Supervision of Independent Commissioners and Audit Committee on Earnings Management Practices

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Abstract

This study examines the supervision of independent commissioners, audit committees, and Control Social Responsibility (CSR) disclosures on Earning Management (EM) practices in banking companies listed on the Indonesia Stock Exchange for the financial year ending December 31, 2015, to 2017. used in this study is the difference between discretionary Realized Security Gain or Loss (RSGL) and discretionary Loan Loss Provision (LLP). Data were obtained using the purposive sampling method, and data were obtained from both the IDX and the websites of each bank. The research hypotheses were tested with ordinary least squares. The results show that CSR does not affect EM. The results also show that the supervision of independent commissioners has a significant negative effect on EM and the audit committee has no effect on EM. This research is expected to contribute to the existing literature by complementing and enriching the findings of the influence of independent commissioners on earnings management.

1. Introduction

For companies, financial reports are the primary tool for conveying financial information as a manager's responsibility (Hasanuddin et al., 2021). The information submitted in the financial statements should show all activities and be disclosed in the annual financial statements, including corporate social responsibility (CSR) activities. Corporate social responsibility is reporting everyday social activities for investors, customers, and other stakeholders as a form of greater transparency regarding all aspects of the business and can ensure the company's long-term sustainability (Kim et al., 2012; Murdifin et al., 2019). By disclosing CSR activities in the annual report, the company will be considered an entity that cares about social and environmental issues by stakeholders and shareholders (Filemon & Krisnawati, 2014).

Financial reports presented by managers sometimes do not describe the actual situation and often make managers take actions that are more beneficial to certain parties (Rice, 2016). The practices carried out by managers to provide benefits to specific parties by manipulating information in financial statements, commonly called earnings management, aim always to make a positive response to financial statements in the eyes of investors and those who need information. Earnings management occurs when managers change financial reporting, misleading stakeholders about economic performance (Abbadi et

al., 2016). By carrying out extensive earnings management practices, the financial statements produced by the company no longer provide accurate company information (Chih et al., 2008).

Previous studies have examined the quality of financial reports, especially those related to corporate social responsibility and earnings management practices (Chih et al., 2008; Kim et al., 2012; Ratmono et al., 2015; Grougiou et al., 2014; Ricardo & Faisal, 2015). This shows the inconsistency of the results of the relationship between the two variables. Kim et al., (2012) stated that the inconsistency of previous CSR research results was due to two competing theories, namely economic-based theory and socio-political-based theory, that gave different predictions about the direction of the relationship between CSR reporting levels, CSR performance levels, and earnings management practices. So the relationship between reporting and CSR performance with earnings management is still an important research question because of the inconsistency of previous research results (Kim et al., 2012).

In addition to the results of previous studies regarding the inconsistent relationship between corporate social responsibility and earnings management, several researchers such as (Herawaty, 2008; History et al., 2016; Achyani et al., 2015; Rice, 2016; Abdadi et al., 2016; Supardi & Asmara, 2019) stated the need for integration between the role of corporate governance and the disclosure of corporate social responsibility. Herawaty, (2008) and History et al., (2016) stated that corporate governance is needed to control the behavior of company managers so that they act not only to benefit themselves but also to benefit the company owners. Corporate governance is a concept based on agency theory, proposed to improve company performance through supervision or monitoring of management performance and ensuring management accountability to stakeholders based on the regulatory framework (Herawaty, 2008).

The discrepancy found from the inconsistency of the results of previous studies causes this study to re-examine the effect of disclosure of corporate social responsibility and corporate governance on earnings management practices in the banking industry in Indonesia. This study is a development of previous research conducted by Grougiou et al., (2014) in America, whose research results cannot be generalized to the state of the banking industry in Indonesia. This is because even though the banking industry in Indonesia is under strict supervision by government institutions, namely the Financial Services Authority (OJK), it is not sure that banks in Indonesia are free from earnings management practices. This is evidenced by the phenomenon of earnings management practices in Indonesia, one of which was the case of Bank Bukopin in 2016. The 2016 net profit reported by Bank Bukopin of Rp. 1.08 trillion in the 2017 annual report was revised to only Rp. 183.56 billion. . This is due to decreased fees and commissions from credit card income (Muyassaroh et al., 2021). Another reason is the statement of Novitasari et al. (2021), which states that the financial sector is prone to corrupt practices because financial institutions function as collectors and distributors of funds based on trust from their customers, so good corporate governance mechanisms are needed.

From the research results and the explanation above, this study aims to examine whether earnings management can be minimized by the disclosure of corporate social responsibility and the role of corporate governance in banks in Indonesia. This objective was created to answer the questions posed in this study, such as whether the information on the financial statements of banks in Indonesia is of good quality? Does the banking industry in Indonesia not practice earnings management? Can corporate governance activities, especially supervision carried out by independent commissioners and audit committees and corporate social responsibility disclosures at banks in Indonesia, affect earnings management practices?

Grougiou et al., (2014) stated that research examining the effect of corporate governance and corporate social responsibility on earnings management has been investigated using various theories, such as agency theory, legitimacy theory, stakeholder theory, social norms theory, and signaling theory. In this study, the theory used in explaining the research problem is stakeholder theory. Stakeholder theory is concerned with how an organization manages the parties that influence the organization or its

stakeholders (Mitchell et al., 1997) and highlights the relationship between corporate social responsibility and earnings management related to managers' decision making by considering the interests of all company stakeholders (Jensen & Meckling, 1976). The practice of corporate social responsibility in the context of stakeholder theory according to Gray et al. (1995) is seen as part of the "dialogue between the company and its stakeholders" and "a very successful way to negotiate the relationship." The diverse and sometimes competing interests of stakeholders can create tensions reflected in the company's financial reporting (Freeman et al., 2010). When managers try to serve various objectives and stakeholders do not have adequate resources in the form of not being able to access s information to monitor the actions of managers, this can increase information asymmetry (Richardson, 2000).

Information asymmetry occurs when one party to a transaction has relevant information but is unwilling to share that information with another party. This information asymmetry can lead to the practice of earnings management. Therefore, stakeholder theory provides insight into organizational goals and behavior by suggesting that managers who engage in corporate social responsibility activities negotiate the interests of various stakeholders who are also involved in earnings management practices (Grougiou et al., 2014). In addition, company involvement in corporate social responsibility activities is an effective tactic used by managers to provide legitimacy to their organizations (Hahn & Kühnen, 2013; Mahjoub & Khamoussi, 2013).

Managers who pursue personal gain by distorting income information are more motivated to engage in corporate social responsibility activities and aim to protect their position (Prior et al., 2008). This follows the opinion of (Barnea & Rubin, 2010; Clarkson et al., 2008) which states that company insiders often seek to over-invest in corporate social responsibility activities to pursue personal gain and protect their particular type. In addition, it also shows organizational legitimacy by signaling unobserved company quality to third parties, which leads to incentives for managers (Grougiou et al., 2014).

The practice carried out by managers to pursue personal gain is an act of deviation in influencing financial statement information, especially earnings information, which is called earnings management practice (Herawaty, 2008; Herman Darwis, 2012). Managers practice earnings management generally using accrual earnings management and real earnings management. Accrual earnings management is carried out by managing earnings that have not been received in cash and are called discretionary accruals, which are permitted by accounting standards to achieve the desired income level. Meanwhile, real earnings management is a deviant action taken by the company's management from normal business activities to achieve profit targets (Roychowdhury, 2006). It is an opportunistic action carried out by management through daily company activities during the accounting period to regulate company profits. Three types of actual earnings management activities are sales manipulation, overproduction, and discretionary expense reduction (Roychowdhury, 2006; Cohen & Zarowin, 2010).

Financial Services Authority Regulation Number 55/POJK.03/2016 concerning the implementation of governance for commercial banks states that good governance is a procedure for managing banks that applies the principles of transparency, accountability, responsibility, independence, and fairness. Meanwhile, the banking governance structure can be implemented with criteria including shareholders, board of commissioners, directors, auditors and audit committees, compliance officers, sharia supervisory boards, and stakeholders. Good corporate governance mechanisms can minimize the cost of capital by creating a positive signal to the providers of capital, improving the company's image, increase the value of the company, which can be seen from the low cost of capital and increased financial performance and stakeholder perceptions of a better future for the company good (Herawaty, 2008). So that corporate governance is expected to function as a tool to provide confidence to investors that they will receive a return on the funds they have invested, confident that managers will not embezzle or invest in unprofitable projects related to the capital that has been invested by investors and is with how investors control managers (Herawaty, 2008).

When a company feels that its legitimacy is being questioned and is known to carry out earnings management, it can take one of the counter strategies such as utilizing corporate social responsibility as a diversion from earnings management practices that can cause the quality of financial reports to be questioned (Grougiou et al., 2014). Companies do this to manipulate the information needs of stakeholders so that they continue to provide support to the company (Gray et al., 1995). Corporate social responsibility activities reported in the annual report will make financial information more reliable for those using financial reports (Kim et al., 2012). Kim et al. (2012) also stated that companies that disclose more information about their activities would generally be more restrictive in carrying out earnings management practices than companies less open to disclosing activity information.

Previous research has tested the relationship between corporate social responsibility and earnings management and showed negative results. Research conducted by Scholtens & Kang (2013) found that companies with relatively good levels of CSR significantly weakened earnings management practices. Chih et al. (2008) showed that CSR could increase transparency and reduce management opportunities to practice earnings management. While the research of Grougiou et al. (2014), which examines earnings management practices in banking companies in the United States, shows a negative relationship between disclosure of corporate social responsibility and earnings management. Based on the results of previous studies, the hypotheses proposed in this study are as follows:

H1: Disclosure of Corporate Social Responsibility has a negative effect on the practice of Earnings Management.

Under the Financial Services Authority Regulation Number 55/POJK.03/2016 concerning the implementation of good governance for commercial banks, corporate governance is carried out to control conflicts of interest between managers and investors and is expected to create a positive signal to stakeholders to improve the company's image. In this study, the only corporate governance mechanism used was the number of audit committees and independent commissioners. The audit committee is a committee that works professionally and independently formed by the board of commissioners to assist and strengthen the board of commissioners in carrying out the supervisory function of the financial reporting process, risk management, audit implementation, and implementation of implementing corporate governance in companies. Financial Services Authority Regulation Number 55/POJK.03/2016 defines an Independent Commissioner as a member of the Board of Commissioners who has no financial, management, share ownership and family relationship with members of the Board of Directors, other members of the Board of Commissioners and controlling shareholder, or relationship with the Bank that may affect the person's ability to act independently.

Achyani et al. (2015) stated that an independent audit committee in the company has an essential meaning in ensuring the quality of financial reports by conducting independent supervision and control. The existence of an audit committee is expected to assist the performance of the board of commissioners in disclosing financial statements to minimize conflicts of interest and reduce the opportunistic nature of management in practicing earnings management. By holding audit committee meetings in the corporate governance mechanism, can affect earnings management practices and can reduce the differences in the interests of managers and other stakeholders, and encourage managers to act more objectively in managing earnings under the supervision of a more active audit committee (Xie et al., 2003).

While the audit committee assisting the performance of the board of commissioners can play an influential role, the independent commissioner has a more focused task of supervising company managers in preparing and reporting on the company's financial statements. The existence of independent commissioners in conducting supervision will be of higher quality because the board of commissioners will always demand transparency in reporting the company, including the company's profitability report (Larastomo et al., 2016). Independent commissioners can also run and implement a

corporate governance system in the company to minimize fraud in the presentation of company earnings reports (Amelia & Hernawati, 2016).

Many studies have been conducted on the effect of audit committees and independent commissioners on earnings management. Research conducted by Oktafia (2013) and Supardi & Setyapurnama (2020) states that the existence of an audit committee can guarantee that the disclosure and control system will run well and can significantly affect the disclosures made. At the same time, the research of Xie et al. (2003) shows that shareholders' interests will be protected by the existence of an audit committee in the company from earnings management behavior by management. Other research conducted by Amelia & Hernawati (2016), Larastomo et al. (2016), and Supardi & Asmara, 2019) regarding the relationship between independent commissioners and earning management practices show that independent commissioners are needed to increase the independence of the board of commissioners towards the interests of shareholders and truly place the interests of the company above other interests. The higher the proportion of independent commissioners in the company, the stronger the board of commissioners in demanding management improves company disclosure quality (Haniffa & Cooke, 2002).

Based on the explanation described and the results of previous studies that state that supervision by independent commissioners and audit committees can protect the interests of investors from opportunistic manager behavior. Therefore, the better the practice of corporate governance, represented by the presence of independent commissioners and audit committees, it can minimize earnings management. Thus, the hypotheses proposed in this study are as follows:

H2a: Supervision by independent commissioners has a negative impact on earnings management practices.

H2b: The mechanism of supervision by the audit committee has a negative effect on earnings management practices.

2. Research Design and Method

The population used in this study are all banking sector companies listed on the Indonesia Stock Exchange during a specific period, namely 2015-2017. Underlying the selection of the observation period from 2015 to 2017 is the phenomenon of earnings management practices in the banking industry in Indonesia. One of them happened in 2017 where Bank Bukopin revised the net profit obtained in 2016 in the annual report made in 2017. In selecting the sample, this study used a purposive sampling method with the criteria of banks listed on the Indonesia Stock Exchange for three consecutive years. Participating from 2015 – 2017, banks must have complete data needed in this study, and banks have published financial reports that the Public Accounting Firm during observation has audited. From the predetermined criteria, 44 banks were listed on the Indonesia Stock Exchange during 2015 – 2017 and could be used as samples in this study. The research data collection was obtained through the company's annual report, the Indonesia Stock Exchange Database, and the company's website.

Following the research of Grougiou et al. (2014) and Supardi & Setyapurnama (2020), measuring earnings management using loan loss provision (LLP) and realized securities gain and losses (RSGL). Using LLP and RSGL instruments is that this study uses commercial bank research objects in Indonesia. Several previous studies have shown that commercial banks use LLP and RSGL to manage income (Cornett et al., 2009). In addition, LLP and RSGL are the most common methods used to estimate earnings management in specific studies conducted on banking companies (Leventis et al., 2011).

RSGL is an item of income the bank obtains from the gain or loss on the sale of securities. RSGL can be regulated by management at the level of the fair value of securities and decisions in the sale of securities to allow earnings management to occur. LLP is a disbursement item from a bank related to allowance for impairment losses, the amount of which can be regulated by the bank's management. If

management sets a more significant amount on LLP formation, the profits will be smaller and vice versa. The two items describe the profits earned by the bank and the expenses that affect profits. However, both can be regulated by the bank management, which causes the opportunity for profit regulation to occur on the two items so that the difference between RSGL and LLP can be used to measure earnings management (Cornett et al., 2009; Grougiou et al., 2014). The research model used is:

$$LLP/TL_{it} = \alpha_{it} + \beta_1 SIZE_{it} + \beta_2 NPL_{it} + \beta_3 LLR_{it} + \beta_4 REAL_{it} + \beta_5 COM_{it} \quad (1)$$
$$+ \beta_6 CON_{it} + \mathcal{E}it$$

From this formula, LLP/TL is the ratio of allowance for impairment losses to total loans. SIZE is calculated by performing the natural logarithm of total assets. At the same time, other measures are financial ratios such as the ratio of non-performing loans to total loans (NPL), the ratio of allowance for impairment losses to total loans (LLR), the ratio of real estate loans to total loans (REAL), the ratio of commercial and industrial loans to total loans (COM) and the ratio of consumer loans to total loans (CON). The unstandardized residual (error) value obtained from equation one is used to calculate the DLLP. Grougiou et al. (2014) stated that the unstandardized residual is a discretionary part of LLP. Unstandardized residuals will be multiplied by total loans (LOANS) and then divided by total assets (ASSETS). So the discretionary LLP is calculated using the following formula:

$$DLLP_{it} = \frac{\mathcal{E}_{it} \times LOANS_{it}}{ASSETS_{it}} \quad (2)$$

To determine discretionary RSGL (DRSGL), this study uses the model used in the research of Cornett et al. (2009), Grougiou et al. (2014), and Supardi & Setyapurnama (2020) by regressing the equation for the realization of securities gains and losses minus total assets (RSGL), the natural logarithm of total assets (SIZE) and unrealized securities gains and losses reduced by total assets (URSGL). Meanwhile, the unstandardized residual value of the equation is the discretionary part of the RSGL. Based on this explanation, the formula for defining DRSGL is as follows:

$$RSGL_{it} = a_t + b_1 SIZE_{it} + b_2 URSGL_{it} + \mathcal{E}_{it} \quad (3)$$

Then earnings management can be obtained from the difference between discretionary RSGL and discretionary LLP and is defined as follows:

$$EM_{it} = DRSGL_{it} - DLLP_{it} \quad (4)$$

The corporate social responsibility disclosure measurement uses the Corporate Social Responsibility Disclosure Index (CSRDI) based on the Global Reporting Initiatives (GRI) indicator obtained from www.globalreporting.org. The Global Reporting Initiative Index consists of 79 items related to economic performance, the environment, labor and decent work practices, human rights, society or social responsibility, and product responsibility. The researcher scores by assessing 1 and 0. A value of 0 is given if there is no disclosure related to the item, and a value of 1 is given if there is a disclosure related to the item. So that the index number of the disclosure of corporate social responsibility is formulated as follows:

$$CSR = \frac{Total\ of\ items\ disclosed\ by\ the\ company}{Total\ of\ items\ the\ company\ expects\ to\ disclose} \quad (5)$$

Corporate governance is a tool that can be used to maintain and restore investor confidence in the company. In this study, the proportion of independent commissioners and the frequency of audit

committee meetings are measures of corporate governance mechanisms that will affect earnings management. The number of audit committee meetings conducted by members of the audit committee in one year can be seen from the number of meetings reported in the company's annual financial statements, including the corporate governance report and the audit committee report (Xie et al., 2003; Djuitaningsih & Marsyah, 2012). Meanwhile, the proportion of independent commissioners is calculated using the following formula:

$$Proportion\ of\ Independent\ Commissioners = \frac{Total\ of\ independent\ commissioners}{Total\ of\ members\ of\ the\ board\ of\ commissioners} \qquad (6)$$

In this study, researchers also used the control variables of firm size, intangible assets, and earnings before interest & tax (EBIT). Company size or size can be measured using the company's total assets reported in the company's annual report. Intangible assets are measured by using a comparison between intangible assets and total assets. EBIT is taken from net profit data obtained by the company before deducting income or interest and tax expenses. The formula used to measure company size and intangible assets is as follows:

$$Size = Ln\ (Total\ Aset) \qquad (7)$$

$$INTA = \frac{Intangible\ Assets}{Total\ Asset} \qquad (8)$$

To test hypotheses 1, 2a, and 2b, the regression models used in this study are:

$$EM_{it} = \alpha_{it} + \beta_1 CSR_{it} + \beta_2 IND_{it} + \beta_3 AUD_{it} + \beta_4 SIZE_{it} + \beta_5 INTA_{it} + \beta_6 EBIT_{it} + \varepsilon_{it} \qquad (9)$$

Description

EM_{it}	: The value of the company's earnings management measure (i) in year (t)
CSR_{it}	: Corporate social responsibility disclosure (i) in year (t)
$SIZE_{it}$	: Total assets of the company (i) in year (t)
$INTA_{it}$	: Proportion of company's intangible assets (i) in year (t)
IND_{it}	: Proportion of independent commissioners of the company (i) in year (t)
$AUDIT_{it}$	: Number of company audit committee meetings (i) in year (t)
$EBIT_{it}$	: Profit Before Interest and Tax of company i in year (t)

3. Results and Discussion

Result Analysis

Table 1 presents descriptive statistics for all variables used in this study. The results showed that all the variables used in the assessment model had a rational level of variation.

Table 1. Descriptive Statistics

Variable	Minimum	Maximum	Mean	Std. Deviation
EM	0,193	10,875	1,141	1,468
CSR	0,171	0,767	0,391	0,160
INDP	0,400	1,000	0,582	0,104
AUD	2,000	6,000	3,000	1,000
SIZE	1,330	1,443	1,382	0,307
INTA	0,000	0,160	0,001	0,003

As the dependent variable, earnings management obtained from the difference between

discretionary RSGL and discretionary LLP has a mean value of 1.141, indicating that the practice of earnings management carried out by banks in Indonesia is still relatively small. For the corporate social responsibility variable, the lowest and highest values are 0.171 and 0.767, respectively, with an average of 0.391. This shows that banks' disclosure of corporate social responsibility carried out by Indonesia is an average of 39.1% of the overall indicators. The company's audit committee activities in the form of the number of audit committee meetings presented in Table 1. mean that the company conducts audit committee meetings at least two times a year. In comparison, most companies conduct audit committee meetings six times a year.

The test results between the variables used in this study are presented in Table 2. Testing the correlation matrix using the Pearson correlation test for the independent variables presented in Table 2 shows no correlation coefficient above 0.8. This shows that there is no multicollinearity problem (Gujarati, 2003). The variance inflation factor (VIF) was tested, and the results were still within acceptable limits.

Table 2. Bivariate Correlation

	EM	CSR	INDP	AUD	SIZE	INTA
CSR	-0,117					
INDP	0,034	-0,059				
AUD	-0,114	0,376**	-0,107			
SIZE	-0,186*	0,533**	-0,184*	0,565**		
INTA	0,012	-0,093	0,136	-0,038	0,141	
EBIT	-0,259**	0,500**	-0,138	0,506**	0,931**	0,130

Besides, there is no multicollinearity problem; another meaning in table 2 is an initial correlation between research variables. It appears that CSR and EM variables are negatively correlated. These results are preliminary findings of CSR disclosures that negatively affect earnings management practices. Although the results presented in Table 2 already indicate the initial results of the relationship between each variable, these results will be tested again in the regression analysis to support or reject the proposed hypothesis.

The regression analysis results carried out in testing the hypothesis are presented in Table 3 and show that the research model has a statistically significant F value (p < 0.01). With R2 obtained in this calculation, the dependent variable is explained by 28.9% by the independent variable. Therefore, the value of F and Adjusted R2 of the regression shows that the multiple regression model is statistically significant. So that the research model meets the requirements for use in the analysis.

Table 3. Regression Analysis

Variable	Coefficient	t-Statistics	Info
Intercept	-3,438	-4.122	***
CSR	0,107	0,094	
INDP	-10,011	-2.267	**
AUD	0,014	0.884	
INTA	-0.001	-0,123	
SIZE	2,650	2,233	**
EBIT	0,080	0,084	
Adj. R^2	0.289		
F-stat	9,985 ***		

***, **, * *significant at the levels of 0.01, 0.05, and 0.1 respectively*

$$CSR_{it} = \alpha_{it} + \beta_1 EM_{it} + \beta_2 INDP_{it} + \beta_3 AUD_{it} + \beta_4 SIZE_{it} + \beta_5 INTA_{it} + \varepsilon_{it}$$

The main variables tested in this study and prove hypotheses 1 and 2 are corporate social

responsibility (CSR) and corporate governance, which are proxied by independent commissioners and audit committees. The results are presented in Table 3. The CSR variable coefficient is 0.107 and is not significant. This shows that the CSR variable does not hurt the company's earnings management practices. Thus, hypothesis 1 is rejected and not supported empirically based on research data.

This study uses the variable of interest to prove H2a and H2b, namely the audit committee (AUD) and the independent commissioner (INDP). The coefficient of the INDP variable presented in Table 3 is -10.011 and is significant at the v5% level. At the same time, the AUD variable coefficient obtained several 0.014 and is not significant. The test results show that the role of an effective independent commissioner can minimize the occurrence of earnings management practices. For the control variable used in this study, only the SIZE variable has a significant positive effect.

Discussion

Testing hypothesis 1, which states that the disclosure of corporate social responsibility hurts earnings management practices, is proven not to be supported. The findings in this test are different from the results obtained by Ratmono et al. (2015) and Ricardo & Faisal (2015) but similar to the results found in the study of Grougiou et al. (2014). These results indicate that corporate social responsibility activities carried out by banks in Indonesia cannot minimize earnings management practices. Another assumption from the statistical test results of the relationship between corporate social responsibility and earnings management variables is that the banking companies that are the study sample still have low awareness in disclosing corporate social responsibility. This can be seen from the average index value on the Global Reporting Initiatives (GRI) indicators, only 39.1% (see Table 1), so that the disclosure of corporate social responsibility cannot be fulfilled optimally and may not be used as one of the leading indicators in assessing a company's performance.

Furthermore, this finding shows that banks operating in the market use corporate social responsibility practices to signal stakeholders about internal quality and build a socially responsible profile (Grougiou et al., 2014). The bank will build a superior image and become famous without impacting earnings management practices by implementing a corporate social responsibility strategy. In other words, Grougiou et al. (2014) stated that the results showing that corporate social responsibility does not affect earnings management indicate that banks with larger capacity and available capital are more privileged to achieve, maintain, and rebuild organizational excellence.

Testing hypothesis 2a shows that the proportion of independent commissioners has a significant negative effect on earnings management practices. The findings in this study differ from the results obtained from the research of Farida et al. (2010) and Siregar (2017), but the same as the research conducted by Sun et al. (2010). In his research, Sun et al. (2010) stated that the proportion of independent commissioners has a significant effect on corporate social responsibility disclosure. This finding indicates that changes in the composition of independent commissioners and their supervision can affect managers in practicing earnings management.

The support for hypothesis 2a indicates that banks in Indonesia have an average percentage of independent commissioners to all members of the board of commissioners according to the Financial Services Authority Regulation Number 55/POJK.03/2016 concerning Implementation of Governance for Commercial Banks. This finding indicates that the independent commissioners have good professional independence so that the supervisory function can run well. So, with the supervision of an excellent independent commissioner on the bank's operational policies, managers are cautious if they want to practice earnings management.

The results of testing hypothesis 2b related to the number of audit committee meetings can significantly weaken earnings management practices. The results of this study are different from those of Sun et al. (2010), Oktafia (2013), and Siregar (2017) but are the same as the results of Farida et al. (2010). This finding shows that the establishment of audit committees for banking companies in

Indonesia is still mandatory. The meetings held by the audit committees have not been able to guarantee the supervision of management.

Researchers suspect that the role of audit committees in banking companies cannot be carried out effectively and efficiently. This is evident from the tests whose results are presented in Table 1. The average audit committee meeting is 3. Meanwhile, according to the Financial Services Authority Regulation number 55/POJK.03/2016, it is stated that at least four times a year, audit committee meetings are held. In addition, the researcher suspects that the appointment of the audit committee is a form of fulfilling the obligations of the regulations, especially those related to good corporate governance, so that the audit committee's role has not been able to maximally suppress the occurrence of earnings management practices by opportunistic managers at banks in Indonesia.

4. Conclusions

In accordance with the research objectives, the results obtained in this study are not all following the hypothesis. Although the results are not all following the hypotheses, this research has provided theoretical implications, especially regarding the development of stakeholder theory. In addition, research has contributed to the practice, especially in the banking industry, that the composition of independent commissioners owned by the average bank has functioned optimally in supervising bank operations. This proves the role of the composition of independent commissioners in minimizing or suppressing earnings management practices by bank managers.

This study has limitations, especially in using banking companies as research samples; the observation period is only three years. Another limitation is using the Global Reporting Initiatives (GRI) indicator as a CSR measure, which is more appropriate for manufacturing companies. In addition, the use of corporate governance proxies, which are only in the proportion of independent commissioners and audit committees, is also suspected to be one of the causes of the inconsistent results with the hypothesized. Therefore, further research can increase the observation period, for example, to 5 years and add other corporate governance proxies according to the Financial Services Authority Regulation number 55/POJK.03/2016 and use a corporate social responsibility index that is truly following the character of banking.

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