

## *The Influence of Good Corporate Governance To the Earnings Management in Banking Companies Listed in Indonesia Stock Exchange Period Year In 2018*

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**Abstract** - This research is aimed to analyze the influence of Good Corporate Governance on the Earnings Management at banking companies listed in Indonesia Stock Exchange (BEI) in the period of 2018. The independent variable in this research is a corporate governance structure that is the size of the Board of Directors (UDD), the Independent Commissioner Board (JDKI), the Audit Committee (KA), the Reputation KAP (KAP), and the Size Company (SIZE). The dependent variable in this research was measured by using discretionary accrual.

The analysis method used in this research is quantitative approach, by using classic assumption test, as well as statistical analysis, which is a multiple linear regression analysis. The sampling method used is purposive sampling to generating. The data used in this research is financial statement data of each sample company, which was published through the website [www.idx.com](http://www.idx.com).

Based on the classic assumption test results, the variables used in this research there was no trouble multicollinearity, in autocorrelation, nor in heteroscedasticity, and the data in this research are normally distributed. The result of hypothesis T-test showed that the reputation KAP does not a significant influence on the Earnings Management, whereas UDD and the JDKI have a significantly positive influence on the Earnings Management. And variable KA and SIZE have significantly negative influence on earnings management. The test results showed that the F-test variables - independent variables simultaneously have a significant influence on the Earnings Management

**Keywords:** Good Corporate Governance, earnings management, size of board directors, board of independent commissioners, reputation of KAP, audit committee, and company size

**Abstrak**—Penelitian ini bertujuan untuk menganalisis pengaruh Good Corporate Governance terhadap Manajemen Laba pada perusahaan perbankan yang terdaftar di Bursa Efek Indonesia (BEI) periode tahun 2018. Variabel independen dalam penelitian ini merupakan struktur corporate governance yaitu Ukuran Dewan Direksi (UDD), Dewan Komisaris Independen (JDKI), Komite Audit (KA), Reputasi KAP (KAP), dan Ukuran Perusahaan (SIZE). Variabel dependen pada penelitian ini adalah Manajemen Laba yang diukur dengan menggunakan discretionary accrual.

Metode analisis yang digunakan dalam penelitian ini adalah metode pendekatan kuantitatif, dengan pengujian asumsi klasik, serta analisis statistik, yaitu analisis regresi linier berganda. Metode pengambilan sampel yang digunakan adalah purposive sampling dengan menghasilkan total sampel pertahun. Data yang digunakan dalam penelitian ini adalah data laporan keuangan dari masing-masing perusahaan sampel, yang dipublikasikan melalui website [www.idx.com](http://www.idx.com).

Berdasarkan hasil uji asumsi klasik, variabel – variabel yang digunakan dalam penelitian ini tidak terjadi masalah multikolinieritas, autokorelasi, heteroskedastisitas, dan data dalam penelitian ini berdistribusi normal. Hasil uji hipotesis T-test menunjukkan bahwa reputasi KAP tidak memiliki pengaruh secara signifikan terhadap Manajemen Laba. Sedangkan UDD dan JDKI memiliki pengaruh positif secara signifikan terhadap manajemen laba. Dan variabel KA dan SIZE memiliki pengaruh negatif secara signifikan terhadap manajemen laba. Hasil uji F-test menunjukkan bahwa variabel – variabel independen secara simultan memiliki pengaruh signifikan terhadap manajemen laba

**Kata Kunci:** Good Corporate Governance, Manajemen Laba, Ukuran Dewan Direksi (UDD), Dewan Komisaris Independen (JDKI), Komite Audit (KA), reputasi Kantor Akuntan Publik (KAP), dan Ukuran Perusahaan (SIZE)

## I. PRELIMINARY

In the current era of globalization, the business world has experienced intense competition. Developing countries are required to implement a new and better system in business management based on the principles of good corporate governance, often called Good Corporate Governance (Wulandari, 2013). The rise of scandals and fraud of financial statements is related to manipulation of companies that have gone public. It is believed that it is due to the failure to implement a bad corporate governance system

On January 30, 2006, Bank Indonesia issued PBI / 8/4 / PBI / 2006 regarding implementation good corporate governance for Commercial Banks, hereinafter amended by PBI No.8 / 14 / PBI / 2006. Apply GCG It is the most important part in every banking transaction because banking is the industry that is most vulnerable and most sensitive to crises, therefore it is natural to apply it GCG in

the banking industry, including the most advanced. Application of the principle GCG an irresistible imperative, especially public banks.

Hence, the concept *Good Corporate Governance* is expected to function as a tool to monitor bank performance and provide confidence to investors that they will receive *return* in accordance with the investment that has been invested.

This study replicates the research conducted by (Sari, 2014), by replacing the research object of financial sector companies (banking) listed on the Indonesia Stock Exchange (BEI). This study seeks to investigate the existence of earnings management practices and to re-examine the factors that influence it, namely the independent board of commissioners, the size of the board of directors, the reputation of KAP, the audit committee, and the size of the company. Based on the description above, this research is given a title "**The Effect of Good Corporate Governance on Earnings Management in banking companies listed on the Indonesia Stock Exchange in the 2018 Period**"

### **1.1. Formulation of the problem**

Based on the background of the problems that have been presented above, the problem formulations in this study are as follows:

1. Does the size of the Board of Directors affect earnings management in banking companies listed on the Indonesia Stock Exchange in 2018?
2. Does the Independent Board of Commissioners have an effect on Earnings Management in banking companies listed on the Indonesia Stock Exchange in 2018?
3. Does the Audit Committee affect earnings management in banking companies listed on the Indonesia Stock Exchange in 2018?
4. Does the reputation of KAP affect earnings management in banking companies listed on the Indonesia Stock Exchange in 2018?
5. Does company size affect earnings management in banking companies listed on the Indonesia Stock Exchange in 2018?
6. Do the size of the Board of Directors, the Independent Commissioner, the Audit Committee, the reputation of KAP and the size of the company jointly affect the earnings management of banking companies listed on the Indonesia Stock Exchange 2018?

### **1.2. Research purposes**

Starting from the background of the problems above, the objectives of this study are:

1. Analyzing the size of the board of directors that affects earnings management in banking companies listed on the Indonesia Stock Exchange in 2018?
2. Analyzing the Independent Board of Commissioners which affects Earnings Management in banking companies listed on the Indonesia Stock Exchange in 2018?
3. Analyzing the Audit Committee which affects earnings management in banking companies listed on the Indonesia Stock Exchange in 2018?
4. Analyzing the reputation of KAP which affects Earnings Management in banking companies listed on the Indonesia Stock Exchange in 2018?
5. Analyzing Company size that affects Earnings Management in banking companies listed on the Indonesia Stock Exchange in 2018?
6. Analyzing the size of the Board of Directors, the Board of Independent Commissioners, the Audit committee, the reputation of KAP and the size of the company together have an effect on earnings management in banking companies listed on the Indonesia Stock Exchange in 2018?.

## **II. LITERATURE REVIEW**

### **2.1. Agency Theory**

Sutedi (2011; 13-17) Agency theory is one of the pillars in the theory of finance which provides analytical insights to be able to study the impact of the relationship between agent and principal or principal and principal. The definition of principal in agency theory is the party who gives up part or all of his wealth to be developed who gives up part or all of his wealth to be developed by other parties..

## **2.2. Good Corporate Governance**

Good Corporate Governance (GCG) is considered as one of the mechanisms to minimize the occurrence of earnings management which can harm parties others (Indriani, 2010).

According to Cadbury Committee, good corporate governance is the principle that directs and controls the company in order to achieve a balance between the strength and authority of the company in providing accountability to shareholders in particular and stakeholders in general. Of course this is intended to regulate the authority of directors, managers, shareholders, and other parties related to the development of the company in a certain environment

## **2.3. Earnings Management**

According to Sulistyanto (2008), earnings management is an attempt by company managers to influence information in financial statements with the aim of tricking stakeholders who want to know the company's performance and condition. Earnings management is done by playing with the accrual components in the financial statements, because accruals are a component that is easy to play with according to the wishes of those who record transactions and prepare financial reports. Because the accrual component is a component that does not require physical evidence of cash so that attempts to play with the size of the accrual component do not have to be accompanied by cash received or disbursed by the company.

## **2.4. Company Size**

Company size is the scale in which the company can be classified according to various ways. The size of the company can be expressed in terms of total assets, sales and market capitalization. The bigger the asset, the more capital is invested, the more sales, the more circulation of money and the greater the market capitalization, the greater it is known in the community (Sudarmaji & Sularto, 2007)

## **2.5. Bank**

Banking is everything related to a bank, including institutions, business activities, and methods and processes for carrying out its business activities. While a bank is a financial business entity that collects funds from the public in the form of credit and / or the public at large (Darmawi, 2011: 1) Indonesian banking institutions consist of the Central Bank, Commercial Bank and Rural Bank.

According to Law no. 10 of 1998 concerning banking, a bank is a business entity that collects funds from the public in the form of savings and distributes them to the public in the form of credit and / or other forms in order to improve the standard of living of the people at large.

## **2.6. Relationship Between Research Variables**

### **2.6.1. Board of Directors**

The board of directors is a corporate organ that holds executive power in the company. The Board of Directors controls the day-to-day operations of the company within the limits stipulated by the Company Law, Articles of Association and GMS and is under the supervision of the Board of Commissioners. The main duties and functions are to carry out the wheels of the company's management as a whole and strive for the company to carry out its social responsibility and also to comply with the prevailing laws and regulations in Indonesia. Thus, every member of the board of

directors must be a person with good character, experience, competence to occupy the position, and carry out every activity solely for the benefit of the company.

The composition of the board of directors must always be adjusted to the needs and development of the company. The Board of Directors should be a mix of professionals who have the knowledge and experience that the company really needs, both officials from the company itself and from outside professionals.

In addition, they must meet the following criteria: educational background, knowledge and experience appropriate to hold positions as members of the board of directors; can cooperate and respect other parties; understand either the industrial or business sector the company is engaged in and have the special skills needed to carry out their duties (Daniri, 2014: 103-105). The board of directors is one of the indicators in good corporate governance, which is tasked with establishing an effective internal control system to safeguard company investments and assets.

### **2.6.2. Independent Board of Commissioners**

According to Daniri (2014), a commissioner is a board that has the responsibility and authority to supervise the actions of the directors in terms of carrying out their duties as best as possible for the benefit of the company and shareholders, ensuring that the company always carries out its social responsibility and monitors the effectiveness of the implementation of GCG carried out by the company.

Fama and Jensen (1983) (in Aji, 2012) states that independent commissioners can act as mediators in disputes between internal managers and supervise management policies and provide advice to management. An independent commissioner is in the best position to carry out the monitoring function in order to create a good corporate governance company.

### **2.6.3. Audit Committee**

Since being recommended by the Indonesia Stock Exchange in 2000, the Audit Committee has become a general component in the good corporate governance structure of public companies. The audit committee usually consists of 2 to 3 members chaired by an independent commissioner. The audit committee functions as a supervisor of the process of making financial reports and internal supervision (Daniri, 2014: 250)

According to Kep.29 / PM / 2004, an audit committee is a committee formed by the board of commissioners to carry out supervisory duties in the management of a company. The existence of an audit committee is very important for company management. The audit committee is a new component in the company's control system, besides that the audit committee is considered a liaison between shareholders and the board of commissioners and management in handling control problems (Aji, 2012).

### **2.6.4. Reputation of KAP**

To increase the credibility of the financial statements, companies tend to use the services of a public accounting firm that is affiliated with a reputable KAP. In the Regulation of the Minister of Finance of the Republic of Indonesia Number 17 / PMK.01 / 2008 article 16, it is stated that KAP (Public Accounting Firm) can take the form of:

- a) Individual: KAP in the form of an individual business entity can only be established and run by a Public Accountant who also acts as a leader.
- b) Partnership: KAP in the form of a partnership business entity can only be established at least 2 Public Accountants, where each partner is a partner and an ally acts as a Partner Leader.

In this research, the public accounting firm's reputation variable is a public accounting firm affiliated with an international standard KAP, including the big four, namely:

- a) *Deloitte Touche Tohmatsu* (Deloitte) affiliated with Hans Tuanakotta Mustofa & Halim; Osman Ramli Satrio & Partners; Osman Bing Satrio & Partners.

- b) *Ernst & Young (EY)* affiliated with Prasetio, Sarwoko & Sandjaja; Purwantono, Sarwoko & Sandjaja.
- c) *Klynveld Peat Marwick Goerdeler (KPMG)* which is affiliated with Siddharta & Widjaja.
- d) *PricewaterhouseCooper (PwC)* which is affiliated with Haryanto Sahari & Rekan; Tanudiredja, Wibisena & Partners.

## **2.7. Hypothesis Development**

According to Prof. Dr. S. Nasution, Hypotheses are conjectures about what we observe in an attempt to understand them. (Nasution: 2000)

According to Sugiyono (2016: 64) the hypothesis is: "temporary answers to the formulation of research problems, where the formulation of research problems has been stated in the form of a question sentence".

### **2.7.1. The influence of the size of the board of directors (UDD) has on earnings management (DAit) in banking companies.**

In research conducted by (Lindawati, 2019) The size of the Board of Commissioners has a significant effect on Earnings Management. This is in line with research conducted by Panky Pradana Sukandar, Rahardja (2014) which states that the size of the board of directors has a significant effect on the company's financial performance, with the separation of roles from the board of commissioners, the board of directors has great power in managing all available resources. within the company so that each director has a more focused task and authority so that the company's performance will increase.

Based on previous analysis and research, a hypothesis is formulated which is presented as follows:

H1: It is suspected that the variable size of the Board of Directors (UDD) has a partially significant effect on earnings management (DAit) in banking companies.

### **2.7.2. The influence of the composition of the Independent Commissioner (JDKI) on Earnings Management (DAit) in banking companies.**

The results of research conducted by (Sutino & Khoiruddin, 2016), shows that the proportion of independent commissioners affects earnings management, this is supported by research conducted by Dwi Astika Sari (2014) that independent commissioners affect earnings management and research conducted (Abdillah & Purwanto, 2016)

Based on previous analysis and research, a hypothesis is formulated which is presented as follows:

H2 = It is suspected that the Independent Commissioner Board (JDKI) composition variable has a partially significant effect on management Profit (DAit) in banking companies.

### **2.7.3. The Effect of the Audit Committee (KA) on Earnings Management (DAit) in banking companies.**

The existence of the audit committee is in charge of supporting the supervisory function of management, this is done so that management is not opportunistic. The more members of the audit committee will improve the performance of the audit committee. This will result in an increased supervisory function, so that the quality of reporting carried out by management is guaranteed.

The results of research conducted by (Abdillah & Purwanto, 2016) with the regression analysis method after testing the classical assumptions and getting results that the Audit Committee has an effect on earnings management.

Based on previous analysis and research, a hypothesis is formulated which is presented as follows:

H3 = It is suspected that the Audit Committee (KA) variable has a partially significant effect on earnings management (DAit) in banking companies.

**2.7.4. The Effect of Company Size (SIZE) on Earnings Management (DAit) in banking companies.**

(Lindawati, 2019) shows that company size on earnings management has a significant effect on earnings management. This happens that every company has the same interest to look good to investors in having the same tendency to make profits, both small and large companies, this shows that large companies do not always get better performance compared to smaller companies.

Based on previous analysis and research, the first hypothesis is formulated which is presented as follows:

H4 = It is suspected that the Firm Size Variable (SIZE) has partially significant influence on Earnings Management (DAit) in banking companies.

**2.7.5. The influence of the size of the Public Accounting Firm (KAP) on Earnings Management (DAit) in banking companies.**

The results of research conducted by (Sari, 2014) shows that the size of the public accounting firm (KAP) affects earnings management. That when the audit quality of KAP is getting higher, KAP is able to better detect accrual earnings management, so the company management tends to prefer to do real earnings management.

Based on previous analysis and research, the first hypothesis is formulated which is presented as follows:

H5 = It is suspected that the variable size of the Public Accounting Firm (KAP) has a partial effect on Profit Management (DAit) at Banking companies.

**2.7.6. The Influence of Public Accountant Firm's Reputation, Composition of Independent Commissioners, Audit Committee, Board of Directors Size, and Company Size on Earnings Management.**

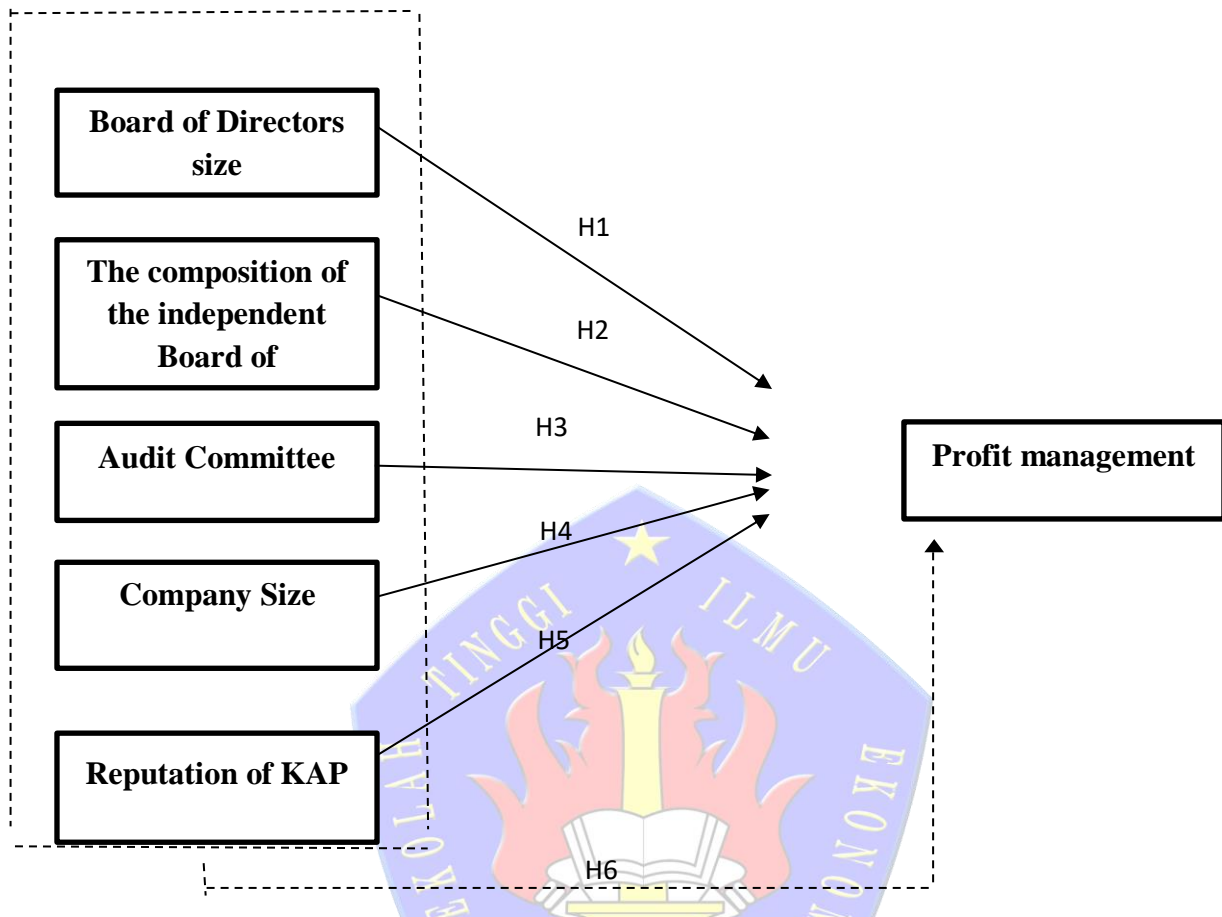
Based on the provisional assumption H1, H2, H3, H4, H5 can be integrated into the Hypothesis (H6), namely it is assumed that the reputation of the public accounting firm and company size does not have a significant influence on earnings management and the composition of the Independent Commissioner, Audit Committee, and the size of the Board of Directors collectively. have the same significant effect and on earnings management.

H6 = It is suspected that the reputation of the public accounting firm and company size have a significant influence on earnings management and the composition of the Independent Commissioner, Audit Committee, and Board of Directors size together have a significant effect on management. Profit.

**2.8. Kframework Conceptual Research**

The weak implementation of good corporate governance in Indonesia shows that there are many cases of manipulation of earnings that are often carried out by management, causing companies to implement supervisory or monitoring mechanisms to minimize earnings management practices. The implementation of good corporate governance is expected to create a climate of good and more transparent governance. The implementation of good corporate governance, especially the board of directors, independent commissioners, and the existence of an audit committee, is thought to be able to influence earnings management practices. Therefore, this study aims to analyze the presence or absence and strength of the relationship between the dependent variable in the form of earnings management and the independent variable, the size of the board of directors, the composition of the independent board of commissioners, the existence of an audit committee, the reputation of KAP, and company size.

Picture 2.2  
Research Conceptual Framework



### III. RESEARCH METHOD

#### 3.1. Research Strategy

This research uses two variables, namely the dependent variable (dependent variable) and the independent variable (independent variable). The dependent variable used in this study is earnings management, which is measured using discretionary accruals.

#### 3.2. Population and Sample Research

The population used in this study were all banking companies listed on the Indonesia Stock Exchange (IDX) in 2018. The determination of the sample of companies was carried out using the purposive sampling method, namely samples based on the suitability of certain characteristics and criteria. The selection of research sample members is based on the following criteria:

- Banking companies listed on the IDX in 2018
- Companies that issue audited financial statements for the period ended December 31, 2018 on the Indonesia Stock Exchange.
- Data on the research variables to be studied are available in full in the company's annual financial statements published in 2018.



- d. During the observation period, the company did not experience a loss.
- e. Companies that present financial reports in rupiah.

The sample is part of the number and characteristics of the population (Sugiyono, 2016). The sample used in this study is a banking company listed on the Indonesia Stock Exchange (BEI). The sampling method used was purposive sampling, namely sampling with certain criteria based on the interests or objectives of the study

### **3.3. Data Analysis Methods**

#### **3.3.1. Descriptive Statistical Analysis**

Descriptive statistics to find a description or description of data regarding the standard deviation, average, minimum, maximum, and the variables under study. Descriptive statistics describe the data into clearer and easier information understood (Wulandari, 2013).

According to Ningsapti (2010) Mean is used to find out the average of the data concerned. Standard deviation is used to determine how much the data in question varies from the average. Maximum is used to find the largest amount of data in question. Minimum is used to determine the smallest amount of data in question.

#### **3.3.2. Classic assumption test**

##### **3.3.2.1. Normality test**

The normality test aims to test whether in the regression model, confounding or residual variables have a normal distribution. According to Ghozali (2013: 161) there are two ways to detect whether the residuals are normally distributed or not, namely by means of graphic analysis and statistical analysis. By using multiple linear regression models to determine whether the residual variable is normal or not. With the provisions, if:

Jarque-Bera value calculated  $>$  Chi-Square: Residual variables in the regression model used were not normally distributed

Jarque-Bera value count  $<$  Chi-Square: Residual variables in the regression model used are normally distributed

##### **3.3.2.2. Multicollinearity Test**

The purpose of the multicollinearity test aims to test whether the regression model finds a correlation between independent variables (Ghozali, 2013: 105). There must be no multicollinearity among the explanatory variables in the model which is indicated by a perfect relationship or a high relationship among some or all of the explanatory variables (Sangadji, 2010). To detect the presence or absence of multicollinearity in the regression model as follows (Ghozali, 2013: 105):

1. The resulting R<sup>2</sup> value is very high, but individually many independent variables are not significant and affect the independent variables.
2. Analyze the correlation matrix of independent variables. If it is high enough, then there is multicollinearity.
3. Judging from the tolerance value and variance inflation factor (VIF).

According to Widarjono (2013: 104), if the correlation coefficient between independent variables is above 0.85, it is assumed that there is multicollinearity in the model. Conversely, if the correlation coefficient between the independent variables is below 0.85 then there is no multicollinearity symptom in the model.

##### **3.3.2.3. Heteroscedasticity Test**

The heteroscedasticity test aims to test whether in the regression model there is an inequality of the variance of the residuals from one observation to another. How to detect the presence or absence of heteroscedasticity by: (1) looking at the plot graph between the predicted values of the dependent variable, (2) Park's test, (3) Glejser's test, and (4) White's test.

In this study, the heteroscedasticity test was performed using the Glejser test to determine whether the regression model had heteroscedasticity problems or not. Heteroscedasticity is a condition where there is an inequality of variants of error for all observations of each independent variable in the regression model.

#### 3.3.2.4. Autocorrelation Test

The autocorrelation test aims to test whether in the linear regression model there is a correlation between confounding error in period t and confounding error in period t-1 (previous). Autocorrelation arises because consecutive observations all the time are related to one another (Ghozali, 2013: 112) to test autocorrelation, among others, by performing the Durbin Watson Test, Langrange Multiplier Test, Q Statistics Test: Box Pierce and Ljung Box and Run Test (Ghozali, 2013). To be able to find out the autocorrelation test through the Durbin Watson Statistical test. Taking autocorrelation, as follows:

- 1) If  $0 < d < d_L$ , then there is no positive autocorrelation, the hypothesis is rejected.
- 2) If  $d_L \leq d \leq d_U$ , then there is no positive autocorrelation, there is no decision / it cannot be concluded.
- 3) If  $4 - d_L < d < 4$ , then there is no negative autocorrelation, the hypothesis is rejected.
- 4) If  $4 - d_U < d < 4 - d_L$  then there is no negative autocorrelation, it cannot be concluded.
- 5) If  $d_U < d < 4 - d_U$ , there is no positive or negative autocorrelation.

#### 3.3.3. Hypothesis testing

Hypothesis testing in this research uses multiple regression analysis because multiple linear regression analysis can be used to obtain a comprehensive picture of the overall relationship between the dependent and independent variables, either simultaneously or partially. This study uses the EViews 9.0 software program as a data processing program. Data processing activities with Microsoft Office Excel 2016 include making tables and charts for descriptive analysis.

The regression model developed to test the hypotheses formulated in this study are:

|                       |  |
|-----------------------|--|
| Formula :             |  |
| DA                    | $= \alpha + \beta_1 UDD + \beta_2 DKI + \beta_3 KA + \beta_4 SIZE + \beta_5 KAP + e$ |
| Information :         |  |
| DA                    | = discretionary accruals (proxy from management profit)                              |
| $\alpha$              | = constant   |
| $\beta_{1,2,3,4,5}$ , | = coefficient regression   |
| UDD                   | = board size directors   |
| DKI                   | = board of commissioners independent   |
| KA                    | = committee size audit   |
| SIZE                  | = size company   |
| HOOD                  | = size HOOD  |
| e                     | = coefficient error  |

(Source: Development from various sources)

The analysis of the regression results was carried out through the following steps:

##### 3.3.3.1. Significance test of individual parameters (T statistical test)

Ghozali (2013) states, the t statistical test basically shows how far the influence of one independent variable individually is in explaining the dependent variable. In the t test, the calculated t value will be compared with the t table value, done in the following way:

- 1) If  $t >$  from t table or the probability is smaller than the significance level (Sig  $< 0.05$ ), then  $H_a$  is accepted and  $H_o$  is rejected, the independent variable has an effect on the dependent variable.
- 2) If  $t <$  from t table or the probability is greater than the significance level (Sig  $> 0.05$ ) then  $H_a$

is rejected and  $H_0$  is accepted, the independent variable has no effect on the dependent variable.

### 3.3.3.2. Simultaneous significance test (F statistical test)

The F test is used to test whether the regression model used is correct. The conditions used in the F test are as follows:

- 1) If F count is greater than F table or the probability is smaller than the significance level ( $\text{sig} < 0.05$ ), then the research model can be used or the model is correct.
- 2) If F count is less than F table or the probability is greater than the significance level ( $\text{sig} > 0.05$ ), then the research model cannot be used or the model is not correct.

### 3.5.3.3. R2 test or Coefficient of Determination

The coefficient of determination measures how far the model's ability to explain the dependent variable. The value of the coefficient of determination is between 0 and 1. A small R2 value means that the ability of the independent variable to explain the dependent variable is limited, and vice versa (Ghozali, 2013).

## IV. RESULTS AND DISCUSSION

### 4.1. Description of Research Object

The sample selection was done by using purposive sampling method. Based on predetermined criteria, the number of samples used in this study were 30 companies with each observation period of 1 year

#### List of banking companies that are the object of research

| No | NAMA PERUSAHAAN                              | SAHAM |
|----|--|-------|
| 1  | Bank Rakyat Indonesia Agro Niaga Tbk         | AGRO  |
| 2  | Bank MNC Internasional Tbk                   | BABP  |
| 3  | Bank Capital Indonesia Tbk                   | BACA  |
| 4  | Bank Bukopin Tbk                             | BBKP  |
| 5  | Bank Negara Indonesia (persero) Tbk          | BBNI  |
| 6  | Bank Danamon Indonesia Tbk                   | BDMN  |
| 7  | Bank Ganesha Tbk                             | BGTG  |
| 8  | Bank Jabar Banten Tbk                        | BJBR  |
| 9  | Bank Pembangunan Daerah Jawa Timur Tbk       | BJTM  |
| 10 | Bank QNB Indonesia Tbk                       | BKSW  |
| 11 | Bank Maspion Indonesia Tbk                   | BMAS  |
| 12 | Bank Mandiri (Persero) Tbk                   | BMRI  |
| 13 | Bank Bumi Arta Tbk                           | BNBA  |
| 14 | Bank CIMB Niaga Tbk                          | BNGA  |
| 15 | Bank Negara Indonesia Tbk                    | BNII  |
| 16 | Bank Permata Tbk                             | BNLI  |
| 17 | Bank BRI Syariah Tbk                         | BRIS  |
| 18 | Bank Sinar Mas Tbk                           | BSIM  |
| 19 | Bank Of India Indonesia Tbk                  | BSWD  |
| 20 | Bank Tabungan Pensiun Nasional Tbk           | BTPN  |
| 21 | Bank Tabungan Pensiunan nasional Syariah Tbk | BTPS  |
| 22 | Bank Oke Indonesia Tbk                       | DNAR  |
| 23 | Bank Artha Graha International Tbk           | INPC  |
| 24 | Bank Windu Kentjana International Tbk        | MCOR  |
| 25 | Bank Mega Tbk                                | MEGA  |
| 26 | Bank NISP OCBC Tbk                           | NISP  |
| 27 | Bank National Nobu Tbk                       | NOBU  |
| 28 | Bank Pan Indonesia Tbk                       | PNBM  |
| 29 | Bank Himpunan Saudara 1906 Tbk               | SDRA  |
| 30 | Bank Panin dubai syariah Tbk                 | PNBS  |

Source: Secondary data processed, 2020

#### 4.2. Descriptive Statistics of Research Variables

Descriptive data processing is the simplest data processing that can be done to obtain more detailed information from a data group. Statistics provide an overview of the data seen from the minimum, maximum, average (mean) and standard deviation values resulting from the research variables. The results of descriptive statistical analysis were processed using the Eviews 9.0 program which is described in the table below:

**Table 4.3**  
**Descriptive Statistics Results**

|              | DAIT      | UDD      | JDKI      | KA        | SIZE      | HOOD      |
|--------------|-----------|----------|-----------|-----------|-----------|-----------|
| Mean         | 0.738277  | 1.660619 | 1.223812  | 1.349822  | 24.31229  | 0.466667  |
| Median       | 0.708504  | 1.609438 | 1.292453  | 1.386294  | 24.25386  | 0.000000  |
| Maximum      | 1.099614  | 2.079442 | 1.693147  | 1.609438  | 27,81522  | 1,000000  |
| Minimum      | 0.329654  | 1.079442 | 0.500000  | 1.069315  | 21,28390  | 0,000000  |
| Std. Dev.    | 0.281741  | 0.291038 | 0.342333  | 0.151835  | 1.584194  | 0.507416  |
| Skewness     | -0.052375 | 0.003544 | -0.716979 | -0.111921 | -0.090534 | 0.133631  |
| Kurtosis     | 1.476356  | 1.774697 | 2.421810  | 1.864595  | 2.426910  | 1.017857  |
| Jarque-Bera  | 2.915580  | 1.876773 | 2.988176  | 1.674063  | 0.451523  | 5,000399  |
| Probability  | 0.232750  | 0.391259 | 0.224453  | 0.432994  | 0.797909  | 0.082069  |
| Sum          | 22,14832  | 49,81858 | 36,71436  | 40,49467  | 729,3686  | 14,00000  |
| Sum Sq. Dev. | 2,301966  | 2,456385 | 3,398563  | 0,668560  | 72,78048  | 7,466,667 |
| Observations | 30        | 30       | 30        | 30        | 30        | 30        |

Source: Data Processing Output *Eviews 9.0*, 2020

Based on table 4.3 the results of the descriptive statistical analysis above, it can be seen that the number of research observations (N) is 30. The minimum value of the DAIt (earnings management) variable is 0.329654 and the maximum value is 1.099614 with an average value of 0.738277 and a standard deviation of 0.281741, if the value is negative means that the company carries out earnings management by reducing profits and a positive value means that the company increases profits.

In the KAP variable, it has a minimum value of 0 which means that banking companies do not use Big Four KAP services, while the value of 1 means that the bank uses Big Four KAP in auditing its financial statements. The average (mean) value in this KAP variable shows the number 0.46, which means that 46% of banks use Big Four KAP services.

In the independent board of commissioners (JDKI) variable, the minimum value is 0.500000, the maximum value is 1.693147, the mean is 1.223812, and the standard deviation is 0.342333. It appears that the average company has 122% independent commissioners with a standard deviation of 34%. This means that the sample companies have met the regulations in the Decree of the Directors of the Jakarta Stock Exchange No. Kep.315 / BEJ / 06-2000 which states that the effective independent composition in a company is at least 30% of the total number of commissioners. While the audit committee variable shows a minimum value of 1.069315 and a maximum of 1.609438 with an average of 1.349822 and standard deviation of 0.151835. And on the variable size of the board of directors the minimum value is 1.079442 and the maximum value is 2.079442 with an average of 1.660619 and a standard deviation of 0.291038.

The minimum value of the SIZE variable which is proxied with the minimum natural logarithm is 21.28 and the maximum value is 27.8 with an average value of 24.31 while the standard deviation is 1.58. From these results it can be concluded that the data for all variables are classified as good because the standard deviation value is below 2.5.

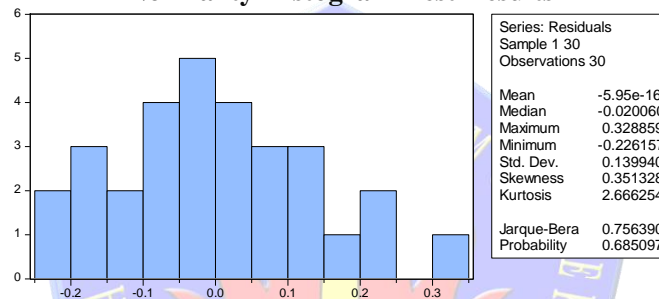
**4.3. Classic assumption test**

In order for the regression model used in this study to produce the appropriate value, the data must first meet three classical assumption tests. The classical assumption test that has been done and the results are as follows:

**4.3.1. Normality test**

The normality test aims to test whether the regression model, confounding variables or residuals are normally distributed. According to Ghozali (2018: 161) there are two ways to detect whether the residuals are normally distributed or not, namely by means of graphic analysis and statistical analysis. In the Eviews 9.0 program, the normality of a data can be determined by comparing the Jarque-Bera (JB) value and the Chi Square table value. The JB test is obtained from the normality histogram. With the condition that if the Value of JB Count > Chi-Square, then the Residual Variable in the Model The regression used is not normally distributed, whereas if the value of JB is calculated < *Chi-Square* means that the Residual Variables in the Regression Model used are normally distributed.

**Figure 4.1**  
**Normality Histogram Test Results**



Source: Eviews 9.0 (2020) data processing output

Based on the histogram above, the JB value is 0.756390 while the Chi-Square value by looking at the number of independent variables in this study is 5 independent variables and constants with a significant value of 0.05 or 5%. Obtained a Chi-Square value of 12.59159, which means that the JB value is smaller than the Chi-Square value ( $0.756390 < 12.59159$ ). It can be concluded that the data in this study were normally distributed.

Based on the results of the normality test that has been carried out above, the results of multiple linear regression calculations are as follows:

**Figure 4.2**  
**Results of Multiple Linear Regression Calculation**

| Dependent Variable: DAIT   |             |            |             |        |
|----------------------------|-------------|------------|-------------|--------|
| Method: Least Squares      |             |            |             |        |
| Date: 08/09/20 Time: 10:37 |             |            |             |        |
| Sample: 1 30               |             |            |             |        |
| Included observations: 30  |             |            |             |        |
| Variable                   | Coefficient | Std. Error | t-Statistic | Prob.  |
| C                          | -1.482938   | 0.646491   | -2.293827   | 0.0309 |
| UDD                        | 0.543824    | 0.129150   | 4.210811    | 0.0003 |
| JDKI                       | 0.305829    | 0.108640   | 2.815072    | 0.0096 |

|                    |           |                       |           |        |
|--------------------|-----------|-----------------------|-----------|--------|
| KA                 | 0.239176  | 0.226703              | 1.055020  | 0.3019 |
| SIZE               | 0.027779  | 0.023546              | 1.179782  | 0.2496 |
| HOOD               | -0.116478 | 0.075772              | -1.537211 | 0.1373 |
| R-squared          | 0.753292  | Mean dependent var    | 0.738277  |        |
| Adjusted R-squared | 0.701894  | SD dependent var      | 0.281741  |        |
| SE of regression   | 0.153828  | Akaike info criterion | -0.729105 |        |
| Sum squared resid  | 0.567914  | Schwarz criterion     | -0.448866 |        |
| Log likelihood     | 16.93658  | Hannan-Quinn criter.  | -0.639454 |        |
| F-statistic        | 14,65618  | Durbin-Watson stat    | 1.907688  |        |
| Prob (F-statistic) | 0.000001  |                       |           |        |

Source: Eviews 9.0 (2020) Data Processing Output

#### 4.3.2. Multicollinearity Test

Multicollinearity test aims to test whether the regression model found a correlation between independent variables (independent). Testing of the presence or absence of multicollinearity is carried out using the correlation coefficient method between the independent variables (Ghozali, 2013: 105).

According to Widarjono (2013: 104), if The correlation coefficient between the independent variables is above 0.85, so it is suspected that there is multicollinearity in the model. Conversely, if the correlation coefficient between the independent variables is below 0.85, there is no multicollinearity symptom in the model.

**Table 4.4**

**Multicollinearity Test Results**

|      | UDD      | JDKI     | KA       | SIZE     | HOOD     |
|------|----------|----------|----------|----------|----------|
| UDD  | 1,000000 | 0.538361 | 0.393231 | 0.380926 | 0.492146 |
| JDKI | 0.538361 | 1,000000 | 0.490457 | 0.315321 | 0.329334 |
| KA   | 0.393231 | 0.490457 | 1,000000 | 0.023857 | 0.224150 |
| SIZE | 0.380926 | 0.315321 | 0.023857 | 1,000000 | 0.595888 |
| HOOD | 0.492146 | 0.329334 | 0.224150 | 0.595888 | 1,000000 |

Source: Eviews 9.0 (2020) data processing output

From the results of the correlation coefficient test between the independent variables, because each variable in the table shows that nothing is more than 0.85, it can be concluded that there is no multicollinearity between the independent variables of the Independent Board of Commissioners (JDKI), the Audit Committee (KA), Public Accounting Firm (KAP), Size of the Board of Directors (UDD) with Company Size (SIZE).

#### 4.3.3. Heteroscedasticity Test

The heteroscedasticity test aims to test whether in the regression model there is an inequality of the variance of the residuals from one observation to another. In this study, the heteroscedasticity test was carried out using the Glejser test to determine whether the regression model had heteroscedasticity problems or not. If the explanatory (independent) variable statistically affects the residuals, then it can be ascertained that this model has a heteroscedasticity problem. A good regression model is that there is no heteroscedasticity or homoscedasticity (Ghozali, 2013).

**Figure 4.3**  
**Heteroscedasticity Test Results**

| Heteroskedasticity Test: Glejser   |             |                       |               |        |
|--|-------------|-----------------------|---------------|--------|
| F-statistic  | 0.662353    | Prob. F (5.24)        | 0.6554        |        |
| Obs * R-squared  | 3,637737    | Prob. Chi-Square (5)  | <b>0.6027</b> |        |
| Scaled explained SS  | 2.762279    | Prob. Chi-Square (5)  | 0.7366        |        |
| Test Equation:<br>Dependent Variable: ARESID<br>Method: Least Squares<br>Date: 08/09/20 Time: 10:42<br>Sample: 1 30<br>Included observations: 30 |             |                       |               |        |
| Variable   | Coefficient | Std. Error            | t-Statistic   | Prob.  |
| C  | 0.497422    | 0.355915              | 1.397585      | 0.1750 |
| UDD  | -0.033801   | 0.071101              | -0.475387     | 0.6388 |
| JDKI   | -0.023209   | 0.059810              | -0.388054     | 0.7014 |
| KA   | 0.071919    | 0.124808              | 0.576239      | 0.5698 |
| SIZE   | -0.017269   | 0.012963              | -1.332239     | 0.1953 |
| HOOD   | 0.0455542   | 0.411715              | 1.091748      | 0.2858 |
| R-squared  | 0.121258    | Mean dependent var    | 0.111360      |        |
| Adjusted R-squared   | -0.061813   | SD dependent var      | 0.082186      |        |
| SE of regression   | 0.084688    | Akaike info criterion | -1.922837     |        |
| Sum squared resid  | 0.172128    | Schwarz criterion     | -1.642597     |        |
| Log likelihood   | 34.84255    | Hannan-Quinn criter.  | -1.833186     |        |
| F-statistic  | 0.662353    | Durbin-Watson stat    | 2.582112      |        |
| Prob (F-statistic)   | 0.655419    |                       |               |        |

Source: Eviews 9.0 (2020) data processing output

Based on the results of the Glejser test in Figure 4.3 above, it can be seen that the independent variables, namely KAP, KA, UDD, SIZE statistically have no significant effect on the dependent variable, namely Dait at the level  $\alpha = 5\%$  homoscedasticity occurs or heteroscedasticity does not occur.

Results for the independent variable, namely JDKI statistically significant effect on the dependent variable (DAit) at the level of  $\alpha = 5\%$ , then heteroscedasticity occurs. The result of Prob Chi-Square statistically exceeds the level  $\alpha = 5\%$ , which is equal to 0.6027. therefore it can be said that there is no heteroscedasticity problem in the regression model.

#### 4.3.4. Autocorrelation Test

The autocorrelation test aims to test whether in the linear regression model there is a correlation between the confounding error in period t and the confounding error in period t-1 (previous). Autocorrelation arises because successive observations over time are related to one another. Where this problem arises because the residual (bully error) is not free from one observation to another (Ghozali, 2011). To test autocorrelation, the Durbin-Watson test is used. The Durbin-Watson test is used to test whether there is no high correlation between residuals.

Takers whether there is autocorrelation or not, as follows:

**Table 4.5**  
**Durbin-Watson Statistical Test**

| Statistical Value d   | Result   |
|-----------------------|--|
| $0 < d < dL$          | Reject H0: there is positive autocorrelation                 |
| $dL < d < dU$         | Area of doubt: no decision                                   |
| $dU < d < 4 - dU$     | Failure to reject H0: no positive / negative autocorrelation |
| $4 - dU < d < 4 - dL$ | Area of doubt: no decision                                   |
| $4 - dL < d < 4$      | Reject H0: there is negative autocorrelation                 |

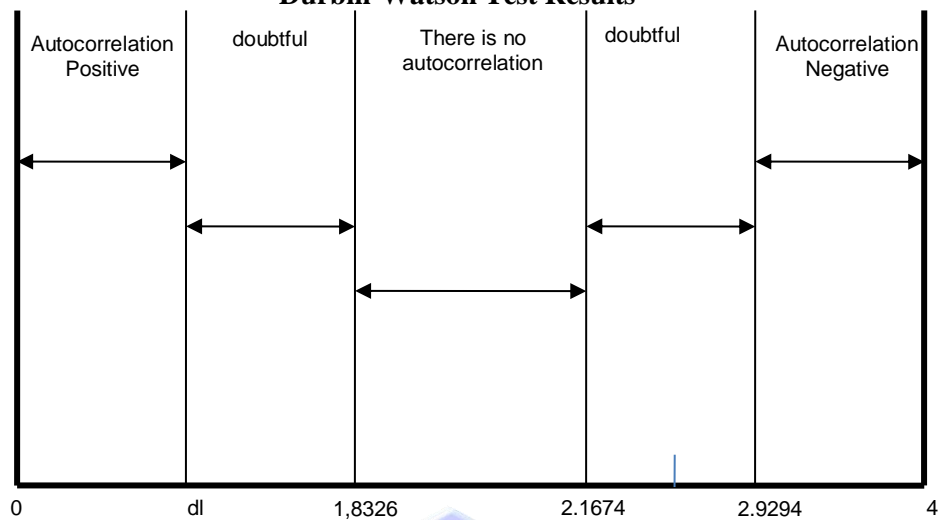
**Figure 4.4**  
**Autocorrelation Test Results**

| Dependent Variable: DAIT   |             |                       |             |                 |
|----------------------------|-------------|-----------------------|-------------|-----------------|
| Method: Least Squares      |             |                       |             |                 |
| Date: 08/09/20 Time: 10:37 |             |                       |             |                 |
| Sample: 1 30               |             |                       |             |                 |
| Included observations: 30  |             |                       |             |                 |
| Variable                   | Coefficient | Std. Error            | t-Statistic | Prob.           |
| C                          | -1.482938   | 0.646491              | -2.293827   | 0.0309          |
| UDD                        | 0.543824    | 0.129150              | 4.210811    | 0.0003          |
| JDKI                       | 0.305829    | 0.108640              | 2.815072    | 0.0096          |
| KA                         | 0.239176    | 0.226703              | 1.055020    | 0.3019          |
| SIZE                       | 0.027779    | 0.023546              | 1.179782    | 0.2496          |
| HOOD                       | -0.116478   | 0.075772              | -1.537211   | 0.1373          |
| R-squared                  | 0.753292    | Mean dependent var    |             | 0.738277        |
| Adjusted R-squared         | 0.701894    | SD dependent var      |             | 0.281741        |
| SE of regression           | 0.153828    | Akaike info criterion |             | -0.729105       |
| Sum squared resid          | 0.567914    | Schwarz criterion     |             | -0.448866       |
| Log likelihood             | 16.93658    | Hannan-Quinn criter.  |             | -0.639454       |
| F-statistic                | 14,65618    | Durbin-Watson stat    |             | <b>1.907688</b> |
| Prob (F-statistic)         | 0.000001    |                       |             |                 |

Source: Data Processing Output *Eviews 9.0* (2020)



**Figure 4.5**  
**Durbin-Watson Test Results**



The Durbin-Watson test results show that the Durbin-Watson value is 1.907688. The  $d_u$  value based on the statistical table is 1.8326. Thus the Durbin Watson value is between  $d_u$  (1.8326) and  $4-d_L = 4-0.33 = 2.1674$ . This means that the regression model is in an area where there is no autocorrelation, so it can be said that it does not have an autocorrelation problem.

#### 4.4. Hypothesis testing

##### 4.4.1. Regression Analysis Test Results

Multiple linear regression analysis is used to test hypotheses about the effect of independent variables simultaneously or partially. Then the multiple linear regression equation in this study is as follows:

$$DA = \alpha + \beta_1 UDD + \beta_2 DKI + \beta_3 KA + \beta_4 SIZE + \beta_5 KAP + e$$

Information :

DA = discretionary accruals (Proxy from management profit)

$\alpha$  = constant

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$  = regression coefficient

UDD = the size of the board of directors

DKI = independent board of commissioners

KA = size of the audit committee

SIZE = company size

HOOD = KAP size

e = coefficient of error (random error)

(Source: Development from various sources)

**Figure 4.6**

##### Multiple Linear Regression Analysis Test Results

Dependent Variable: DAIT

Method: Least Squares

Date: 08/09/20 Time: 10:37

Sample: 1 30

Included observations: 30

| Variable           | Coefficient | Std. Error            | t-Statistic | Prob.     |
|--------------------|-------------|-----------------------|-------------|-----------|
| C                  | -1.482938   | 0.646491              | -2.293827   | 0.0309    |
| UDD                | 0.543824    | 0.129150              | 4.210811    | 0.0003    |
| JDKI               | 0.305829    | 0.108640              | 2.815072    | 0.0096    |
| KA                 | 0.239176    | 0.226703              | 1.055020    | 0.3019    |
| SIZE               | 0.027779    | 0.023546              | 1.179782    | 0.2496    |
| HOOD               | -0.116478   | 0.075772              | -1.537211   | 0.1373    |
| R-squared          | 0.753292    | Mean dependent var    |             | 0.738277  |
| Adjusted R-squared | 0.701894    | SD dependent var      |             | 0.281741  |
| SE of regression   | 0.153828    | Akaike info criterion |             | -0.729105 |
| Sum squared resid  | 0.567914    | Schwarz criterion     |             | -0.448866 |
| Log likelihood     | 16.93658    | Hannan-Quinn criter.  |             | -0.639454 |
| F-statistic        | 14,65618    | Durbin-Watson stat    |             | 1.907688  |
| Prob (F-statistic) | 0.000001    |                       |             |           |

Source: Eviews 9.0 (2020) Data Processing Output

Based on the results of the multiple linear regression analysis above, the coefficient for each independent variable is obtained, the variable size of the Board of Directors = 0.543824, the Independent Commissioner = 0.305829, the Audit Committee = 0.239176, Company Size = 0.027779, Public Accounting Firm = -0.116478, with a constant of -1.482938. so that from these results, the regression equation model obtained is:

$$DA_{it} = -1.482938 + 0.543824UDD + 0.305829JDKI + 0.239176KA + 0.027779SIZE - 0.116478 + e$$

Based on the numbers generated in the multiple linear regression equation above, it can be seen the relationship between the independent variables and the dependent variable. In addition, the multiple linear regression equation can also show the direction of the relationship between the independent variables (*independent*) to dependent variable (dependent).

- The constant value ( $\alpha$ ) of -1.482938 indicates that if the value of the size of the Board of Directors, the Board of Independent Commissioners, the Audit Committee, Company Size, and Public Accounting Firm is constant, it will affect earnings management.
- The effect of  $\beta_1 = 0.543824$  on  $DA_{it}$ , that is, if the size of the Board of Directors grows by 1 point, it causes  $DA_{it}$  to increase by 0.543824 points assuming the other parameters are constant. It seems clear that the UDD variable has a positive effect on  $DA_{it}$ .
- The effect of  $\beta_2 = 0.305829$  on  $DA_{it}$  is that if the composition of the Independent Commissioner (JDKI) grows by 1 point, it causes  $DA_{it}$  to increase by 0.305829 points with the assumption that other parameters are constant. This seems to clearly indicate a positive coefficient on  $DA_{it}$ .
- The effect of  $\beta_3 = 0.239176$  on  $DA_{it}$  is that if the Audit Committee (KA) grows by 1 point, it will cause  $DA_{it}$  to increase by 0.239176. This means that the KA variable has a positive effect on  $DA_{it}$ .
- The effect of  $\beta_4 = 0.027779$  on  $DA_{it}$  is that if the Company Size (SIZE) grows by 1 point, it will cause  $DA_{it}$  to increase by 0.027779. This means that the SIZE variable has a positive effect on  $DA_{it}$ .

- f. The effect of  $\beta_5 = -0.116478$  on DAit is that if the KAP is big four, then the value of 1 point is not big four is 0 points. causing DAit to decrease by -0.116478 points assuming the other parameters are constant. This means that the KAP variable has a significant effect on DAit.

#### 4.4.2. Significant T test

This hypothesis test is conducted to determine whether there is / or not the influence of the independent variable and the dependent variable partially. The results of the analysis between the independent variables consist of the reputation of the Public Accounting Firm, the composition of the Independent Commissioners, the Audit Committee, the Size of the Board of Directors, and the Size of the Company on the dependent variable, namely Earnings Management. By using the program *EViews* 9.0 obtained the calculation results in Figure 4.8.

**Figure 4.7**  
**Regression Results (TEST)**

| Dependent Variable: DAIT   |             |            |             |        |
|----------------------------|-------------|------------|-------------|--------|
| Method: Least Squares      |             |            |             |        |
| Date: 08/09/20 Time: 10:37 |             |            |             |        |
| Sample: 1 30               |             |            |             |        |
| Included observations: 30  |             |            |             |        |
| Variable                   | Coefficient | Std. Error | t-Statistic | Prob.  |
| C                          | -1.482938   | 0.646491   | -2.293827   | 0.0309 |
| UDD                        | 0.543824    | 0.129150   | 4.210811    | 0.0003 |
| JDKI                       | -0.305829   | 0.108640   | 2.815072    | 0.0096 |
| KA                         | 0.239176    | 0.226703   | 1.055020    | 0.3019 |
| SIZE                       | 0.027779    | 0.023546   | 1.179782    | 0.2496 |
| HOOD                       | -0.116478   | 0.075772   | -1.537211   | 0.1373 |

Source: Output data processing *Eviews* 9.0 (2020)

Based on the results of the t-statistical test in Figure 4.7 above, the results of the partial significance test for each variable are as follows:

- a. Effect of Size of the Board of Directors (UDD) on Earnings Management (DAit)

In the t-statistic test in this study, the form of the hypothesis used is as follows:

H1: It is suspected that the variable size of the Board of Directors (UDD) has a partially significant effect on earnings management (DAit) in banking companies.

Conclusion:

By using the decision basis as above, it is known that  $t_{count}$  for the UDD variable of 4.210811 with a probability of 0.0003. While based on the t distribution table at  $df (nk) = 24$  with  $\alpha = 5\%$ , the t table value is 1.710882, it can be seen that  $t_{count} 4.210811 > t_{table}$  is 1.710882, it can be concluded by using the t test that the t value is greater than the t table value, so that H1 is accepted, that is, there is a significant positive effect between the UDD variable on DAit in banking companies.

- b. The Effect of the Composition of the Independent Board of Commissioners (JDKI) on Earnings Management (DAit).

In the t-statistic test in this study, the form of the hypothesis used is as follows:

H2: It is suspected that the Independent Commissioner Board (JDKI) composition variable has a partially significant effect on earnings management (DAit) in banking companies.

Conclusion:

By using the decision basis as above, it is known that the  $t_{count}$  for the JDKI variable is 2.815072 with a probability of 0.0003. Meanwhile, based on the t distribution table at  $df (nk) = 24$  with  $\alpha = 5\%$ , the t table value is 1.710882, it can be seen that  $t_{count} 2.815072 > t_{table}$  is 1.710882, it can be concluded by using the t test that the t value is greater than the t table value, so that H2 is accepted, that is, there is a significant positive effect between the JDKI variable on DAit in banking companies.

c. The Effect of the Audit Committee (KA) on Earnings Management (DAit)

In the t-statistic test in this study, the form of the hypothesis used is as follows:

H3: It is suspected that the Audit Committee (KA) variable has a partially significant effect on earnings management (DAit) in banking companies.

Conclusion:

By using the decision basis as above, it is known that the  $t_{count}$  for the KA variable is 1.055020 with a probability of 0.3019. Meanwhile, based on the t distribution table at  $df (nk) = 24$  with  $\alpha = 5\%$ , the t table value is 1.710882, it can be seen that  $t_{count} 1.055020 < t_{table}$  is 1.710882, it can be concluded by using the t test that the t value is smaller than the t table value, so that H3 is rejected, that is, there is no significant influence between the KA variable on DAit in banking companies.

d. The Effect of Company Size (SIZE) on Earnings Management (DAit)

In the t-statistic test in this study, the form of the hypothesis used is as follows:

H4: It is suspected that the Firm Size Variable (SIZE) has a partially significant effect on Earnings Management (DAit) in banking companies.

Conclusion:

By using the decision basis as above, it is known that  $t_{count}$  for the SIZE variable it is 1.179782 with a probability of 0.2496. Meanwhile, based on the t distribution table at  $df (nk) = 24$  with  $\alpha = 5\%$ , the t table value is 1.710882, it can be seen that  $t_{count} 1.179782 < t_{table}$  is 1.710882, it can be concluded using the t test that the t value is smaller than the t table value, H4 rejected, that is, there is no significant influence between the SIZE variable on DAit in banking companies.

e. Effect of reputation of the Public Accounting Firm (KAP) on Earnings Management (DAit)

In the t-statistic test in this study, the form of the hypothesis used is as follows:

H5: It is assumed that the size variable of the Public Accounting Firm (KAP) has a partially significant effect on earnings management (DAit) in banking companies.

Conclusion:

By using the decision basis as above, it is known that  $t_{count}$  for KAP variable is -1.537211 with a probability of 0.1373. Meanwhile, based on the t distribution table at  $df (nk) = 24$  with  $\alpha = 5\%$ , the t table value is 1.710882, it can be seen that  $t_{count} -1.537211 < t_{table}$  is 1.710882, it can be concluded by using the t test that the  $t_{count}$  value is smaller than the t table value, so that H5 is rejected, that is, there is no significant effect between the KAP variable on DAit in banking companies.

#### 4.4.3. Significant Test F

The F-test is used to determine the effect of the variable free in this case, the size of the Public Accountant, the Composition of the Independent Commissioner, the Audit Committee, the Size of the Board of Directors, and the Size of the Company collectively (simultaneously) have an influence on the variables. not Free (DAit). By using the Eviews 9.0 Software Program, the calculation results are obtained in Figure 4.8.

**Figure 4.8**  
**Statistical F Test Results**

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|  |  |
|--|--|
|  |  |
|--|--|

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|                    |                 |
|--------------------|-----------------|
| R-squared          | 0.753292        |
| Adjusted R-squared | 0.701894        |
| SE of regression   | 0.153828        |
| Sum squared resid  | 0.567914        |
| Log likelihood     | 16.93658        |
| <b>F-statistic</b> | <b>14,65618</b> |
| Prob (F-statistic) | 0.000001        |

Source: Eviews data processing

9.0 (2020) output

Based on the results of the calculation test in Figure 4.7 above, *F-statistics* amounting to 14.65618 with a probability of 0.000001. The basis for making the decision for the F-test is as follows:

H6: It is suspected that the reputation of the Public Accounting Firm, the composition of the Independent Commissioner, Audit Committee, Board of Directors Size, and Company Size collectively have a significant influence on earnings management.

By using the basis of decisions as above, it is known based on  $F_{table}$  with  $\alpha = 5\%$  and  $df1$  (numerator) =  $(k-1) = 5$ ,  $df2$  (denominator) =  $(nk) = 24$ . Then it can be seen that  $F_{count} < F_{table}$  which means H6 is accepted. This means that the independent variables in this case KAP, JDKI, KA, UDD and SIZE simultaneously have a significant effect on  $DA_{it}$  with  $F_{count}$  of 14.65618 >  $F_{table}$  of 2.6207.

#### 4.4.4. Coefficient of Determination

According to Ghozali (in Indriani, 2010) the coefficient of determination is to measure how far the model's ability to explain the dependent variable. The coefficient of determination is between 0 and 1. The value of  $R^2$  Small means that the ability of the independent variable to explain the dependent variable is limited, and vice versa. The results of the calculation of the coefficient of determination ( $R^2$ ) from this study can be seen in Figure 4.9.

**Figure 4.9**  
**Result of Determination Coefficient Calculation**

|                    |                 |
|--------------------|-----------------|
| R-squared          | <b>0.753292</b> |
| Adjusted R-squared | 0.701894        |
| SE of regression   | 0.153828        |
| Sum squared resid  | 0.567914        |
| Log likelihood     | 16.93658        |
| F-statistic        | 14,65618        |
| Prob (F-statistic) | 0.000001        |

Source: Output data processing *Eviews* 9.0 (2020)

From the results of these calculations, it is found that the influence of the independent variable on the dependent variable which can be explained by the calculation of the coefficient of determination ( $R^2$ ) above is equal to 0.753292 shows that the variables KAP, JDKI, UDD, KA and SIZE are able to explain / give the effect of the ups and downs of Profit Management variance ( $DA_{it}$ ) by 75% and the remaining 25% is explained by variables outside this research model.

#### **4.5. DISCUSSION**

##### **4.5.1. Analysis of the Effect of Size of the Board of Directors (UDD) on Earnings Management (DAit)**

Based on the previous t-test calculation, the t-test results obtained for the UDD variable were 4.210811, the regression coefficient was 0.543824 with a probability of 0.0003. where this value is significant at the 0.05 significance level and less than 0.05. Thus the hypothesis H1 is accepted. This means that the size of the board of directors has a significant positive effect on earnings management, meaning that companies that have a large or small number of boards of directors will increase the number of earnings management actions taken by the company. Because the more the number of the board of directors, the more the interests of the board of directors are different. It will be increasingly difficult to coordinate among members in carrying out the monitoring process. This shows that the board of directors has implemented an effective internal control system. The results of this study are consistent with the results of research conducted by Lindawati (2019) which found that board size has a significant effect on earnings management.

##### **4.5.2. Analysis of the influence of the composition of the Independent Commissioner (JDKI) on Earnings Management (DAit)**

Based on the calculation of the previous t test, the t-test results obtained for the JDKI variable were 2.815072, the regression coefficient was 0.305829 with a probability of 0.0096. where this value is significant at the 0.05 significance level and less than 0.05. Thus the H2 hypothesis is accepted. This means, the composition of the independent board of commissioners has a significant effect on earnings management as represented by discretionary accruals.

The results of this study are consistent with the results of research conducted by Sari (2014) and Sutiono & Khoiruddin (2016). that the composition of the Independent Commissioner has a significant positive effect on earnings management. This means that the greater the composition of independent commissioners, the higher the discretionary accruals. Some of the reasons, among others, are that the independent board of commissioners does not really maintain its independence because often they are still under the control of the shareholders. The composition of the independent board of commissioners which has a positive effect may be due to the inaccurate member selection process. In Indonesia, independent commissioners are elected together with the board of commissioners and directors by the GMS. This shows that in fact the presence of independent commissioners is not completely independent because they are elected or appointed by the GMS, which is mostly attended by the majority shareholder. Ujijantho &

##### **4.5.3. Analysis of the Effect of the Audit Committee (AC) on Management Profit (DAit)**

Based on the calculation of the previous t test, the results of the t test for the variable KA were 1.055020, the regression coefficient was 0.239176 with a probability of 0.3019. Where this value is significant at a significance level of 0.05 and less than 0.05. Thus the hypothesis H3 is rejected. The results of this study are consistent with the results (Sari, 2014) and Dewi & Khoiruddin (2016). This means that the existence of an audit committee does not have a significant effect on earnings management with an opposite relationship. The audit committee variable is not able to reduce the practice of earnings management by management. As one of the mechanisms for good corporate governance, it is clear that banking companies have carried out their duties properly in supervising the company. applying the principles of good corporate governance, namely transparency, accountability, responsibility, independency, and fairness. These five principles, if applied consistently, can hinder earnings management in the company.

##### **4.5.4. Analysis of the Effect of UkuCompany Ran (SIZE) on Earnings Management (DAit)**

Based on the previous t-test calculation, the t-test results obtained for the SIZE variable were 1.179782, the regression coefficient was 0.027779 with a probability of 0.2496. where this value is significant at the 0.05 significance level and is greater than 0.05. Thus the hypothesis H4 is rejected. This means that firm size has no significant negative effect on earnings management. Firm size is measured using the natural logarithm of total assets at the end of the year.

The results of this study are consistent with the results of the research conducted By (Sari, 2014). The meaning is big or the small size of the company does not affect the company's earnings management practices. This is because large companies maintain credibility and are very careful in carrying out accurate and relevant financial reporting. Because large companies pay more attention to the community and have an important role in the environment.

#### **4.5.5. Analysis of the influence of the reputation of the Public Accounting Firm (KAP) to Earnings Management (DAit)**

Based on the previous t-test, the t-test results obtained for the KAP variable were -1.537211, the regression coefficient was -0.116478 with a probability of 0.1373 where this value was not significant at the 0.05 significance level and was greater than 0.05. Thus the hypothesis H5 is rejected. This means that the reputation of the Public Accounting Firm (KAP) does not have a significant effect on earnings management.

The reputation of the public accounting firm (KAP) is assessed by providing code 1 for big four KAP and code 0 for non big four KAP. From the results above, it is explained that, the size of the KAP has no effect on reducing earnings management practices. Because earnings management is a management policy. So, it is clear that the Public Accounting Firm (KAP) cannot be used as a control for the occurrence of earnings management carried out by management.

The results of this study are consistent with research conducted by Sasono (2011) which found no significant influence between audit quality as measured by the size of KAP (big four and non big four KAP). Companies that are audited by large accounting firms are not proven to be able to control the occurrence of earnings management practices by the company. On the contrary, it even adds to the Earnings Management action. KAP which is included in the big four is more competent and professional than the non-big four auditors, so that they have knowledge, experience and expertise in certain industrial fields. And know more about how to detect and manipulate financial reports as well as earnings management actions.

#### **4.5.6. Analysis of the influence of KAP, JDKI, KA, UDD, and SIZE in a manner Simultaneous Earnings Management (DAit)**

Based on the results of the F-test, the independent variables in this study KAP, JDKI, KA, UDD, and SIZE simultaneously have a significant effect on DAit with Fcount of 14.65618 > Ftable of 2.6207, which means H6 is accepted.

## **V. CONCLUSIONS AND SUGGESTIONS**

### **5.1. Conclusion**

Based on the results of the research and discussion that has been stated in the previous chapter, the conclusions that can be drawn from research regarding good corporate governance on earnings management are as follows:

1. The size of the board of directors has a significant positive effect on earnings management, meaning that companies that have a large or small number of boards of directors will increase the number of earnings management actions taken by the company. Because the more the number of the board of directors, the more the interests of the board of directors are different. The results of this study are consistent with research conducted by Lindawati (2019) and Rahardja (2014).
2. The composition of the independent board of commissioners has a significant effect on earnings management as represented by discretionary accruals. The composition of the Independent Commissioners has a significant positive effect on earnings management. This means that the greater the composition of independent commissioners, the higher the discretionary accruals. The results of this study are consistent with the results of research conducted by Sari (2014) and Sutiono & Khoiruddin (2016).
3. The existence of an audit committee does not have a significant effect on earnings management with an opposite relationship. The audit committee variable is not able to reduce the practice of

earnings management by management. The results of this study are consistent with the results of Sari (2014) and Dewi and Khoiruddin (2016).

4. Company size does not have a significant effect on earnings management, meaning that the size of the company does not affect the company's earnings management practices. This is because large companies maintain credibility and are very careful in carrying out accurate and relevant financial reporting. The results of this study are consistent with the results of research conducted by Sari (2014).
5. reputation of the Public Accounting Firm (KAP) has no significant effect on earnings management. The reputation of the public accounting firm (KAP) is assessed by providing code 1 for big four KAP and code 0 for non big four KAP. From the results above, it is explained that, the size of the KAP has no effect in reducing earnings management practices. Because earnings management is a management policy. The results of this study are consistent with research conducted by Sasono (2011).

## **5.2. Suggestion**

Based on the above limitations, several suggestions can be made, namely as follows:

1. It is recommended to do a similar research by adding other variables and adding a longer observation period so that it will provide more samples.
2. It is advisable to consider the different models that will be used in determining discretionary accruals so that earnings management can be seen from a different perspective.
3. It is suggested for further research to use primary data. So, the results of primary data research can be compared with secondary data.

## **5.3. Limitations and further research development**

In this study, there are still several limitations that may affect the research results. With these limitations, it is hoped that improvements can be made for future research. These limitations are as follows:

1. This research was only conducted on banking companies listed on the IDX, not all private and foreign exchange banks in Indonesia and only used secondary data.
2. *Good Corporate governance* variables used in this study are the size of the board of directors, composition of the independent board of commissioners, the audit committee, company size and reputation of the KAP. These five variables are not able to comprehensively measure corporate governance practices in a company, so there is a need for a certain index that reflects more precise corporate governance practices in the company. And in this study the various characteristics of the variables were not included, for example: competence, expertise, educational background, experience of independent commissioners and the audit committee.

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