THE ROLE OF AUDIT COMMITTEE CHARACTERISTICS AND AUDIT QUALITY IN IMPROVING EARNINGS QUALITY

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ABSTRACT

The existence of an audit committee in a company, as regulated by the financial services authority, is still questionable about its effectiveness in influencing the quality of the company's financial statements. Likewise, the characteristics of the public accounting firm used by the company, can it improve the quality of the financial statements presented by the company. The purpose of this study was to examine the effect of audit committee effectiveness, as measured by committee size, number of meetings, and competence, as well as audit quality on earnings quality with firm size, leverage, and profitability as control variables. The population of this study is all manufacturing companies listed on the Indonesia Stock Exchange in 2018-2020. The sample selection method used purposive sampling and 292 data were obtained. The results of hypothesis testing with multiple linear regressions showed that the size of the audit committee and audit quality had a positive effect on earnings quality. Meanwhile, the number of meeting and competence has no effect on the quality of earnings. Furthermore, all control variables affect earnings quality.

Keywords: Audit committee effectiveness; audit quality; earnings quality; firm size; leverage; and profitability

INTRODUCTION

Financial statements are the result of a financial accounting process. It contains vary financial information as management's responsibility in managing the company for a certain period (Cahyani & Khafid, 2020). Earnings are very important component of financial statements for users of financial statements (Anggrainy & Priyadi, 2019). Earnings are generally a guide for internal and external users in making various decisions (De Simon, 2016; Widiatmoko & Indarti, 2019). Quality information will only be obtained from companies with high earnings quality. High earnings quality will provide more information about the company's financial performance that is relevant for decision making (Dechow et al, 2010; Soly & Wijaya, 2017; Wati & Putra, 2017).

Earnings quality are earnings that reflect the company's real financial performance (Kurniawan & Aisah, 2020), so that it can be the basis for investors to make the right decisions in investing (Murniati et al., 2018). Earnings quality must meet the qualitative characteristics of financial statements, namely relevant and reliable (Silfi, 2016), which is an important indicator in assessing the company's prospects in the future. However, the phenomenon shows the opposite. The urge to increase company profits has triggered management to commit fraudulent actions by engineering the profits presented. The fraudulent actions carried out led to the low quality of earnings, so that the profits presented were biased (Soly & Wijaya, 2017).

The fraudulent financial statements, among others, were perpetrated by PT Envy Technologies Indonesia Tbk. In the 2019 period, PT Envy Technologies Indonesia Tbk has recorded revenues of Rp. 188.58 billion, up 135% compared to the income presented in the 2018 annual financial statements of Rp. 80.35 billion. Meanwhile, the net profit presented in the 2019 annual financial statements was Rp.
8.05 billion, an increase of 19% from the previous year, which was Rp. 6.79 billion. As a result, the Indonesia Stock Exchange (IDX) has temporarily suspended trading of shares of PT Envy Technologies Indonesia Tbk as of December 1, 2020 (Sandria, 2021).

The case of engineering financial statements also occurred at PT Garuda Indonesia. In 2018 PT Garuda Indonesia managed to record an apparent profit of Rp. 11.56 billion, in contrast to the condition of the financial statements in 2017 which suffered a loss of Rp. 3.09 trillion. Anomalies in the financial statements occurred in the third quarter of 2018, where the company still suffered a loss of Rp. 1.63 trillion. Almost the same case also happened to PT Perusahaan Listrik Negara, (Arieza, 2019).

The case of profit engineering in the financial statements that has been carried out by certain individuals in the cases described, turns out to be related to the behavior of company management in Indonesia which still performs profit engineering in order to shine the financial statements to attract investors to invest. The rise of profit engineering cases that occur has a major impact on the low quality of earnings. The low quality of earnings makes the financial statements presented biased because they are not in accordance with the actual performance of the company. The management should develop strategies to improve the quality of earnings in the company's financial statements that are presented so that they are transparent and accountable to attract investors to invest (Cahyani & Khafid, 2020).

The earnings quality perspective is not free from agency conflicts. Agency theory explains that the agency relationship arises when the shareholder assigns the responsibility of managing the business to the agent. The task of the agent is to manage the resources owned by the company, so that the management knows all the latest information regarding the actual condition of the company and can see the company's opportunities in the future. The conditions as described have resulted in an information gap between owners and agents (management) known as information asymmetry (Zabrina & Widiatmoko, 2022).

The Forum for Corporate Governance in Indonesia (2002) defines corporate governance as a series of regulations to prove the relationship between shareholders, creditors, government, company managers, and stakeholders. Based on the rights and obligations according to the forum for corporate governance, the purpose of good corporate governance is to create added value for all parties with an interest in the company. The existence of good corporate governance that refers to four basic principles, namely: fairness, transparency, accountability, and responsibility will bring great benefits to the development of the company.

The Financial Services Authority Regulation (2015) concerning the establishment and guidelines for the implementation of audit committee work, states that a public company is required to have an audit committee member. The company is required to have an audit committee consisting of at least 3 members of the audit committee who come from independent commissioners and parties outside the issuer. According to the membership requirements and the term of office of the audit committee, members of the audit committee must have at least 1 member who is competent in accounting. The audit committee charter explains that members of the audit committee must hold regular meetings at least once in 3 months. The attendance rate of the audit committee meetings that have been held is at least attended by more than half of the audit committee members owned by public companies.

Research conducted by Larasati & Mulyana (2021), using two proxies for the effectiveness of the audit committee, namely the size of the audit committee and audit committee meetings, found that the number of audit committee members had no effect on earnings quality, while the frequency of committee meetings, has a positive effect on earnings quality. So it can be concluded that the more frequent audit committee meetings, the higher the quality of earnings proxied using discretionary accruals. On the other hand, the size of the audit committee does not determine the earnings quality which is proxied using discretionary accruals. This means that the number of members of the audit committee alone has not been effective in improving the quality of company earnings. The results of
this study also show that the audit quality proxied using the big four and non-big four affiliated KAPs has no effect on earnings quality.

The results of Lestari & Cahyati’s research (2017) prove that the size of the audit committee, audit committee meetings, and audit committee competence has no effect on earnings quality. This means that the audit committee has not carried out its duties effectively in conducting supervision. On the other hand, research conducted by Madingin & Laksito (2017) states that audit committee meetings have a positive effect on earnings quality. This means that the audit committee meeting that has been carried out is running effectively so that it can affect the quality of the earnings presented. On the other hand, the size of the audit committee has no effect on earnings quality. This means that the number of members of the audit committee has not been effective in supervising the preparation of financial statements.

According to research conducted by Razani & Xia (2017), Permana (2015), Bala & Kumai (2015), and Puspitowati & Mulya (2014) the effectiveness of the audit committee as proxied by the size of the audit committee has no effect on earnings quality. In this research, earnings quality is proxied using discretionary accruals. This means that the effectiveness of the audit committee as proxied by the size of the audit committee has not been running effectively in carrying out its duties, namely supervising the preparation of financial statements by the management. On the other hand, according to Sarawana & Destriana (2015) the effectiveness of the audit committee as a proxy for the size of the audit committee and the competence of the audit committee has no effect on earnings quality. In this study, earnings quality is measured using earnings persistence. This means that the effectiveness of the audit committee has not been running effectively, but the effectiveness of the audit committee is only as a fulfillment of the criteria for good corporate governance.

Research conducted by Puteri & Saraswati (2021) shows that the effectiveness of the audit committee as measured by audit committee meetings has a positive effect on earnings quality. The earnings quality proxy used is accrual quality. The audit quality proxied using KAP affiliated with the big four and non-big four has no effect on earnings quality. In contrast, research conducted by (Santosa et al 2019; Puteri & Rohman 2012) proved that the effectiveness of the audit committee had no effect on earnings quality. The earnings quality proxy used is discretionary accruals. This means that the effectiveness of the audit committee that is proxied using audit committee meetings has not run efficiently but only as a fulfillment of good corporate governance requirements.

Research conducted by Louw (2019) and Pertiwi (2019) proves that audit quality measured by big four and non-big four KAP affiliations has a positive effect on earnings quality. On the other hand, the results of research by Zabrina & Widiatmoko (2022), Widodo & Fanani (2020), Hidayatullah & Sulhani (2018), and Aritonang (2018) show that audit quality proxied by big four and non-big four KAP affiliations has no effect on quality profit.

Based on the above background, this study examines the effectiveness of the audit committee, as measured by committee size, number of meetings, competence, and audit quality on earnings quality. In contrast to previous research, this study included three control variables to improve the ability to explain the independent variable to the dependent variable (Zabrina & Widiatmoko, 2022). The results of this study contribute, both theoretically and practically. Theoretically, the results of this study add insight in the field of financial accounting, especially earnings quality with the latest data. Practically, the results of testing the effect of the effectiveness of the audit committee are useful for the Financial Services Authority in making policies regarding the existence of an audit committee in a company. Meanwhile, the results of audit quality testing are useful for management in choosing a public accounting firm as the external auditor.
THEORETICAL FOUNDATION AND HYPOTHESIS DEVELOPMENT

Theoretical Basis

Agency Theory

Agency theory explains that agency relationships arise when there are shareholders who give responsibility to agents to provide the best policies for the businesses they manage. Agency problems arise because of the difficulty of capital owners to ensure that the funds invested are not invested in a profitable project so that it does not bring profit. The number of companies that have not been transparent to earnings information has an effect on the low quality of earnings. Therefore, the presence of agency theory provides information that the importance of corporate management is carried out in full compliance with applicable regulations (Jensen & Meckling, 1976). Agency conflicts can be controlled with control mechanisms through good corporate governance in order to produce the same benefits so as to reduce agency costs (Indarti et al., 2020). The existence of the role of the audit committee is expected to provide control over management in the preparation of financial statements, so that the financial statements presented are of high quality.

Hypothesis Development

The Effect of Audit Committee Size on Earnings Quality

Based on the regulations of the Financial Services Authority (2015), the number of audit committees consists of at least 3 members who come from independent auditors and parties outside the company. The number of audit committees can determine the effectiveness of the audit committee's performance in supervising the management. The larger the size of the audit committee, the better because it has more expertise than a smaller audit committee size (Bliss, 2011) and is expected to improve the performance of the audit committee, making it more effective and efficient in conducting supervision to avoid profit engineering carried out by the audit committee management (Lestari & Cahyati, 2017). Therefore, a larger audit committee size can reduce information asymmetry (Susandya & Suryandari, 2021) and will improve the quality of earnings presented (Permana, 2015; Puspitowati & Mulya, 2014). The results of research conducted by Lestari & Cahyati (2017), Permana (2015), Bala & Kumai (2015), and Hamdan (2020) prove that the size of the audit committee has a positive effect on earnings quality. Based on the logic of thought and empirical support, the following hypothesis is formulated.

H1: The size of the audit committee has a positive effect on earnings quality

The Effect of Audit Committee Meetings on Earnings Quality

The audit committee meeting serves as a formal communication tool to ensure that the management can foster good corporate governance, comply with the company's code of ethics, and ensure that the company's operations run according to the applicable laws and regulations (Pertiwi, 2019). The number of audit committee meetings reflects the activities of the audit committee. A high frequency of audit committee meetings is expected to result in better performance and monitoring (Ghafran and O'Sullivan, 2012), so as to minimize earnings management. Which in turn will improve the quality of the earnings presented (Lestari & Cahyati, 2017). In line with this thought, the research findings of Puteri & Saraswati (2021), Larasati & Mulyana (2021), Santosa et al. (2019), Madingin & Laksito (2017), Puteri & Rohman (2012) prove that the frequency of audit committee meetings has a positive effect on earnings quality. Based on the logic of thought and empirical support above, the hypothesis is formulated as follows.

H2: Audit committee meetings have a positive effect on earnings quality
The Influence of the Competence of the Audit Committee on Earnings Quality

The audit committee has responsibility for the quality of a company's financial reporting. In order to carry out their duties and responsibilities properly, a member of the audit committee must have competence. Competence is a knowledge that must be possessed by members of the audit committee. Audit committee members who are competent in accounting are expected to apply high standards of accountability and performance (Chrisdianto, 2013). Audit committee expertise is measured by the proportion of audit committee members who are competent in accounting. The measure of educational attainment is based on the Financial Services Authority regulation (2015) which stipulates that at least one member of the audit committee must have an educational background in accounting. The competence of audit committee members who have educational backgrounds and expertise in accounting will improve the quality of earnings presented in financial statements (Chrisdianto, 2013). Therefore, it is important for companies to have audit committee members who are competent in accounting (Wandrianto et al., 2021). The results of research by Inawati et al (2021), Tang & Shandy (2021), Permatalia & Haryono (2021) prove that audit committee competence has a positive effect on earnings quality. Based on the logic of thought and empirical support, the following hypothesis is formulated.

H3: The competence of the audit committee has a positive effect on earnings quality

The Effect of Audit Quality on Earnings Quality

The audit committee's role is to strengthen the function of the board of commissioners in monitoring financial information, risk management, conducting audits, and implementing good corporate governance. Auditing provides assurance of information about the quality and reputation of the business being managed. The auditor acts as an informant and provides independent verification of the financial statements so as to minimize the occurrence of earnings management practices. Indeed, audit quality depends on the competence and independence of the auditor (Marsha & Ghozali, 2017). Audit quality is proxied using a dummy variable. The dummy variables are divided into 2 categories, companies audited by KAP big four and non-big four (Mousa & Desoky, 2019). The existence of good audit quality can show the results of the financial statements presented in accordance with the actual performance of the company. In line with research conducted by (Pertiwi, 2019; Puteri & Saraswati, 2021) which proves that audit quality has a positive effect on earnings quality. Based on the logic of thought and empirical support, the hypothesis is formulated as follows:

H4: Audit quality has a positive effect on earnings quality

METHODOLOGY

The populations in this study are all manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period of 2018-2020. The reason for choosing the manufacturing industry as the object of this research is the larger number of companies compared to other industries. The sampling technique used is purposive sampling, with the criteria of 1) presenting the 2018-2020 annual financial statements, 2) having complete data related to the research variables used.

The variables used in this study are earnings quality as the dependent variable, the characteristics of the audit committee and audit quality as independent variables, and firm size, leverage and profitability as control variables. The operational definitions and measurement of variables are presented in Table 1.
Table 1. Variables Definition and Measurement

<table>
<thead>
<tr>
<th>No.</th>
<th>Variables</th>
<th>Variables Definition</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Earnings Quality</td>
<td>the proportion of income attributable to the core operating activities of a business (Hamdan, 2020)</td>
<td>EQ = (Cash flow from operating activities/Net income) (Penman, 2001; Zabrina &amp; Widiatmoko, 2022; Nugroho &amp; Radyasa (2019; Setiawan, 2017; Risdawaty &amp; Subowo, 2015)</td>
</tr>
<tr>
<td>2</td>
<td>Audit Committee Size</td>
<td>Number of firms' audit committee members (Sun et al., 2014)</td>
<td>ACSIZE = Number of audit committee members (Larasati &amp; Mulyana, 2021)</td>
</tr>
<tr>
<td>3</td>
<td>Audit Committee Meeting</td>
<td>Frequency of audit committee meeting within one year (Setiawan et al, 2020)</td>
<td>ACMEET = Number of meetings for one year (Larasati &amp; Mulyana, 2021)</td>
</tr>
<tr>
<td>4</td>
<td>Audit Committee Competence</td>
<td>Percentage of member of audit committee with accounting and Finance background</td>
<td>ACCOMP = (Number of audit committee members who are experts in accounting and finance /Total number of audit committee members) (Setiawan et al, 2020) (Inawati et al, 2021)</td>
</tr>
<tr>
<td>5</td>
<td>Audit Quality</td>
<td>an opportunity that the auditor will not issue an unqualified audit opinion on financial statements with material errors (Wiryadi &amp; Sebrina, 2013)</td>
<td>AQ = proxied using a dummy variable. Companies audited by big four KAPs are given a score of 1, while companies audited by non-big four KAPs are given a score of 0. (Mousa &amp; Desoky, 2019)</td>
</tr>
<tr>
<td>5</td>
<td>Firm size</td>
<td>scale in classifying the size of a company (Ginting, 2017)</td>
<td>SIZE = Ln (Total asset) Widiatmoko, 2020; Anggrainy &amp; Priyadi, 2019; Widiatmoko &amp; Indarti, 2019; Widiatmoko &amp; Indarti, 2018; Widiatmoko &amp; Mayangsari, 2016)</td>
</tr>
<tr>
<td>6</td>
<td>Leverage (Debt to Asset Ratio)</td>
<td>the scale used to determine the use of company debt as a source of financing for investments made by the company (Widiatmoko &amp; Indarti, 2018).</td>
<td>Lev = (Total debt/Total asset) (Nugroho &amp; Radyasa (2019; Widiatmoko &amp; Indarti, 2018)</td>
</tr>
<tr>
<td>7</td>
<td>Profitabilitas (Return on Asset)</td>
<td>financial scale used to measure the company’s ability to earn a profit (Hakim &amp; Naelufar, 2020; Luas et al, 2021)</td>
<td>ROA = (Net profit /Total Asset) (Luas et al, 2021)</td>
</tr>
</tbody>
</table>

Multiple Linear Regression Analysis

The following is a multiple linear regression equation for hypothesis testing in this study:

$$ EQ = \alpha + \beta_1 \text{ACSIZE} + \beta_2 \text{ACMEET} + \beta_3 \text{ACCOMP} + \beta_4 \text{AQ} + \beta_5 \text{Size} + \beta_6 \text{Lev} + \beta_7 \text{Prof} + e $$
Description of multiple linear regression equation notations:

\[
\begin{align*}
\alpha & = \text{Constant} \\
\beta_1 \ldots \beta_2 & = \text{coefficient} \\
\text{QE} & = \text{Earnings quality} \\
\text{ACSIZE} & = \text{Size of audit committee} \\
\text{ACMEET} & = \text{Number of audit committee meetings} \\
\text{ACCOMP} & = \text{Audit committee competence} \\
\text{AQ} & = \text{Audit quality} \\
\text{Size} & = \text{Firm size} \\
\text{Le} & = \text{Leverage} \\
\text{Prof} & = \text{Profitability} \\
e & = \text{Standard Error}
\end{align*}
\]

RESULTS AND DISCUSSION

The population and the sampling process in this study are presented in Table 2. Based on the predetermined criteria, 396 data were analyzed in this study.

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing companies listed on the IDX</td>
<td>168</td>
<td>183</td>
<td>195</td>
<td>546</td>
</tr>
<tr>
<td>Companies that do not issue financial statements</td>
<td>(1)</td>
<td>(3)</td>
<td>(11)</td>
<td>(15)</td>
</tr>
<tr>
<td>Companies that do not have complete data</td>
<td>(3)</td>
<td>(2)</td>
<td>(3)</td>
<td>(8)</td>
</tr>
<tr>
<td>Companies that incur losses</td>
<td>(33)</td>
<td>(39)</td>
<td>(55)</td>
<td>(127)</td>
</tr>
<tr>
<td>Number of observations</td>
<td>131</td>
<td>139</td>
<td>126</td>
<td>396</td>
</tr>
</tbody>
</table>

Source: Annual report data processed in 2022

Descriptive statistics describing the minimum, maximum, mean, and standard deviation values are presented in Table 3.

<table>
<thead>
<tr>
<th>Variabel</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Average</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>EQ</td>
<td>292</td>
<td>1.28</td>
<td>3.81</td>
<td>1.27</td>
<td>1.06</td>
</tr>
<tr>
<td>ACMEET</td>
<td>292</td>
<td>1</td>
<td>73</td>
<td>6.53</td>
<td>6.54</td>
</tr>
<tr>
<td>ACCOMP</td>
<td>292</td>
<td>.25</td>
<td>1.00</td>
<td>.53</td>
<td>.17</td>
</tr>
<tr>
<td>FSize</td>
<td>292</td>
<td>17.95</td>
<td>33.50</td>
<td>27.31</td>
<td>3.43</td>
</tr>
<tr>
<td>Lev</td>
<td>292</td>
<td>.07</td>
<td>4.90</td>
<td>.44</td>
<td>.35</td>
</tr>
<tr>
<td>Prof</td>
<td>292</td>
<td>.003</td>
<td>2.02</td>
<td>.10</td>
<td>.17</td>
</tr>
<tr>
<td>ACSIZE</td>
<td>292</td>
<td>3 audit committee member</td>
<td>4 audit committee member</td>
<td>283</td>
<td>96,90%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Big Four</td>
<td>Non Big Four</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AQ</td>
<td>292</td>
<td>101</td>
<td>34,60%</td>
<td>191</td>
<td>65,40</td>
</tr>
</tbody>
</table>
Based on the information in Table 3, it can be seen that the amount of data analyzed in this study was 292. There were 104 outlier data that were excluded from the analyzed data. The earnings quality variable shows the minimum, maximum, and average values of 1.281, 3.808, and 1.265, respectively, with a standard deviation of 1.058. The average value of earnings quality is 1.281 indicating that the total operating cash flow is above net income, so that the earnings quality of the sample companies is quite high. The audit committee meeting shows that the lowest number of meetings held by the sample companies is 1 time, and the highest number of meetings is held 73 times, and the average number of meetings held is 6.53 or 7 times. Information on the competence of the audit committee shows that the minimum number of audit committee members with accounting and financial backgrounds is 0.25 (25%), the highest is 1 (100%) and the average is 0.53 (53%). Based on the size of the audit committee, as many as 283 sample companies (96.9%) have 3 audit committee members, and the remaining 9 companies (3.10%) have 4 audit committee members. Furthermore, as many as 101 sample companies (34.60%) use Big Four Public Accounting Firms and the remaining 191 companies (65.40%) use Non Big Four Public Accounting Firms.

Firm size has a minimum and maximum value range of 17.952 to 33,495 with a standard deviation of 3,432 and an average value of 27,311, equivalent to 2731.1%. These results indicate that the size of the company which is measured through the total assets of the sample companies is classified as a large company. Leverage shows a range of minimum and maximum values from 0.07 to 4.90 and an average value of 0.440 which is equivalent to 44% indicating that the company has a relatively high ability when using the company's total debt to increase the return on investment. Meanwhile, profitability shows a minimum value range of 0.003 and a maximum value of 2.015 with a standard deviation value of 0.166 and an average value of 0.097 which is equivalent to 9.7%. These results indicate that the company's ability to earn a profit on the total assets owned by the company is relatively small.

### Table 4: Multiple Linear Regression Test Results

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
<th>Collinearity Statistics</th>
<th>Heteroscedasticity Test</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>-.128</td>
<td>.028</td>
<td>-4.550</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>ACSIZE</td>
<td>.305</td>
<td>.050</td>
<td>6.040</td>
<td>.000</td>
<td>1.413</td>
</tr>
<tr>
<td>ACMEET</td>
<td>.008</td>
<td>.009</td>
<td>.885</td>
<td>.377</td>
<td>.703</td>
</tr>
<tr>
<td>ACCOMP</td>
<td>-.152</td>
<td>.383</td>
<td>-3.98</td>
<td>.691</td>
<td>.969</td>
</tr>
<tr>
<td>AQ</td>
<td>.390</td>
<td>.085</td>
<td>4.601</td>
<td>.000</td>
<td>.939</td>
</tr>
<tr>
<td>FSIZE</td>
<td>-.009</td>
<td>.004</td>
<td>-2.172</td>
<td>.031</td>
<td>.896</td>
</tr>
<tr>
<td>LVR</td>
<td>-.270</td>
<td>.107</td>
<td>-2.529</td>
<td>.012</td>
<td>.948</td>
</tr>
<tr>
<td>PFR</td>
<td>.065</td>
<td>.009</td>
<td>7.561</td>
<td>.000</td>
<td>.959</td>
</tr>
</tbody>
</table>

- **Zskewness**: .776
- **Zkurtosis**: -.123
- **Adjusted R Square**: .482
- **F Statistic**: 39.499
- **Sig.**: .000

**Source**: Results of data processing, 2022

The normality test is used to see whether the residual value can be normally distributed. A good regression model has a residual value that is normally distributed. If the z value is compared with the critical value with an alpha value of 0.05, then the critical value obtained is less than 1.96
The skewness statistic value is 0.111 with a standard error value of 0.143 so that the z-squared skewness value is 0.776. The statistical value of kurtosis is -0.035 with a standard error of 0.284 so that the z-value of kurtosis is -0.123. The skewness value of 0.776 < 1.96 and the kurtosis value of -0.123 < 1.96 indicates that the skewness value and the kurtosis value are less than 1.96, so it can be concluded that the processed data has met the requirements of the classical assumption test on the normality test because the data is distributed normal.

The multicollinearity test in this study was conducted to test whether the data processed in the regression equation found a high correlation between the independent variables used in this study. The multicollinearity test used in this study used the glejser test (Ghozali, 2018). Table 4 above shows that the VIF value < 10 on the audit committee size variable with a VIF value of (1.413 < 10), audit committee meetings (1.423 < 10), audit committee competence (1.032 < 10), audit quality (1.064 < 10), firm size (1.117 < 10), leverage (1.055 < 10), and VIF value on profitability (1.043 < 10). Tolerance value > 0.10 on audit committee size variable (0.708 > 0.10), audit committee meeting (0.703 > 0.10), audit committee competence (0.969 > 0.10), audit quality (0.939 > 0.10), firm size (0.896 > 0.10), leverage (0.948 > 0.10), profitability (0.959 > 0.10) from the VIF value and tolerance value described, it can be concluded that there are no symptoms of multicollinearity.

Heteroscedasticity test used in this study is using the glejser test. Heteroscedasticity test is used to see whether in a regression model there is an inequality between the variance of the residuals in one study to another. A good regression model is one that does not detect heteroscedasticity symptoms. The Glejser test is carried out by regressing the absolute value of the residual to the independents variables, if the significance value is less than 0.05 then the data processed occurs symptoms of heteroscedasticity (Ghozali, 2018). This study uses the Weighted Least Square test by squaring one of the variables detected by heteroscedasticity symptoms. In the table above, it shows that the results of the heteroscedasticity test that have been carried out are proven that all variables have a significant value of more than 0.05, so it can be concluded that the processed data is free from heteroscedasticity symptoms, so that the data has met the requirements of the classical assumption test.

The autocorrelation test is used to see whether the linear regression model in the research conducted by the researcher occurs or not autocorrelation symptoms using the Durbin-Watson test (Ghozali, 2018). The results of the autocorrelation test on Durbin-Watson were 1.880. The Durbin-Watson value is then compared with the table value using a significance level of 5% with a total sample of 292 and has 7 independent variables. The value of du in the Durbin-Watson table is 1.850, so the results of the Durbin-Watson calculation in this study indicate that du < d < 4-du = 1.850 < 1.880 < 2.150 because the Durbin-Watson value is between du and 4-du, it can be concluded that there is no autocorrelation symptom in this study so that it has fulfilled the requirements of the classical assumption test in the autocorrelation test.

The coefficient of determination test in this study was used to measure the extent to which the model's ability in the study explained the magnitude of the influence of the independent variable on the dependent variable (Ghozali, 2018). Adjusted R Square value of 0.482, means that the effectiveness of the audit committee, as measured by the size of the committee, number of meetings, competence, and audit quality is able to explain the quality of earnings by 48.2% and the remaining 51.8% which is explained by variables outside the study, carried out in this study.

The F test is used to determine the effect of the independent variable on the dependent variable (Ghozali, 2018). The calculated F value is 39.499 with a significance level of 0.000 which is less than 0.05. So it can be concluded that simultaneously the effectiveness of the audit committee as measured by the size of the committee, number of meetings, competence, and audit quality with firm size, leverage, and profitability as control variables affect earnings quality.

**The Effect of Audit Committee Size on Earnings Quality**

This study proves that the size of the audit committee has a significant positive effect on earnings quality, so the first hypothesis (H1) in this study is accepted. This is evidenced by a

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The Effect of Audit Committee Meetings on Earnings Quality

The results showed that the audit committee meeting had no effect on earnings quality, so the second hypothesis (H2) was rejected. This is indicated by a significance value of 0.377 > 0.05 with a beta coefficient value of 0.008 which is positive, which means that the effectiveness of the audit committee proxied by the number of meetings has not been running effectively, so that the supervision that has been carried out by the audit committee on management performance is not working as intended. As for other factors related to the lack of effect of audit committee meetings on earnings quality, namely the decision made by the Financial Services Authority (2015) related to the obligation to hold regular meetings at least once in three months to be carried out only to fulfill the provisions that have been made, so that the audit committee meeting not running effectively in supervising the preparation of the company's financial statements. This research is in line with Lestari & Cahyati (2017) which states that audit committee meetings have no effect on earnings quality.

The Influence of the Competence of the Audit Committee on Earnings Quality

The competence of the audit committee has no effect on earnings quality, so the third hypothesis (H3) is rejected. Judging from the significance value of 0.691 > 0.05 with a beta coefficient value of -0.152 which is negative, it means that the competence of the audit committee has no effect on earnings quality. The competence of the audit committee does not affect the quality of earnings, because the composition of the audit committee members who are competent in accounting in each company is only 1 member so that the supervision carried out has not been running effectively. This is in line with research conducted by Lestari & Cahyati (2017) and Sarawana & Destriana (2015) which state that audit committee competence has no effect on earnings quality. Another factor according to Lestari & Cahyati (2017) audit committee competence has no effect on earnings quality because audit committee members who are competent in accounting are not able to detect earnings management practices. This is due to the fact that the selection of audit committee members who are competent in accounting is only a formality to fulfill the requirements of good corporate governance that has been made by the Financial Services Authority (2015). The Financial Services Authority Regulation (2015) has not specifically explained the characteristics that must be possessed in order to be declared as having financial literacy. This causes different interpretations for each company in selecting audit committee members who are competent in the accounting field. So it can be concluded that audit committee members who are competent in accounting only have educational background and work experience in the accounting field, but are unable to detect earnings management practices in the company.

The Effect of Audit Quality on Earnings Quality

This study proves that audit quality has a significant positive effect on earnings quality, so it can be concluded that the fourth hypothesis (H4) in this study is accepted. Shown by a significance
value of 0.000 < 0.05 with a beta coefficient of 0.390 which means that audit quality has a positive effect on earnings quality. The financial statements of companies that are audited using the services of auditors at Public Accounting Firms affiliated with the Big Four and Non-Big Four are able to make the financial statements presented of good quality so as to minimize the information asymmetry that occurs between the agency and the principal. The results of this study are in line with research conducted by Puteri & Saraswati (2021) and Pertiwi (2019) which states that audit quality has a positive effect on earnings quality.

CONCLUSIONS

This study aims to determine the effect of the effectiveness of the audit committee and audit quality on earnings quality. The results of the research concluded that the size of the audit committee has a positive effect on earnings quality. That is, the larger the size of the audit committee, the higher the quality of the financial statements presented. The audit committee meeting has no effect on earnings quality, which means that the audit committee meeting does not affect the company's earnings quality. The competence of the audit committee does not affect the quality of earnings, meaning that the competence of the audit committee does not affect the quality of earnings. Audit quality has a positive effect on earnings quality. That is, the existence of a good audit quality, the earnings presented in the financial statements become more qualified. All control variables affect earnings quality.

This study only uses a three-year observation period of research which was only carried out in the period of 2018-2020, so the data used does not reflect the condition of the company in the long term. The limitation of this research is that the coefficient of determination proves that the earnings quality of 48.2% is explained by the variables used in this study, while the remaining 51.8% is explained by variables outside the study. Further research is expected to expand other independent variables that can affect the quality of a company's earnings, so that in future research it can be seen other factors that can affect earnings quality such as the number of commissioners, managerial ownership, and capital structure and further research is expected to extend the research period. Companies are expected to maximize the performance of the audit committee and audit services used to monitor the preparation of financial statements, so that the quality of earnings presented is in accordance with the actual performance of the company. Meanwhile, investors can make the number of audit committees and auditor services used in the company's financial statements as a benchmark before making an investment, so as to avoid companies that do profit engineering.

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