue Growth , Aktivitas Komite Audit, Kompetensi Komite Audit, Ukuran Komite Audit, Intensity Assets				
b. Dependent Variable: Earnings Management				

Source: data processed (2024)

The results of the coefficient of determination (R^2) test analysis show that the model used has a moderate level of fit. The R^2 value of 0.315 indicates that about 31.5% of the variation in the earnings management (DAC) variable can be explained by the regression model used. After adjustment for the number of predictors, the adjusted r^2 value is 0.213, which indicates about 21.3% of the variation in the dependent variable can be explained by the regression model. Thus, although the regression model provides a significant explanation of the relationship between the independent variables and the dependent variable, there is still some variation in earnings management (DAC) that cannot be explained by the variables used in this model.

DISCUSSION
Effect of Audit Committee Activity on Earnings Management

Based on the analysis, hypothesis 1, which states that audit committee activity has a negative effect on earnings management, is not supported. This hypothesis implies that the more intensive the audit committee activity in a company, the lower the possibility of excessive earnings management practices. However, the findings of this study are just the opposite, the higher the audit committee activity has a positive effect on increasing earnings management practices.

Table 12 Description of Audit Committee Activity Dimension

Dimensi
1	Relationship with external auditors
2	Access to financial reporting and monitoring of IFRS compliance
3	Review of internal control effectiveness
4	Relationship with internal auditor
5	Relationship with the board of commissioners
6	Relationship with the board of directors
7	Total audit committee meetings are at least 3 (three) meetings.

Source: (Mardjono & Chen, 2020), processed by researchers (2024)

In this study, researchers can further examine the hypothesis by looking at the descriptive statistics of the audit committee activity variable (X1 ACact). The average value of the X1 ACact variable in the sample companies is 5.2429 or the audit committee has carried out the 5 dimensions listed in table 12. Thus, the average audit committee activity in the sample is quite good. However, the research findings show that the better the audit committee activity increases earnings management practices.

Table 13 Descriptive Statistical Analysis Of Audit Committee Activity

Klasifikasi Skor ACAct	Data Count	Sum Skor	Sum DAC	Mean DAC
Skor 4	6	24	-1,32	-0,22
Skor 5	22	110	-2,23	-0,10
Skor 6	19	114	0,74	0,04
Skor 7	8	56	-0,05	-0,01
Total (N)	55	304	-2,86	-0,289

Source: data processed (2024)

Based on Table 13. shows that the distribution of research sample data is dominated successively by companies with a score of 5, score 6, score 7, and score 4. However, the dominance of the audit committee activity score is inversely proportional to earnings management practices. It can be seen that the higher the score, the tendency for the average DAC value to be positive, which means a greater risk of earnings management practices. This finding is not in line with the assumption that higher audit committee activity will minimize earnings management practices. This finding reinforces that the lack of meeting intensity between the audit committee and company management is what causes the greater risk of earnings management practices.

The establishment of this standard aims to ensure consistent and quality oversight and risk evaluation from the audit committee on company practices. Increased audit committee activity, which is generally considered a positive step to improve financial reporting quality, has a cautionary side (Ngo & Le, 2021). Although ideally an active audit committee can suppress potential earnings management, some scenarios show the opposite trend. The pressure to achieve high earnings targets may encourage audit committees to approve aggressive accounting practices, even colluding with management to hide earnings as much as possible.The lack of accounting expertise in audit committee members also opens a gap for sophisticated earnings manipulation to pass undetected.

Therefore, it is important to implement a comprehensive approach to improving audit committee effectiveness (Ababneh et al., 2023). Selection of independent and competent members, transparent work processes, and a corporate culture that upholds integrity are key. Strengthening regulation and supervision is equally important to ensure that the audit committee performs its functions optimally and avoids potential earnings manipulation (Ngo & Le, 2021).

The Effect of Audit Committee Size on Earnings Management

Audit committee size refers to the number of members who are members of a company's audit committee. Ideally, the audit committee consists of at least 3 members, with a combination of independent commissioners and parties external to the company (OJK, 2015). Agency theory explains that the audit committee acts as a governance mechanism to minimize conflicts of interest between principals (company owners) and agents (company management). A larger audit committee has more effective supervisory and control capabilities over management, thereby minimizing earnings management practices (Ngo & Le, 2021).

This study examines the effect of audit committee size (ACsize) on earnings management (DAC). The analysis shows that ACsize has a significant negative effect on EM, with a t-value of -2.319 and a significance (Sig.) of 0.024 (<0.05). This means that the greater the ACsize, the less likely the EM. Statistically, the average ACsize is 3.9286, indicating that the audit committee size is ideal. This is because SOE Ministerial Regulation No. Per-3/MBU/03/2023 and POJK No. 55/POJK.04/2015 regulate the establishment and membership of audit committees. The audit committee consists of at least 3 members, with a combination of independent commissioners and external parties.

Thus, in the sample companies the minimum number of audit committee members exceeds the established standards.This study is in line with previous research by (Wijaya & Veronica, 2022), (Ngo & Le, 2021), and (Dwiyanti & Astriena, 2018) which show a negative relationship between ACsize and earnings management. In conclusion, hypothesis 2 which states that ACsize has a negative effect on earnings management is accepted. The greater the ACsize, the less likely earnings management practices will occur. This is in line with agency theory and previous research.

The Effect of Audit Committee Competence on Earnings Management

The analysis shows that audit committee competence (ACcomp) has no influence on earnings management (DAC), with a t value of 1.220 and significance (Sig.) 0.044 (<0.05). The positive t value shows that the higher the ACcomp, the higher the tendency of earnings management practices.

Table 14 Description Of Audit Committee Competency Score

Keterangan Skor	
1	scale 4 means that the audit committee has experience as a controller and accountant
2	scale 3 means that the audit committee has experience as a finance director or expert in finance
3	scale 2 means that the audit committee has experience as a manager outside the financial sector
4	scale 1 means that the audit committee is an expert outside its sector.

Source: (Mardjono & Chen, 2020), processed by researchers (2024)

The unsupported hypothesis is based on descriptive statistical analysis that the average score of 2.89 on the audit committee competency variable (ACcomp) based on Table 14 shows that ACcomp sample companies have experience as finance directors or experts in finance but not as controllers or accountants. Audit committee competence has no direct influence on earnings management, because the formation of audit committees with expertise in finance is usually a matter of compliance with applicable regulations.

However, even so, the financial expertise possessed by audit committee members is expected to help reduce earnings management practices carried out by management. The findings of this study are in line with (Sufiana & Karina, 2020), (Karina, 2020), (Alfiyasahra & Challen, 2020), (Ngo & Le, 2021), (Ababneh et al., 2023), and Ababneh et al., (2023) which state that audit committee competence has no effect on earings management practices.

The Effect of Control Variables on Revenue Growth, Asset Intensity, Debt Structure, and Company Size on Earnings Management

1. Revenue Growth (RG):
   Empirical Analysis: Descriptive results show that the average revenue growth of companies is quite low, only around 4% per year (RG: 0.04). However, partial test shows that revenue

growth has no significant effect on earnings management (significance: 0.790). This indicates that statistically, revenue growth does not affect the company's earnings management practices.

2. Asset Intensity (IA):
   Theoretical Analysis: Asset intensity reflects the efficiency of a firm's use of assets. Companies that are more efficient in using their assets tend to have less need for earnings management because they can generate sufficient profits from their core operations (Wenten et al., 2023).
   Empirical Analysis: The average asset intensity shows efficient use of 0.456 or 45.6%. This is supported by the partial test results showing that asset intensity has a negative significant effect on earnings management (significance: 0.047). This indicates that statistically, asset utilization efficiency significantly negatively affects earnings management practices.

3. Debt Structure (DS):
   Theoretical Analysis: A healthy debt structure can reduce the incentive to perform earnings management because companies tend to be more stable in managing their financial obligations. However, excessive debt structure can also increase pressure to manipulate earnings to meet financial obligations (Thanh et al., 2020).
   Empirical Analysis: Although the average shows a healthy debt structure (DS: 0.0915), the partial test results show that debt structure has no significant effect on earnings management (significance: 0.135). With a t-value of -1.521, this variable shows a negative direction but not significant, which means that an increase in debt structure will have the potential to reduce earnings management practices.

4. Company Size (CS):
   Theoretical Analysis: Larger companies may have more opportunities to perform earnings management because they have greater resources and complexity in their operations (Nalarreason et al., 2019).
   Empirical Analysis: The average firm size is quite large (CS: 16.90), but the partial test results show that firm size has no significant effect on earnings management (significance: 0.852). This indicates that statistically, firm size does not affect earnings management practices.

CONCLUSION

Based on the analysis and findings in the thesis "The Effect of Audit Committee Characteristics on Earnings Management: Case Study on Non-Financial State-Owned Companies for the 2018-2022 Period," several main conclusions can be drawn. The results showed that audit committee activity had no significant effect on earnings management so that H1 was not supported. The findings of this study actually state the tendency of a positive influence where the more intensive the audit committee activity, the higher the potential for earnings management practices. The audit committee size variable shows a significant negative effect on earnings management so that H2 is supported. The larger the audit committee size, the smaller the possibility of earnings management. This research is in line with agency theory which explains the role of governance mechanisms in minimizing conflicts of interest between company owners and management.In line with H1, the competence of the audit committee does not have a significant influence on earnings management so that H3 is not supported. The findings of this study actually state the tendency of a positive influence, which means that the higher the level of competence of audit committee members, the higher the potential for earnings management practices in the company.

The research results from the control variables of revenue growth, debt structure, and company size have no significant effect on earnings management, while asset intensity is proven to have a significant negative effect. This study shows that higher asset intensity can reduce earnings management practices.

SUGGESTION

Suggestions for further research that can be done to develop and complement this research can conduct comparative studies between non-financial SOEs and private companies in the same or different sectors to compare the effect of audit committee characteristics on earnings management. This may provide deeper insights into how audit committee characteristics differ in the context of companies with public and private ownership.

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