
Effect of Audit Committee and GCG's Determinants on Earnings Management for Indonesian Non-Financial Listed Companies

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Abstract

Learning from past and recent financial scandals involving companies around the world, it is suspected that earnings management practices could play an integral part. According to Healy and Wahlen (1999) in Kassem (2012), earnings management is an activity done to manipulate profits in order to benefit the management solely but could mislead other stakeholders in understanding the company's financials. One way to identify and prevent earnings management would be to form an audit committee. This research analyzes the impact of regulation on audit committee issued by the country's financial services authority, called Otoritas Jasa Keuangan (OJK), to earnings management on Indonesian companies. The effect of several determinants of good corporate governance practices such as independent commissioner, ownership concentration, rating, and audit quality on earnings management are also studied. Additionally, a few control variables including size, repeated-loss, and leverage are also measured against earnings management. The research's sample has 1,719 observations taken from 191 non-financial companies listed in Indonesia during the 2008 to 2016 period. Surprisingly we have found that the audit committee policy has a positive relationship with earnings management. The issuance of OJK's regulation on the formation of audit committee appears to cause more earnings manipulation practices. Furthermore, our study has also found that independent commissioner, ownership concentration, rating, and audit quality have no relationships with earnings management.

Keywords: Good Corporate Governance (GCG), earnings management, audit committee, ownership concentration, audit quality

Abstrak

Menilik dari beberapa skandal keuangan yang melanda berbagai perusahaan di pelosok dunia, ditengarai praktik manajemen laba adalah salah satu faktor utama penyebabnya. Menurut Healy and Wahlen (1999), seperti yang dikutip oleh Kassem (2012), manajemen laba adalah kegiatan manipulasi laba yang dilakukan oleh manajemen untuk menyesatkan pemangku kepentingan lainnya yang semata-mata untuk kepentingan pribadi manajemen. Salah satu cara untuk mengidentifikasi dan mencegah manajemen laba adalah dengan pembentukan komite audit. Penelitian ini menganalisis dampak dari terbitnya peraturan OJK terkait pembentukan komite audit terhadap manajemen laba perusahaan Indonesia. Pengaruh dari beberapa determinan konsep tata-kelola perusahaan yang baik seperti komisaris independen, konsentrasi kepemilikan, pemerinkatan, dan kualitas audit akan turut diukur terhadap manajemen laba. Adapun pengaruh dari ukuran perusahaan, rugi berturut-turut, dan level hutang akan juga diperhitungkan sebagai variabel kontrol. Sampel penelitian mempunyai 1,719 observasi dari 191 perusahaan non jasa keuangan yang tercatat di bursa Indonesia sejak tahun 2008 sampai 2016. Tidak disangka bahwa hasil penelitian kami menemukan bahwa kebijakan pembentukan komite audit ternyata memberikan pengaruh yang positif terhadap manajemen laba. Dengan terbitnya peraturan tersebut, praktik manipulasi laba malah bertambah. Selanjutnya, penelitian kami juga melaporkan bahwa variabel komisaris independen, konsentrasi kepemilikan, pemerinkatan, dan kualitas audit ternyata tidak mempunyai hubungan dengan manajemen laba.

Kata Kunci: GCG, manajemen laba, komite audit, konsentrasi kepemilikan, pemerinkatan, kualitas audit, ukuran perusahaan, level hutang, rugi, pailit

1. Introduction

A recent 2-year report issued by Association of Certified Fraud Examiners (ACFE), one of the largest anti-fraud organization based in the United States, stated that there are more than 2,400 scandals have been reported during January 2014 – October 2015 period in 114 countries. On average, a company would suffer roughly 5% of its revenue due to frauds or financial scandals. Total reported loss would reach more than US\$6,3 billion, roughly IDR85 trillion using IDR13,500/US\$1 exchange rate (ACFE, 2016). Thanks to these financial scandals, earnings management has notoriously gained popularity.

Earnings management has been practiced by senior management of corporation to manipulate the financials, particularly affecting its net profit/loss. According to Dechow et al. (1995), one of the most occurred earnings management practices would be the abuse of discretionary accruals, which could be revenue or expense type of accrual booked by management within flexibility in accounting regulations. Several well-known global corporations such as Enron, WorldCom, and Tyco as well as the Asian counterparties like Toshiba and Kimia Farma have experienced serious financial difficulties caused by this type of earnings management.

These financial scandals caused by earnings management are happening partly due to lack of proper supervision. In a country like Indonesia, which adopt a two tier board system, the responsibility of financial and operational supervision would be borne by the board of commissioner via its audit committee. Turley and Zaman (2006) has questioned the effectiveness of audit committee as most, if not all, of the above affected big corporations have formed their own audit committee as mandated by their regulators.

The purpose of this research is to analyze the effect of audit committee policy introduced in 2012 and other good corporate governance (GCG) determinants such as independent commissioner, ownership concentration, credit rating, and audit quality on earnings management for listed companies in Indonesia Stock Exchange.

2. Literature Review and Theoretical Framework

Literature Review

Agency Theory

The relationship between stakeholders in a corporation would be best described by the Agency Theory (Fama, 1980). The origin of this theory started in the 1960s by several economists when they introduced the concept of risk sharing by various parties. This risk sharing concept later create problem as the appetite of the parties are different. This theory further developed by Fama (1980) by stressing that the owner of corporation, called principal, would be impossible to run the business by herself. Hence, the principal would need to hire management, called an agent, to run the business fulltime.

However, the motives of an agent when running the business are often questioned by the principal. According to Jensen and Meckling (1976), this distrust between principal and agent caused by asymmetric information.

Often the agent would only share limited or distorted company's strategic information to the principal.

Audit Committee Concept

To help supervise the actions performed by the agent, the principal would need to form an audit committee. For the past two decades, audit committees have become a critical mechanism for GCG practices around the world (Turley and Zaman, 2004). In the 1990s, GCG frameworks have been introduced in Europe including Cadbury Report in the UK, Vienot I Report in France, and Olivencia Report in Spain (Garcia et al., 2012). In the US, capital market regulatory bodies such as Securities and Exchange Commission, New York Stock Exchange, and National Association of Securities Dealers Automated Quotations have started to introduce the concept of audit committee for listed companies in 1939. Furthermore, as a reaction to the various financial scandals involving US companies, the Sarbanes-Oxley Act was passed by US Congress in 2002, making it clear that corporate governance, financial reporting, as well as internal and external audit activities would all be under the supervision of an audit committee (Rezaee et al., 2003; Hossain and Khan, 2006).

In Indonesia, the concept of forming audit committee came quite late. Only after the financial crisis of 1997/98, regulators like the Ministry of State-Owned Enterprises and Capital Market Supervisory Body launched guidelines on the formation of an audit committee for state-owned enterprises and listed companies. The latest regulation on committee audit for listed companies would be the regulation number KEP-643/BL/2012 issued by Capital Market Supervisory Body (now is known as OJK) and became effective in 2013.

Earnings Management

Many researchers agree that earnings management has been practiced by management solely for the management's interest and would potentially incur loss to shareholders and other stakeholders of the company (Healy, 1985; Healy and Wahlen, 1999; Fields et al., 2001; Kothari, 2001, as cited in Guidara and Boujelbene, 2014).

According to Watts and Zimmerman (1986) as cited in Pamudji and Trihartati (2009), there are three motives behind the practice of earnings management. They are i) bonus plan hypothesis, which is to overstate profit in order to get big bonus, ii) debt or equity hypothesis, which explains why companies with high debt would tend to overstate profit, and iii) political cost hypothesis, which explains why companies that heavily interact with the public would tend to understate profit.

There are a few types of earnings management, as explained by Scott (1997) as cited by Guidara and Boujelbene (2014), which include income smoothing, short-term earnings maximization, earnings minimization, and the big bath. Discretionary accruals would be the most common tool used by the management regardless of her motive or type of earnings management. According to

Dechow et al. (1995), discretionary accruals are accrued revenue or expense, which are not regulated and may be recorded at the discretion of the management. Hence, this type of accrual is often used to manipulate profit (Dechow et al., 1995; Pamudji and Trihartati, 2009; Suaryana, 2009; Garcia et al., 2012; Salleh and Haat, 2014; Keefe, 2016).

Hypothesis

Audit Committee Policy and Earnings Management

The regulation on the audit committee issued by OJK would be used as one of the independent variables against earning management. This is similar to past studies performed by Bradbury et al. (2004), Murhadi (2009), Suaryana (2009), Waworuntu et al. (2012), and Salleh and Haat (2014). The formation of an audit committee should improve the company's operational and financial oversight. Appointed by the board of commissioner, which represents the shareholder, the audit committee should be able to identify and prevent any abnormal discretionary accruals booked by the management. Therefore, earnings management should either be minimized or omitted.

H1: Audit Committee policy has negative impact on earnings management

Independent Commissioner and Earnings Management

Independent commissioners are also often used as independent variables against earnings management. Theoretically, the more independent commissioners sit on the board of commissioners, it becomes more likely that operational and financial supervision will be stronger. As independent commissioners have no relationships with the management and no interests in the company, they should be able to freely identify any potentials practices of earnings management. Researches performed by Chtourou et al. (2001), Klein (2006), Liu and Lu (2007), Murhadi (2009), Waworuntu et al. (2012), and Busirin et al. (2015) have agreed on this.

H2: Independent Commissioner has negative impact on earnings management

Ownership Concentration and Earnings Management

Ownership concentration is a condition in which shares owned by the public is minimal. As the public holds a small amount of a company's shares, most of the shares would be owned by controlling entities predominantly with similar interests. Concentrated ownership would mean that fewer parties would oversee the operational

and financial activities performed by the management. Therefore, concentrated ownership would most likely promote earnings management (Ratnadi and Ulupui, 2016; Liu and Lu, 2007; Murhadi, 2009).

H3: Ownership Concentration has positive impact on earnings management

Rating and Earnings Management

Several studies have also analyzed the impact of a company being rated by a rating agency on earnings management. Hypothetically, by being an outsider a rating agency should serve as an additional independent party to watch any potential earnings management practices that may occur (Yasa, 2010; Arif, 2012; Bereskin et al., 2015). Therefore, ratings should have an adverse ramification on earnings management.

H4: Rating has negative impact on earnings management

Audit Quality and Earnings Management

Studies performed by Chtourou et al. (2001), Waworuntu et al. (2012), Yasar (2013), Soliman and Ragab (2014), as well as Miko and Kamardin (2015) have also measured the effect of audit quality on earnings management. Audits performed by top auditors on the company's financials should result in better quality than the ones performed by their competitors. The top auditors are defined as audit firm with large asset with strong resources. In Indonesia, the top four audit firms are KPMG (Sidharta, Widjaja & Rekan), Price Waterhouse Cooper (Tanudiredja, Wibisana, Rintis & Rekan), Deloitte (Satrio, Bing, Eny & Rekan), and Ernst & Young (Purwantono, Suherman, dan Surja). These top four auditors should perform better in identifying potential abnormal discretionary accruals as proxy of earnings management when auditing companies.

H5: Audit Quality has negative impact on earnings management

Control Variables

We have incorporated three control variables which are the size of the firm, repeated loss, and leverage ratio to the model. Past studies performed by Waworuntu et al. (2007), Zamri et al. (2013), Salleh and Haat (2014), and Soliman and Ragab (2014) also have applied similar control variables to their models.

Table 1. Sample Companies by Economic Sector

Economic Sector	Number
Miscellaneous Industry	13
Consumer Goods	15
Chemical and Basic Industry	19
Infrastructure, Utilities, and Transportation	26
Trade and Services	60
Mining	15
Agriculture	6
Property, Real Estate, and Construction	37
Total	191

Equation 1. Data Panel Regression Model

$$EM_{it} = \beta_0 + \beta_1 POLICY_{it} + \beta_2 IND_{it} + \beta_3 OWNC_{it} + \beta_4 RATING_{it} + \beta_5 QAUDIT_{it} + \beta_6 SIZE_{it} + \beta_7 LOSS_{it} + \beta_8 DEBT_{it} + u_{it}$$

Table 2. Research Model Variables and Measurements

Label	Variable Name	Measurement	Expected Sign
EM	Earnings Management	Abnormal discretionary accruals	
POLICY	Audit Committee Policy	“0” for 2008 – 2012 (pre-regulation) and “1” for 2013 – 2016 (post-regulation)	–
IND	Independent Commissioner	Percentage of independent member of the Board of Commissioner	–
OWNC	Ownership Concentration	Percentage of share not owned by public	+
RAT	Credit Rating	“0” for not rated and “1” for rated	–
QAUDIT	Audit Quality	“0” for not being audited by big 4 Auditor and “1” for being audited by big 4 Auditor	–
SIZE*	Firm’s Size	Total assets	–
LOSS*	Repeated-Loss	“0” for not having loss for 2 years on the row and “1” for having loss for 2 years on the row	+
DEBT*	Leverage Ratio	Percentage of total debt/total assets	+

*Control Variables

3. Research Method

Data Selections

This research adopts a quantitative approach and uses secondary data for the study. Most of the data are taken from listed company’s annual reports for the 2008 – 2016 periods accessed from BEI’s website. Purposive sampling method is used for the sample selection. Out of the total population of 539 companies listed in BEI by end of 2016, this research has selected 191 non-financial institutions as the sample. For the nine observation periods, there are 1,719 observations in total. The following table shows the breakdown of sample companies by sector of the economy.

Research Model

This research applies data panel regression model with the equation 1.

Earnings Management Computation

The dependent variable of this research is earnings management. Abnormal discretionary accrual is used as proxy of earnings management. As explained by Dechow et al. (1995), there are two steps for computing abnormal discretionary accrual. The first step is to identify the non-discretionary accruals (NDA) using the Modified Jones Model. In this model, NDA is estimated using the following formula:

$$NDA_y = \alpha_1 \left(\frac{1}{A_{y-1}} \right) + \alpha_2 (\Delta REV_y - \Delta REC_y) + \alpha_3 (PPE_y)$$

in which,

- NDA = estimated NDA;
- Δ = total asset;
- ΔREV = revenues in year y less revenues in year y-1 scaled by total asset at y-1;
- ΔREC = net receivables in year y less net receivables in year y-1 scaled by total asset at y-1;
- PPE = property, plant & equipment scaled by total asset at y-1;

y = year in event period;

$\alpha_1, \alpha_2, \alpha_3$ = firm-specific parameters.

Then, the second step is to compute discretionary accruals using the following assumption: DA (discretionary accruals) = TA (total accruals) – NDA (non-discretionary accruals).

4. Result and Analysis

Descriptive Statistics

Table 3 shows several statistical descriptions for all variables used in the model.

Data Panel Specific Tests

First, we perform Chow, Hausman, and Lagrange Multiplier tests in order to select the most appropriate method for the model. Next, we perform cross-sectional test for the residuals and Ward test to measure the significance of several variables.

Chow Test

For selecting the appropriate approach for the model, we perform the Chow Test with the following hypothesis:

H0: Use Common-Effect approach for the model (p-value > 0.05)

H1: Use Fixed-Effect approach for the model (p-value < 0.05)

From Table 4, the p-value of Cross-section Chi-square is 0.0000, therefore, we accept H1 and Fixed-Effect should be the better approach for the model when comparing to Common-Effect.

Table 3. Descriptive Statistics Table

	EM	POLICY	IND	OWNC	RAT	QAUDIT	SIZE	LOSS	DEBT
Mean	-0.051063	0.444444	0.407551	0.689787	0.147179	0.371728	26.81931	0.146015	0.565501
Median	-0.007797	0.000000	0.400000	0.728300	0.000000	0.000000	27.80924	0.000000	0.498232
Maximum	3.578158	1.000000	1.000000	0.999300	1.000000	1.000000	33.19881	1.000000	11.84424
Minimum	-8.872713	0.000000	0.000000	0.000800	0.000000	0.000000	10.99138	0.000000	0.003862
Std. Dev.	0.500602	0.497049	0.129846	0.199754	0.354387	0.483407	3.458760	0.353224	0.672009
Skewness	-2.723339	0.223607	1.261662	-0.840128	1.991744	0.530855	-1.268696	2.004891	9.707421
Kurtosis	68.28018	1.050000	8.005982	3.359944	4.967045	1.281808	4.168318	5.019587	124.5420
Jarque-Bera	307354.9	286.6791	2250.960	211.4957	1413.694	292.1881	558.9134	1443.751	1085075.
Probability	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Sum	-87.77803	764.0000	700.5810	1185.743	253.0000	639.0000	46102.39	251.0000	972.0961
Sum Sq. Dev.	430.5348	424.4444	28.96523	68.55074	215.7638	401.4660	20552.47	214.3502	775.8424
Observations	1719	1719	1719	1719	1719	1719	1719	1719	1719

Table 4. Chow Test Result

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	36.973264	(190,1520)	0.0000
Cross-section Chi-square	2968.071209	190	0.0000

Hausman Test

Next, we perform the Hausman Test to determine either Fixed-Effect or Random-Effect approach would be best applied for the model with the following hypothesis:

H0: Use Random-Effect approach for the model (p-value > 0.05)

H1: Use Fixed-Effect approach for the model (p-value < 0.05)

From Table 5 below, the p-value of Cross-section Ran-

dom is 0.2605, therefore we accept H0. Random-Effect is the better approach when comparing to Fixed-Effect for this model.

Lagrange Multiplier Test

Finally, Lagrange Multiplier Test has been performed with the following hypothesis to see whether Random-Effect or Common-Effect is more suitable for the model:

H0: Use Common-Effect approach for the model (p-value > 0.05)

Table 5. Hausman Test Result

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	10.065316	8	0.2605

Table 6. Lagrange Multiplier Test

Lagrange Multiplier Tests for Random Effects
Null hypotheses: No effects
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	4190.918 (0.0000)	2.090074 (0.1483)	4193.008 (0.0000)

Table 7. Residual Cross-Section Dependence Test Result

Residual Cross-Section Dependence Test
 Null hypothesis: No cross-section dependence (correlation) in residuals
 Equation: Untitled
 Periods included: 9
 Cross-sections included: 191
 Total panel observations: 1719
 Note: non-zero cross-section means detected in data
 Cross-section means were removed during computation of correlations

Test	Statistic	d.f.	Prob.
Breusch-Pagan LM	23420.22	18145	0.0000
Pesaran scaled LM	27.69155		0.0000
Pesaran CD	4.049905		0.0001

H1: Use Random-Effect approach for the model (p-value < 0.05)

As the p-value of the Breusch-Pagan method is 0.0000, as shown in Table 6, we accept H1 and select Random-Effect approach for the model.

Cross-Section Dependence Test

To test the presence of cross-sectional dependence in our panel regression settings, we perform the Breusch-Pagan (1980) Lagrange Multiplier (LM) test diagnostic. In this case, the value of the test statistic, 23,420.22 is well into the upper tail of a Chi-square value, and we strongly reject the null of no correlation at conventional significance levels.

Wald Test

We have also performed Wald Test for testing the significance of particular explanatory variables in the model (the 2nd variable = POLICY, the 8th variable = LOSS, and the 9th variable = DEBT). As can be seen from the table below, the Wald test is significant. Both the p-value of F-Statistic and Chi-square are less than 0.05, as a consequence we reject the null hypothesis of the variables are equal to zero. Therefore, we may conclude that the

parameters associated with audit committee policy (POLICY), repeated-loss (LOSS), and leverage ratio (DEBT) are not zero, so that these variables should be included in the model.

Data Panel Analysis

Correlation Analysis

As shown in the table 9, none of the variables are highly correlated with each other.

Research Result Analysis

Our model uses the following equation:

$$EM = 0.144395441036 + 0.0270643448409 * POLICY + 0.00495254465618 * IND + 0.0332700409181 * OWNC + 0.0463051883091 * RAT - 0.00695417270594 * QAUDIT - 0.00538414619635 * SIZE - 0.0994211401094 * LOSS - 0.137522509534 * DEBT + [CX=R]$$

From the Adjusted R-squared value shown in Table 10, only less than 10% of variation explained by the independent variables that actually affect earnings management

Table 8. Wald Test Result

Wald Test:
Equation: Untitled

Test Statistic	Value	df	Probability
F-statistic	56.43752	(3, 1520)	0.0000
Chi-square	169.3126	3	0.0000

Null Hypothesis: C(2)=0, C(8)=0, C(9)=0
Null Hypothesis Summary:

Normalized Restriction (= 0)	Value	Std. Err.
C(2)	0.030389	0.011662
C(8)	-0.098516	0.019705
C(9)	-0.143866	0.012466

Restrictions are linear in coefficients.

Table 9. Correlation Matrix

	EM	POLICY	IND	OWNC	RAT	QAUDIT	SIZE	LOSS	DEBT
EM	1.000000								
POLICY	0.010376	1.000000							
IND	0.063769	0.041089	1.000000						
OWNC	0.013354	-0.031964	-0.071468	1.000000					
RAT	0.013011	0.011749	-0.030537	-0.131384	1.000000				
QAUDIT	-0.024657	0.024225	-0.015309	0.175302	0.077987	1.000000			
SIZE	0.051150	0.079072	0.025246	-0.134023	0.217497	-0.020314	1.000000		
LOSS	-0.126921	0.057834	0.059631	-0.066426	-0.046229	-0.076031	-0.191032	1.000000	
DEBT	-0.092136	0.050637	0.129108	-0.089732	0.053468	-0.018290	-0.099810	0.193733	1.000000

(EM), the dependent variable. The remaining 90% would be explained by other factors not included in the model.

At 95% confidence level, we reject the model's H1 as audit committee policy (POLICY) shows a positive relationship to earnings management (EM), as shown in Table 10. The issuance of OJK's policy on audit committee formation appears to increase the practices of earnings manipulation of the listed companies. This finding is contradicting with previous studies by Bradbury et al. (2004), Suaryana (2009), and Salleh and Haat (2014).

Furthermore, we reject H2, H3, and H5 as independent commissioner (IND), ownership concentration (OWNC), and audit quality (QAUDIT) have shown no relationships with earnings management (EM). The above findings, however, are similar with the results of previous studies by Chtourou et al. (2001), Liu and Lu (2007), Murhadi (2009), and Waworuntu et al. (2012).

Meanwhile rating (RAT), despite showing p-value that significant at the 90% confidence level, shows no relationship to earnings management (EM) at the 95% con-

Table 10. Data Panel Regression Coefficient Table

Dependent Variable: EM
Method: Panel EGLS (Cross-section random effects)
Date: 05/20/18 Time: 22:53
Sample: 2008 2016
Periods included: 9
Cross-sections included: 191
Total panel (balanced) observations: 1719
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.144395	0.180317	0.800787	0.4234
POLICY	0.027064	0.011359	2.382722	0.0173
IND	0.004953	0.063597	0.077874	0.9379
OWNC	0.033270	0.064001	0.519833	0.6032
RAT	0.046305	0.027144	1.705884	0.0882
QAUDIT	-0.006954	0.029963	-0.232092	0.8165
SIZE	-0.005384	0.006128	-0.878550	0.3798
LOSS	-0.099421	0.019524	-5.092279	0.0000
DEBT	-0.137523	0.012205	-11.26803	0.0000

Effects Specification		S.D.	Rho
Cross-section random		0.445873	0.8026
Idiosyncratic random		0.221133	0.1974

Weighted Statistics			
R-squared	0.093367	Mean dependent var	-0.008329
Adjusted R-squared	0.089126	S.D. dependent var	0.231906
S.E. of regression	0.221331	Sum squared resid	83.76836
F-statistic	22.01253	Durbin-Watson stat	1.360236
Prob(F-statistic)	0.000000		

Unweighted Statistics			
R-squared	0.006766	Mean dependent var	-0.051063
Sum squared resid	427.6217	Durbin-Watson stat	0.266462

fidence level. Therefore, we also reject H4. The positive coefficient sign of rating (RAT) is similar to the findings reported by Yasa (2010) and Arif (2012). Bereskin et al. (2015), however, reported a negative relationship between rating (RAT) and earnings management (EM).

Surprising result also appears from the model's control variables. Both the repeated-loss (LOSS) and leverage ratio (DEBT) are showing negative relationships to earnings management (EM), which are different than our initial assumptions. Lastly, the firm's size (SIZE) has no relationships with earnings management (EM).

5. Conclusion

This research aims to measure the effect of audit committee policy along with several GCG determinants on earnings management. Surprisingly, the research shows that despite the policy's significance at 95% level of confidence, it has positive impact to earnings management. Additionally, none of the selected GCG determinants have any impacts to earnings management. Furthermore, several control variables including loss and debt have negative impact to earnings management, which are against our hypothesis.

We would propose that follow-up studies should incorporate lag variable of earnings management (EM), the dependent variable, as well as adding other more relevant independent variables to further strengthen the model. By having these, the Adjusted R-squared should be higher and more independent variables should be impacting earnings management.

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