THE EFFECT OF AUDIT COMMITTEE CHARACTERISTICS ON EARNINGS MANAGEMENT AND ITS IMPACT ON FIRM VALUE

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Abstract
This study aims to examine the effect of audit committee characteristics on earning management and its impact on Firm Value. The characteristics of the audit committee consist of an audit committee that has expertise in industry and accounting, has expertise in industry and financial supervisors, the number of meetings of the audit committee members, and an independent audit committee. Earning management research is very important to research to provide input regarding the factors that cause companies to mark up earnings and their impact on firm value. This study uses a quantitative method with a sample of manufacturing companies listed on the Indonesia Stock Exchange for the period 2016-2018. The results show that the expertise of the audit committee in industry and accounting has no effect on earnings management, the expertise of the audit committee in the industry and the financial supervisors has no effect on earnings management. The number of meetings of the audit committee members has no effect on earnings management. The independent audit committee has no effect on earnings management. Earning Management has a significant negative effect on firm value.

Keywords: Audit Committee Characteristics, Earnings Management, Firm Value

1. Introduction
The high value of the company reflects the prosperity that will be received by shareholders, for that we need professionals who can manage the company well. There will be a conflict of interest between company owners and managers in increasing company value, which is often referred to as information asymmetry. Managers, as company managers know more about the company’s internal information and prospects in the future than the owners (shareholders). This opportunity is used by managers to carry out earnings mark-up actions to achieve the best performance, which is often called earnings management. The act of managing profits is needed to increase company value. At the beginning of this action, there will be an increase in firm value, but the earnings management activity itself can reduce the value of the company in the future. Financial statements are the object of earnings management practices because they reflect the company’s performance in the short and long term. According to Scott (2012) earning management occurs for several reasons, such as to increase compensation, avoid debt requirements, meet analyst forecasts, and influence stock prices.

Efforts to manipulate information through earnings management practices have become the main factor causing financial statements to no longer reflect the fundamental value of a company (Chu, Dechow, Hui, & Wang, 2019; Jao & Pagalung, 2011; Zgarni, Hlioui, & Zehri, 2016). Therefore, the engineering of financial statements has become a central issue as a source of misuse of information that is detrimental to interested parties. That is why the information submitted is sometimes received, not following the actual conditions of the company.

Earnings management can be carried out through the practice of income smoothing, taking a bath, and income maximization (Scott, 2012). A phenomenon related to earnings management practices occurs at Toshiba Corporation, which is an electronics company from Japan with a very good reputation in the beginning. This case occurred in 2015. Toshiba was proven to have deceived the public and investors by inflating profits in the financial statements to an overstated profit of USD 1.2 billion since the fiscal year 2008. The scandal involved the top management of the Toshiba Corporation. To achieve the desired target, financial statements with high profits are made which do not reflect the real condition of the company.

The occurrence of earnings management is not only due to opportunistic management actions but also due to weak supervision or monitoring so that there is an opportunity to take deviant actions. To avoid earnings management
actions taken by management, companies need to implement corporate governance in their companies. This supervision is very necessary to suppress opportunistic actions that will be carried out by management. In this study, the implementation mechanism of corporate governance uses the characteristics of the audit committee as measured by an audit committee that has expertise in industry and accounting, and has expertise in industry and financial supervisors. This research focuses on the audit committee as a component of corporate governance because the audit committee has the duty and responsibility of reviewing the financial information that will be issued by the company.

The principles of corporate governance that are applied consistently can be an obstacle to performance engineering activities that result in financial reports not describing the fundamental value of the company (Bédard, Chitourou, & Courteau, 2004; Jao & Pagalung, 2011). Earnings management practices can be minimized with a good supervisory mechanism to obtain quality audits. Several previous studies explained that the audit committee has independence and effectiveness can reduce earnings management. However, there are still few studies that focus on the expertise and competence of audit committee members. The expertise possessed by audit committee members can reduce the length of time to find and correct misstatements in financial statements (Shin, Zhaohui Xu, & Lacina, 2014). The industry and accounting expertise possessed by the audit committee will cause supervision in the financial reporting process to be effective (Cohen, Hoitash, Krishnamoorthy, & Wright, 2014).

The expertise of the audit committee has been described in Indonesian financial services authority regulation No 02/POJK.05/2014. Based on this regulation, the audit committee members must have financial expertise to maximize the financial reporting process and reduce the occurrence of earnings management activities. This is in accordance with research conducted by (Carcello, Hollingsworth, Klein, & Neal, 2006), which states that the expertise possessed by audit committee members in the financial sector will reduce earnings management activities within the company. Several previous studies noted that the audit committee has a negative effect on earnings management (such as, Chandar, Chang, & Zheng, 2012; Nelson & Devi, 2013; Suprianto, Rahmawati, Setiawan, & Aryani, 2019). Their research results state that the audit committee with expertise in accounting and non-accounting has a significant negative effect on earnings management. Meanwhile, the audit committee has expertise in finance and non-financial professional expertise has an insignificant positive effect on earnings management. The expertise of the Audit Committee Members in the Industry Sector is not regulated in the existing regulations in Indonesia. The audit committee is expected to understand the company’s business processes. The results of research conducted by Cohen et al. (2014) that an audit committee with expertise in industry can better understand the company’s business activities and can evaluate product estimates in certain industries so that the quality of financial reporting increases.

The audit committee has an important role in supervising and monitoring the process of preparing financial reports, to ensure that the reports produced are of good quality. There needs to be coordination among members of the audit committee. The audit committee can hold periodic meetings to review the quality of the financial reports produced and discuss significant issues that exist within the company. Several obstacles arise where the current regulation does not clearly state the number of frequencies of audit committee meetings for each period. Research conducted by Skousen, Smith, & Wright (2009) proves that the number of annual audit committee meetings has a negative effect on fraudulent financial statements. Xie, Wallace N. Davidson, & DaDalt (2003) proved that the number of meetings between audit committee members was negatively related to the level of earnings management.

Conflicts of interest between agent and principal can arise, when the agent has more information than the principal, this condition can be used by the agent to take opportunistic actions, so it cannot be denied that information asymmetry will occur. Information asymmetry can be minimized by the presence of an independent audit committee member. Companies need supervision from independent parties to ensure good corporate governance. Pamudji & Trihartati (2010) prove that companies with independent audit committees tend not to commit fraud by practicing earnings management because the audit committee has a supervisory function to ensure that management does its job well. The audit committee is responsible for overseeing financial reports, overseeing external audits, and observing that the internal control system (including internal audit) can reduce the opportunistic nature of management that performs earnings management (Gleason, Pincus, & Rego, 2017; Nazir & Afza, 2018; Sam’ani, 2008) (Sam’ani, 2008). Managers as company managers know more about the company’s internal information and prospects in the future than the owners (shareholders), which causes information asymmetry. Information asymmetry between management
and owners provides an opportunity for managers to carry out earnings management to increase firm value at a certain time. Research conducted by Ibrani, Faisal, & Handayani (2019) Earning management is often carried out by management (agents) to increase firm value, so that firm value looks good in the eyes of investors. Earnings management is considered as a manager's strategy that aims to increase firm value, and it seems that investors or potential investors are aware of the policy. This study agrees with the research conducted by Ridwan & Gunardi (2013) and Herawaty (2008), which states that there is a significant effect of earnings management on firm value. Thus, earnings management practices can increase firm value, because earnings performance as an earnings management activity has lower persistence than cash flow. However, earnings management will result in incorrectly reported earnings, which will cause the company's value to decrease in the future.

2. Literature Review and Hypotheses

2.1 Development of Hypotheses

Effect of The Audit Committee with Expertise in Industry and Accounting on Earning Management

According to agency theory, conflicts of interest between agents and principals can lead to information asymmetry. Management gets the opportunity to mark up profits to obtain the maximum possible profit. In terms of earnings management measures, the expertise of audit committees in industry and accounting may help detect abnormal changes in income and expense accounts. If the deviation found in the financial statements, the audit committee will immediately discuss the matter and review business operations related to management (Carcello, Hermanson, & Neal, 2002; Sun & Liu, 2014). Furthermore, if the audit committee members in industry are added with expertise in accounting, they will better understand accounting specifically for the industry. With the expertise of the audit committee in the industrial sector, it is hoped that the quality of reporting will improve (Cohen et al., 2014). The expertise in industry and accounting possessed by the audit committee provides benefits in the form of an increased understanding of the company's financial condition in a particular industry. It can better evaluate various estimates such as estimated sales, production, cost of goods sold, selling expenses, and administrative expenses (Cohen et al., 2014; Cohen, Krishnamoorthy, & Wright, 2004).

H1: The expertise of the audit committee members in industry and accounting has a negative effect on earnings management

Effect of Audit Committee with Expertise In Industry and Financial Supervision on Earning Management

Earning management actions taken by management requires the audit committee to have competence in the industrial sector and financial supervisors. Industry expertise and financial supervisors are skills possessed through their experience in supervising the performance of employees who are responsible for financial reporting (for example, as CEO). Knowledge of a particular industry will give the audit committee the ability to determine accounting methods that are appropriate for the industry (Cohen et al., 2014). Concerning earnings management, audit committees with expertise in industry and finance can find errors in management performance, for example: in applying the accounting method of a company. The audit committee will provide advice on using the revenue recognition method according to the company's business operations so that it is expected to minimize earnings management actions.

H2: The expertise of the audit committee members in the industry and financial supervision sector has a negative effect on earnings management

Effect of the Number of Meetings of The Audit Committee Members and Earning Management

Audit committee members need to coordinate to evaluate their supervisory actions. Of course, many findings were obtained during supervision. Coordination can be in the form of formal meetings. The Indonesian Financial Services Authority Regulation No.55/POJK.04/2015 has stipulated that the audit committee is required to hold regular meetings at least once in three months, or a minimum of four meetings a year. The more intense meeting of the audit committee members is a reflection of the supervision carried out (Rakhmayani & Faisal, 2019). The more the number of meetings, the more frequently discussed problems in the company, so that opportunities to carry out earnings management can be minimized. (Abbott, Parker, Peters, & Raghunandan, 2003) proves that companies with audit committees that meet at least four times a year tend not to perform financial report restatements so that there will be a negative relationship between the number of audit committee annual meetings and financial reports fraud.
Research conducted by Skousen et al. (2009) proves that the number of annual audit committee meetings has a negative effect on fraudulent financial statements. Xie et al. (2003) proved that the number of meetings between members of the audit committee is negatively related to the level of earnings management.

H3: The number of meetings of the audit committee members has a negative effect on earnings management.

Effect of Independent Audit Committee members on earnings management

Companies with weak internal controls will have many loopholes that create opportunities for management to manipulate transactions by performing non-GAAP earnings management, which is a fraudulent act by taking into account revenues that are outside GAAP limits. The information that occurs between the company owner (principal) and management (agent) can also be an opportunity to take actions that are only concerned with their interests. Agents can take actions that are not beneficial to the principal as a whole, which in the long run, could harm the interests of the company. To avoid fraudulent acts of non-GAAP earnings management practices by management, a supervisory unit that is capable of monitoring the running of the company is needed. Independent members of the Audit Committee are expected to carry out and be responsible for a neutral supervisory function to company commissioners (Setiany, Hartoko, Suhardjanto, & Honggowati, 2017). Independence is the most important characteristic that an audit committee must have to fulfill its supervisory role. It explains why stock exchanges issued laws and regulations relating to the independence of the audit committee. Blue Ribbon Committee (BRC, 1999), in its recommendation, even states that the Audit Committee may only consist of commissioners who have no relationship with the company where the Audit Committee was formed, which could damage their independence.

Research conducted by Skousen et al. (2009) proves that the proportion of members of the independent audit committee (AUDCIND) has a negative effect on financial statement fraud. Pamudji & Trihartati (2010) confirm that the independence of the audit committee has a significant negative effect on the level of earnings management.

H4: The independent audit committee has a negative effect on earnings management.

Effect of Earning Management on Firm Value

Agent as the party who manages the company, has more information than the principal about the condition and prospects of the company in the future. This can lead to information asymmetry between the two. That is why the agent is obliged to give a signal about the condition of the company to the principal. The signal is a reflection of the company’s value through disclosure of accounting information such as financial reports. Financial reports are very important for external users of the company because that group is in the condition with the highest degree of uncertainty. The asymmetry between agent and principal provides an opportunity for managers to practice earnings management to increase firm value at a certain time. At first, the value of the company did increase in a certain period, but because this activity resulted in the amount of reported earnings value being incorrect. If it was carried out continuously, in the long term, this activity could reduce the value of the company (Ibrani et al., 2019). Dechow, Sloan & Sweeney (1996) examined the nature of the information content of the accrual component and the cash flow component, whether it is reflected in the stock price. It is proven that earnings performance originating from the accrual component as an earnings management activity has a lower persistence than cash flow. When the amount of reported profit exceeds the value stated in the operating cash flow statement, the amount of profit can certainly increase the value of the company at this time. Ibrani et al. (2019) reported that earnings management is often carried out by management (agents) to increase firm value to make it look good to investors. Earnings management is also considered as a manager’s strategy that aims to increase firm value.

H5: Earnings management has a negative effect on firm value.

3. Research Method

3.1. Dependent Variable

a. Earnings Management, namely management disclosure as a tool for direct management intervention in the financial reporting process through processing income or profits to obtain certain benefits or benefits for managers and companies based on economic factors (Schipper, 1989) (Francis, Schipper, & Vincent, 2002). The formula for calculating earnings management, according to Stubben (2010), is as follows:

Conditional Revenue Model
\[ \Delta AR(t) = a + \beta_1 \Delta R(t) + \beta_2 \Delta R(t) \times \text{SIZE}_it + \beta_3 \Delta R(t) \times \text{AGE}_it + \beta_4 \Delta R(t) \times \text{AGE}_it^2 + \beta_5 \Delta R(t) \times \text{GRM}_it + \beta_6 \Delta R(t) \times \text{GRM}_it^2 + e \]

Information:
AR = year-end receivables
R1_3 = revenue in the first three quarters
R4 = revenue in the 4th quarter
SIZE = natural log of total assets at year-end
AGE = company age (years)
GRM = gross margin
_SQ = square of a variable
e = error

b. Firm Value (FV) Firm Value, according to Tobin (1968) and (Copeland, 2002), is the price a prospective buyer is willing to pay if the company is sold, measured using the Tobin’s q Ratio. If the q-ratio is above one, it indicates that the investment in the asset is very attractive. Conversely, if the q-ratio is below one, investment in assets is not attractive.

Tobins’q
\[ q = \frac{(MVS + MVD)}{RVA} \]

3.2. Independent Variable

a. The expertise of the audit committee members in industry and accounting
The expertise of audit committee members in industry and accounting is the competence or experience of the audit committee in accounting in certain industries (Cohen et al., 2014). With the expertise of audit committee members in accounting and finance, it can support good corporate governance and can carry out a supervisory function for management so that they avoid opportunistic actions in the form of tax avoidance (Sari, 2014). To measure the expertise of audit committee members in industry and accounting, it is stated in the presentation of the number of audit committee members who have expertise or work experience as Chief Financial Officer (CFO), Chief Accounting Officer (CAO), Vice-President of Finance, financial controller, and positions in other accounting fields in the industry divided by the total audit committee (Cohen et al., 2014). Based on this information, this study will be calculated using the measurements used by Cohen et al. (2014):

\[ \text{IND_AFE} = \frac{\text{Number of audit committees with expertise in accounting in industry}}{\text{Total Audit Committee members}} \]

b. Expertise of industry audit committee members and financial supervisors
The expertise of audit committee members in the field of financial control in industry tends to have a greater understanding of the need to ensure audit quality and auditor independence than if they only have expertise in the field of financial supervisors (Cohen et al., 2014). The denial can be expressed in the number of audit committee members who have work experience as Chief Executive Officer (CEO), Chief Operating Officer (COO), Chairman of Board, or President of companies in the industry divided by the total audit committee (Cohen et al., 2014). Based on this information, this study will be calculated using the measurements used by Cohen et al. (2014):

\[ \text{IND_SFE} = \frac{\text{Number of audit committees with expertise in industrial and financial supervisors}}{\text{Total Audit Committee members}} \]

c. Number of audit committee members meeting
The number of meetings of the audit committee members is the number of company audit committee meetings for one period. Using a ratio scale, namely the absolute value of the number of Audit Committee meetings in one year
The Effect of Audit Committee Characteristics on Earnings Management and Its Impact on Firm Value

d. Independent Audit Committee

Independent Audit Committee is an audit committee that comes from outside the company. Using the ratio of the proportion of independent members of the Audit Committee to the total members of the Audit Committee.

Data analysis technique

The purpose of the analysis in this study is to narrow and limit the findings so that they become regular, structured, and meaningful data. The data that has been collected must be analyzed to answer some questions. This study uses multiple regression data analysis techniques with SPSS version 23 software, with the following regression equation:

\[
\text{Ear}_{-}\text{Man}=\alpha + \beta_1\text{IND}_{-}\text{AFE} + \beta_2\text{IND}_{-}\text{SFE} + \beta_3\text{AUD}_{-}\text{MEET} + \beta_4\text{AUD}_{-}\text{INDP} + \varepsilon
\]

Information:

\begin{align*}
\text{Ear}_{-}\text{Man} &= \text{Earnings Management} \\
\text{IND}_{-}\text{AFE} &= \text{Expertise of Audit Committee Members in Industry and Accounting} \\
\text{IND}_{-}\text{SFE} &= \text{Expertise of Audit Committee Members in the Field of Industry and Financial Supervision} \\
\text{AUD}_{-}\text{MEET} &= \text{Number of meetings of the audit committee members} \\
\text{AUD}_{-}\text{INDP} &= \text{Independent audit committee} \\
\varepsilon &= \text{errors}
\end{align*}

\[
\text{FV} = \alpha + \beta.\text{Ear}_{-}\text{Man} + \varepsilon
\]

Information:

\begin{align*}
\text{FV} &= \text{Firm Value} \\
\text{Ear}_{-}\text{man} &= \text{Earnings Management} \\
\varepsilon &= \text{errors}
\end{align*}

4. Results and Discussion

4.1. General Description

The population in this study were manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2016-2018 period, while the sample selection procedure used the purposive sampling method with predetermined criteria.

4.2. Descriptive Statistics

The descriptive analysis provides an overview or description of data, which includes the minimum, maximum, average (mean) and standard deviation values of the variables used, namely the independent variable, which includes the characteristics of the audit committee, the dependent variable, namely earnings management and firm value. The control variables are capital intensity and profitability.

<table>
<thead>
<tr>
<th>Var</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std.Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>IND_AFE</td>
<td>123</td>
<td>0.2500</td>
<td>1.0899</td>
<td>0.6797</td>
<td>0.2490</td>
</tr>
<tr>
<td>IND_SFE</td>
<td>123</td>
<td>0.1667</td>
<td>1.0000</td>
<td>0.4291</td>
<td>0.2039</td>
</tr>
<tr>
<td>AUD_MEET</td>
<td>123</td>
<td>4</td>
<td>38</td>
<td>6.65</td>
<td>5.786</td>
</tr>
<tr>
<td>AUD_INDP</td>
<td>123</td>
<td>0.25</td>
<td>1.00</td>
<td>0.7093</td>
<td>0.3311</td>
</tr>
<tr>
<td>Ear_Man</td>
<td>123</td>
<td>5.1822</td>
<td>39.5891</td>
<td>9.0275</td>
<td>5.7317</td>
</tr>
<tr>
<td>FV</td>
<td>123</td>
<td>0.0064</td>
<td>0.1619</td>
<td>0.0865</td>
<td>0.0363</td>
</tr>
</tbody>
</table>

4.3. Goodness of Fit Model Test
The Goodness of Fit Model test is a test to show the suitability or goodness of a certain observation result with the frequency obtained based on the expected value. The indicators of goodness of fit can be seen from the determination coefficient test (adjust R-square) and Hypothesis Test. The following tests were carried out in this study: a Coefficient of Determination (adjust R-square). The coefficient of determination aims to measure how far the model's ability to explain the variation in the dependent variable. The coefficient of determination is indicated by the Adj R-Square value of the regression model used to see the suitability of the model, or how much the ability of the independent variables to explain the variance of the dependent variable.

| Table 2. Coefficient of Determination Model 1
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>R Square</td>
<td>Adjusted R Square</td>
<td>Std. Error</td>
</tr>
<tr>
<td>.999</td>
<td>.999</td>
<td>.14775</td>
</tr>
</tbody>
</table>

| Table 3. Coefficient of Determination Model 2
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>R Square</td>
<td>Adjusted R Square</td>
<td>Std. Error</td>
</tr>
<tr>
<td>.240</td>
<td>.233</td>
<td>.0318424</td>
</tr>
</tbody>
</table>

Table 2 shows that the coefficient of determination represented by Adjust R Square is 0.999. It means that 99.9% of the variation in earnings management can be explained by variations in the characteristics of the audit committee. In comparison, the remaining 0.1% is due to other causes outside the model. F-test (fit model) This test is done to evaluate the suitability or goodness of a model. To test whether all independent variables have a significant effect on the dependent variable. The testing of this hypothesis is based on probability.

In table 3, the coefficient of determination shows that the Adjust R Square value is 0.233. It means that 23% of the variable firm value can be explained by variations in earnings management, while the remaining 76% is explained by reasons other than the model.

| Table 4. Test of Fit Model (Model 1)
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>Sum of Squares</td>
<td>df</td>
<td>Mean Square</td>
<td>F</td>
</tr>
<tr>
<td>Regression</td>
<td>2066.382</td>
<td>4</td>
<td>516.595</td>
<td>23665.857</td>
</tr>
<tr>
<td>Residual</td>
<td>2.554</td>
<td>117</td>
<td>.022</td>
<td>38.138</td>
</tr>
<tr>
<td>Total</td>
<td>2068.936</td>
<td>121</td>
<td>.001</td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Lag_MANAJLABA  
b. Predictors: (Constant), Lag_AUDINDP, Lag_INDSFE, Lag_INDAFE, Lag_AUDMEET

Based on table 4 above shows that the significance value is 0.000. Because the sign is much smaller than 0.05, it can be concluded that the regression model is fit (good) so that it can be used to predict earnings management variables.

| Table 5. Test of Fit Model (Model 2)
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>Sum of Squares</td>
<td>df</td>
<td>Mean Square</td>
<td>F</td>
</tr>
<tr>
<td>Regression</td>
<td>.039</td>
<td>1</td>
<td>.039</td>
<td>38.138</td>
</tr>
<tr>
<td>Residual</td>
<td>.123</td>
<td>121</td>
<td>.001</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>.161</td>
<td>122</td>
<td>.001</td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: TOBINSQ
The Effect of Audit Committee Characteristics on Earnings Management and Its Impact on Firm Value

b. Predictors: (Constant), Ear_Man

Based on table 5 above shows that the significance value is 0.000. Because the sign is much smaller than 0.05, it can be concluded that the regression model is fit (good) so that it can be used to predict the Firm Value variable.

**Hypothesis test**

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>.162</td>
<td>.035</td>
<td>4.641</td>
<td>.000</td>
</tr>
<tr>
<td>Lag_IND_AFE</td>
<td>1.075</td>
<td>.067</td>
<td>.052</td>
<td>16.025</td>
</tr>
<tr>
<td>Lag_IND_SFE</td>
<td>1.140</td>
<td>.088</td>
<td>.043</td>
<td>13.027</td>
</tr>
<tr>
<td>Lag_AUD_MEET</td>
<td>1.001</td>
<td>.003</td>
<td>1.009</td>
<td>306.883</td>
</tr>
<tr>
<td>Lag_AUD_INDP</td>
<td>1.049</td>
<td>.063</td>
<td>.055</td>
<td>16.695</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Lag_MANAJLABA
b. Predictors: (Constant), Lag_AUDINPD, Lag_INDSFE, Lag_INDAFE, Lag_AUDMEET

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>.115</td>
<td>.005</td>
<td>21.322</td>
<td>.000</td>
</tr>
<tr>
<td>TOBINSQ</td>
<td>-.003</td>
<td>.001</td>
<td>-.490</td>
<td>-6.176</td>
</tr>
</tbody>
</table>

a. Dependent Variable: TOBINSQ

**Hypothesis Discussion**

The Expertise of Audit Committee Members in Industry and Accounting for Earnings Management

The first hypothesis of this study is not supported, the positive sign of the coefficient value of the results of this study is not in line with the proposed negative hypothesis. The expertise of the audit committee in industry and accounting does not affect earnings management. The appointment of an audit committee with expertise in accounting and finance is thought only to fulfill the regulations of the Indonesian Financial Services Authority/OJK, that every company is required to have an audit committee that understands accounting and finance. The role of the audit committee as a supervisor and a neutral party between management and owners has not been appropriately implemented. So, its existence is not effective enough to prevent earnings management actions in the company. The results of this study are not in line with research conducted by Cohen et al. (2014), which states that the expertise of the audit committee in industry and accounting can limit earnings management activities in a company. The expertise of the audit committee on accounting combined with industry expertise helps the audit committee understand the financial statements of an industry and can evaluate various estimates and be able to find abnormal changes made by management (Sun & Liu, 2014). Research conducted by Siagian & Siregar (2018) states that the expertise of the audit committee in accounting, supervision, and finance does not affect earnings management. The establishment of an audit committee in Indonesia is solely for compliance with existing regulations. Audit committee members with accounting and supervisory expertise have a positive effect on decreasing discretionary accruals. It suggests that audit committees with accounting and supervisory expertise may be inclined to think that accounting conservatism may limit management's opportunistic behavior.
The Expertise of Audit Committee members in the Industry and Financial Supervisory Sector on earnings management

The second hypothesis of this study is not supported, the positive sign of the coefficient value of the results of this study is not in line with the proposed hypothesis (negative). The expertise of the audit committee in the industry and financial supervisors does not affect earnings management. The audit committee was formed based on compliance with regulations. Besides that, the limited understanding of audit committee members about accounting can cause the oversight process for financial statements to be reduced so that this is used by agents to manipulate by regulating every activity so that profit targets can be achieved. The results of this study are not in line with research conducted by Cohen et al. (2014). The expertise possessed by audit committee members in the industry and financial supervisors can help the audit committee to understand the company industry specifically. Still, not all members of the audit committee can understand the complex accounting industry. Research conducted by Siagian & Siregar (2018) states that the expertise of the audit committee in accounting, supervision, and finance does not affect earnings management. Audit committee members with accounting and supervisory expertise have a positive effect on decreasing discretionary accruals. It suggests that audit committees with accounting and supervisory expertise may be inclined to think that accounting conservatism may limit management’s opportunistic behavior.

Number of audit committee members meeting on earnings management

The third hypothesis of this study is not supported, the positive sign of the coefficient value of the results of this study is not in line with the proposed hypothesis (negative). So, it can be concluded that the number of meetings of the audit committee members does not affect earnings management. The difficulty of bringing together audit committee members at one time has resulted in less frequent coordination in discussing company issues. This condition causes less supervision in the disclosure of information submitted by management.

The results of this study are not in line with research conducted by Rakhmayani & Faisal (2019) which states that the increasingly intense meeting of audit committee members is a reflection of the supervision carried out. The more the number of meetings, the more frequently discussed problems in the company, so that opportunities to carry out earnings management can be minimized. Audit committee members need to coordinate to evaluate the supervisory actions they have carried out so far, of course, there are many findings obtained during supervision. Coordination can be done in the form of formal meetings. The Indonesian Financial Services Authority/ OJK Regulation No.55/ POJK.04/ 2015 stipulates that the audit committee is required to hold regular meetings at least once in three months, which means that in a year, the audit committee must meet at least four times. Abbott et al. (2003) proved that companies with audit committees that meet at least four times a year tend not to perform financial report restatements so that there will be a negative relationship between the number of audit committee annual meetings and financial statement fraud. Research conducted by Skousen et al. (2009) and Xie et al. (2003) proved that the number of meetings between members of the audit committee was negatively related to the level of earnings management.

Independent Audit Committee on Earnings Management

The fourth hypothesis of this study is not supported, the positive sign of the coefficient value of the results of this study is not in line with the proposed hypothesis (negative). So, it can be concluded that the independent audit committee has no effect on earnings management. The existence of an independent audit committee has not been able to prevent fraudulent activities carried out by management, it could be that their existence is only limited to meeting existing regulations, so it is not effective enough to reveal profit mark up activities.

This study is not in line with the research conducted by Amaliah, Januarsi, & Ibrani (2015), which states that the audit committee must be able to maintain an independent attitude in carrying out its duties so that the company is less likely to carry out earnings management activities. Supervision from an independent party is needed to ensure that the company can implement the best governance standards. Skousen et al. (2009) states that the proportion of members of the independent audit committee (AUDCIND) has a negative effect on financial statement fraud. Pamudji & Trihartati (2010) prove that the independence of the audit committee has a significant negative effect on the level of earnings management.

Earnings Management on Firm Value
The Effect of Audit Committee Characteristics on Earnings Management and Its Impact on Firm Value

The fifth hypothesis of this study is accepted, earning management has a significant negative effect on firm value. When the company decides to mark up profits, there will be an increase in the amount of profit. The increase in the amount of profit can temporarily increase the value of the company, but if the mark up of profits is carried out continuously, it can indirectly reduce the value of the company in the eyes of the public. Research on the effect of earnings management on firm value conducted by Herawaty (2008) states that earnings management has a significant positive effect on firm value. Research conducted by Dechow et al. (1996) states that earnings performance originating from the accrual component of earnings management activities has a lower persistence than cash flow. When the amount of reported profit exceeds the value stated in the operating cash flow statement, the amount of profit can certainly increase the value of the company at this time. Ibrani et al. (2019) stated that earnings management is often carried out by management (agents) to increase firm value to make it look good to investors. Earnings management is also considered a strategy carried out by managers that aim to increase firm value.

5. Conclusion and Suggestion

5.1. Conclusions

The purpose of this study was to examine the effect of the characteristics of the audit committee on earnings management and its impact on firm value, with the object of research for manufacturing companies in the 2016-2018 period. From the results of statistical testing using the SPSS (Statistical Package for Social Science) application and the previous discussion, it can be concluded that:

1. The expertise of the audit committee in industry and accounting has no effect on earnings management. The appointment of an audit committee with expertise in accounting and finance is thought only to fulfill the regulations of the Indonesian Financial Services Authority/OJK, that every company is required to have an audit committee that understands accounting and finance. So its existence is not effective enough to prevent earnings management actions in the company.

2. The expertise of the audit committee in the industry and the financial supervisors has no effect on earnings management. The audit committee was formed based on compliance with regulations, besides that the limited understanding of the audit committee members about accounting can cause the oversight process of financial statements to be reduced so that this can be used by agents to manipulate by regulating every activity so that profit targets can be achieved.

3. The number of meetings of the audit committee members has no effect on earnings management. The difficulty of bringing together audit committee members at one time has resulted in less frequent coordination in discussing company issues. This condition causes less supervision in the disclosure of information submitted by management.

4. The independent audit committee has no effect on earnings management. The existence of an independent audit committee has not been able to prevent fraudulent activities carried out by management, it could be that their existence is only limited to meeting existing regulations, so it is not effective enough to reveal profit mark up activities.

5. Earning Management has a significant negative effect on firm value. When the company decides to mark up profits, there will be an increase in the amount of profit. The increase in the amount of profit can temporally increase the value of the company, but if the mark up of profits is carried out continuously, it can indirectly reduce the value of the company in the eyes of the public.

5.2. Suggestion

Future research is expected to increase the proxies from the audit committee so that the scope of research variables becomes wider, using the corporate governance index measurement or adding variables regarding the status of the audit committee members. The measure of the status of the audit committee is based on previous research by considering the following factors: multiple directorships of audit committees in public companies, educational background, namely being graduates of leading universities and level of education (Pollock, Chen, Jackson, & Hambrick, 2010). Further research is also suggested to examine differences in the expertise of the audit committee in industry and accounting as well as the expertise of the audit committee in the industry and financial supervisors compared to the expertise of audit committee members only in accounting and in the field of financial supervision.
References


The Effect of Audit Committee Characteristics on Earnings Management and Its Impact on Firm Value


