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THE ROLE OF THE AUDIT COMMITTEE IN PROFIT MANAGEMENT AND FINANCIAL PERFORMANCE TO INCREASE COMPANY VALUE

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Abstract: One of the important goals in the establishment of a company is to increase the value of the company. Maximizing the value of the company is very important for every company, especially with the outbreak of the covid 19 virus in Indonesia is currently causing some issuers' shares to fall. This research aims to determine the effect of profit management and financial performance on the value of the company with the audit committee as a moderation variable. The population of this study is a manufacturing company listed on the Indonesia Stock Exchange in 2017-2020 as many as 183 companies. Sampling techniques using purposive sampling that produces 72 manufacturing companies. Data analysis techniques use regression analysis with the SPSS 24 tool. The results of this study showed that profit management had no significant effect on the value of the company, while financial performance had a positive and significant effect on the value of the company. Furthermore, audit committee variables cannot moderate or affect profit management to the value of the company. While the influence of the audit committee on financial performance can strengthen or moderate the value of the company positively and significantly.

Keywords: *Earning Management, Financial Performance, Audit Committee,*

1. Introduction

The establishment of a company must have a clear goal. One of the important goals in the establishment of a company is to increase the value of the company. The higher the stock price, the prosperity that the company provides to investors is also high. And for every company that issues its shares in the capital market, the price of the shares traded is an indicator of company value (Rahmawati, et al 2007). Therefore, Enterprise Value (EV) or also known as firm value (company value), is an important concept for investors to assess the company as a whole (Nurlela and Ishaluddin, 2008 in Kusumadilaga, 2010).

According to Wahyudin Nurlela and Ishaluddin (2008) in Kusumadilaga (2010) company value is the price that prospective buyers will pay if a company is sold. The higher the stock price, the higher the value of the company. Maximizing company value is very important for every company, especially with the current outbreak of the COVID-19 virus in Indonesia causing several issuers' shares to fall, including companies that are in the blue chip category (Muhammad Idris in Kompas.com). According to Muhammad Idris, who was listed on kompas.com, there were several companies whose share prices had fallen quite badly, judging by the trading information data on the IDX in the last 60 trading days or since December 2019. One of these companies is PT. Astra International Tbk, which experienced a drastic decline in shares, from the initial level of Rp. 6.925 per share to Rp. 3,520 per share, which means the stock price has almost halved. There are many factors that affect the value of the company, and several factors have also been widely studied by previous researchers. Some of these factors include: dividend policy, funding decisions, investment decisions, capital structure, company growth, company size.

One of the things that can increase firm value is earnings management (Suffian et al., (2015)). According to Subanidja et al, (2016) earnings management is an accounting practice to manipulate financial statements within the limits permitted by accounting principles. This practice can cause a mismatch between the condition of the company and the financial statements reported by the company (Herman & Purwanto, 2014). The management who has certain interests will manipulate the financial statements according to their interests and not in the interests of the principal (Rahmawati et al, 2007). The purpose of the management in manipulating the financial statements is to show shareholders that the company's performance is getting better day by day. However, it will also harm shareholders because what is reported is irrelevant, thereby reducing the quality of the company's financial statements (Darwis 2012).

In addition to earnings management, financial performance is also influential for investors to assess a company in order to buy shares from the company. The higher the company's financial performance, the more attractive it will be to investors. The company's financial performance is an important factor for investors to make decisions, the better and increasing the company's financial performance, the positive impact on investors. The company's financial performance can be seen in the company's financial statements. The information can be either quantitative or qualitative.

In reporting a company's financial statements, of course, a supervisor is needed. Here the role of the audit committee is needed because it refers to one of the duties of the audit committee is to assist the board of commissioners to provide overall oversight.

Research related to the effect of earnings management conducted by Pedi Riswandi and Rina Yuniarti (2020) shows that earnings management has a significant positive effect on firm value. Another study conducted by Fauzan Kamil and Dini Wahyu Hapsari (2020) showed that earnings management had no effect on firm value, while the corporate governance mechanism proxied by managerial ownership, institutional ownership and independent commissioners simultaneously had a significant effect on firm value.

This study focuses on increasing the value of the company because in general we know that by increasing the value of the company, it can be interpreted that the prosperity given by a company is also high. The researcher chose the audit committee as the moderating variable between earnings management and financial performance because one of the responsibilities of the audit committee is supervision of the company's financial statements. With the selection of the audit committee as a moderating variable, it will determine whether the role of the audit committee has an effect or not on earnings management and financial performance.).

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2. Research Method

This type of research is quantitative research which can be interpreted as a process that uses data in the form of numbers as a tool to analyze information about what you want to know (Kasiram, 2008). This research data uses the 2017-2020 annual financial statements of manufacturing companies listed on the Indonesia Stock Exchange (IDX). The sampling technique used in this research was purposive sampling technique with the following criteria.

a. Manufacturing companies listed on the Indonesia Stock Exchange consistently in 2017-2020 as many as 183 companies
b. Companies that are not registered in a row for the 2017-2020 period are 20 companies.
c. Companies that do not consistently publish financial reports as of December 31, 2017-2020 are 18 companies
d. Companies that do not publish financial statements in Rupiah currency consistently from 2017-2020 are 12 companies
e. Companies that do not consistently generate profits from 2017-2020 are 60 companies
f. Total companies that meet the criteria are 72 companies.

Operational definitions and measurement of variables are as follows.

a. Firm Value (Y)

According to Farma (1978) the value of the company is reflected in its share price. The stock price is formed when there is a transaction between the seller and the buyer which is called the value of the company. A company's value can be reflected in the high stock price of the company.

Company value is the market value of outstanding debt securities and company equity. Generally, the value of the company can be measured by using the share price or profits given to shareholders (Carningsih, 2009). The formula for finding firm value using PBV is:

$$PBV = \frac{Share\ Price}{Book\ Value\ Per\ Share}$$

b. Earnings Management (X1)

Earnings Management is the correlation of a company's accounting profit to its economic profit. Earnings management is the motivation that arises to take manipulative actions on company profits by increasing the profit ratio which aims to provide an overview of the company's performance and prospects for the shareholders (principals). According to accounting standards, earnings management in a company is allowed as long as in practice the company is able to clearly disclose the relevant information so that it does not cause harm to interested parties (Mawardi, 2019). Earnings management is an effort made by agents in an effort to provide an overview of the company's prospects by manipulating information on the company's income statement. The calculation of earnings management uses a discretionary accrual model that has been modified by (Dechow, et al., 1995), namely the Jones Model.

TACit=NIit-CFOit

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Total accrual estimated regression equation OLS (Ordinary Least Square): ***TACit/TAit-1=αi(1/TAit-1)+β1i[("REVit/TAit-1)]+β2i(PPEit/TAit-1)+ε*** *Non Accruals Discretioner* : ***NDTACit=αi(1/TAit-1)+β1i("REVit-RECit/TAt-1)/TAit-1+β2i(PPEit/TAit-1)=ε***
Discretionary Total Accrual is the residual obtained from the total accrual:
DTACit=(TACit/TAit-1)-NDTACit

Description:
DTACit = Discretionary accrual of company i in period t
NDTACit = Non-discretionary accruals of company i in period t
NIit = *Net Income of company i in period t*
TACit = Total accruals of company i in period t
CFOit = The operating cash flow of company i in period t
TAit-1 = Total assets of company i in period t

c. Financial Performance (X2)
Financial performance is a description of the financial condition of a company, so that it can be seen the financial condition of a company. Financial performance can be measured using financial ratios such as debt equity ratio (DER), current assets (CA), return on equity (ROE), return on assets (ROA) or using Gross Profit Margin. These ratios can be calculated based on quantitative information. Measurement of financial performance each period is a good thing, because by measuring each period the manager can find out how far the company's financial condition has developed. Calculating the company's financial performance using Gross Profit Margin, namely:

Gross Profit Margin = (Company gross profit/Company revenue) x 100%

d. Audit Committee (Z)
The Audit Committee has a separate task in carrying out its duties to assist the Board of Commissioners in fulfilling its overall responsibilities, namely providing comprehensive supervision (FCGI, 2001). The main responsibility of the Audit Committee is to assist the Board of Commissioners in carrying out its responsibilities, namely overall supervision such as the company's financial statements, company accounting policies, and internal control.

The Audit Committee itself consists of Independent Commissioners. The number of the Audit Committee is required to have at least three members, of which the chairman is the Independent Commissioner of the company and two other members are from external parties. A company that is also independent and also has a background or experience in finance or accounting.

The data analysis technique used in this study was descriptive statistical test, classical assumption test which included (normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test) multiple regression analysis with t test, moderated regression analysis (MRA) and the coefficient of determination (R2).

3. Results and Discussion

3.1. Results

This This study discusses the Effect of Earnings Management and Financial Performance on Firm Value with the Audit Committee as a moderating variable in manufacturing companies listed on the IDX for the 2017-2021 period. The company data used in this research are 288 annual financial reports from 72 manufacturing companies.

The data analysis of this research includes the Classical Assumption Test, t-test and MRA

a. Classical Assumption Test

Classical assumption test is used to fulfill the stages in multiple linear regression testing. The classical assumption test consists of four tests, namely:

1) Normality

This test is to determine whether the test variables are normally distributed or not. A good regression model is to have a normal data distribution. The method that can be carried out in the normality test is using statistical analysis. Statistical testing can be done with the Kolmogorov-Smirnov normality test in the SPSS program, if the significance value is greater than 0.05 then the data is normally distributed. On the other hand, if the significance value is less than 0.05, then the data is not normally distributed.

Table 1. Kolmogorov-Smirnov Normality Test Results
One-Sample Kolmogprpv-Smirnnov Test

One-Sample Kolmogorov-Smirnov Test

			Unstandardized Residual
N			288
Normal Parameters[a,b]	Mean		.0000000
	Std. Deviation		1.38493046
Most Extreme Differences	Absolute		.160
	Positive		.160
	Negative		-.134
Test Statistic			.160
Asymp. Sig. (2-tailed)			.001[c]
Monte Carlo Sig. (2-tailed)	Sig.		.083[d]
	99% Confidence Interval	Lower Bound	.076
		Upper Bound	.090

a. Test distribution is Normal.

Source: SPSS Output Data Processing Results

The table above shows that the value of Asymp. Sig. (2-Tailed) gives a value above 0.05, which is 0.90. so it can be concluded that the data in this study were normally distributed.

2) Autocorrelation Test
The autocorrelation test aims to test whether in the linear regression model there is a correlation between the confounding error in period t and the confounding error in period t-1. To test the autocorrelation, Durbin Watson test was used. Durbin Watson test is used to test whether there is no high correlation between residuals. If there is no correlation between the residuals, it is said that the residual is random or random (Ghozali, 2016). The following are the results of the autocorrelation test in this study:

Table 2 Autocorrelation Test Results

Model	Durbin-Watson
1	1.709

a. Predictors: (Constant), financialperformance_trans, earning management
b. Dependent Variable: company value_trans

Based on table 2 above shows the Durbin-Watson value of 1.709 The value of the Durbin-Wastson table with significant values 5%, n = 288 and k = 2, then obtained the value dl = 1.5114 and du 1.6518. Durbin-Waston value of 1.709 which means du = 1.6518 is smaller than dw = 1.709 and smaller than 4-du (4-1.6518 = 2.34). This shows that the regression model equation in the study did not occur autocorrelation.

3) Multicollinearity Test
Multicollinearity tests are used to determine correlations between independent variables. A good regression model is one in which there is no correlation between independent variables or a correlation between low independent variables. The presence of multicollinierity is detected by Variance Inflating Factor (VIF) and Tolerance. The results of the multicollinearity test are presented in the following table:

Table 3 Multicollinearity Test Results

Coefficients[a]

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	manajemen laba	.379	2.785
	kinerjakeuangan_trans	.367	2.785

a. Dependent Variable: nilaiperusahaan_trans
Source: SPSS Output Data Processing Results

The table above shows that regression models are known tolerance values of more than 0.10 and VIF less than 10. The results of these tests indicate that in the regression models used in this study there were no symptoms of multicollinearity.

4) Heterocedasticity Test
The heteroplasticity test is a test to find out whether in this regression model there is a varience from residual one observation to another observation. Here are the results of heteroplasticity tests.

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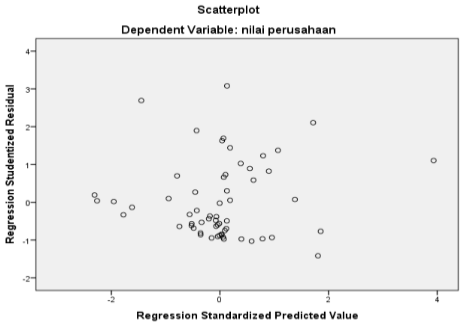

Figure 1 Heteroplasticity Test Results

Based on figure 1 above, the dots in the scatterplots chart are seen spreading randomly and spread below or above the number 0 on the y-axis. The image shows that the data used in the study did not give rise to heteroplasticity.

b. Test t

The t test is used to determine whether the free variables in the regression model have an individual effect on the bound variable and to determine whether or not it is influential.

Table 4 Test Results t

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	1.054	.364		2.996	.005
	Earning management	-.003	.001	-.286	-2.018	.053
	financial performance	.035	.012	.457	3.239	.003

a. Dependent Variable: nilai perusahaan

Source: SPSS Output Data Processing Results

1) Profit Management variables have a t calculate of -2,018 and a table t of 0.678 so that t calculates < t table. Significant value is 0.053 > 0.05. This shows that profit management has no effect on the value of the company.
2) The financial performance variable has a t calculate of 3,239 and a table t of 0.678 so that t calculates the > t table. The significant value is 0.003 > 0.05. This shows that financial performance affects the value of the company.

c. Test t MRA

Table 5 Test Results t Moderated Regression Analysis

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	7.433	3.080		2.414	.023
	manajemen laba	-.018	.010	-1.892	-1.742	.093
	kinerja keuangan	.056	.076	-1.003	778	.018
	komite audit	-1.981	.930	-.706	-2.131	.042
	moderat1	-.048	.030	-.584	-1.572	.127
	moderat2	.038	.027	1.727	1.418	.046

a. Dependent Variable: nilai perusahaan

Source: SPSS Output Data Processing Results

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Based on table 5 above can be concluded as follows:

1) Audit Committee variables in moderating profit management are measured using the t test. t value calculates -1,572 and t table of 0.678 so that t calculates > t table. The significant value of 0.127 > 0.05 means the audit committee cannot moderate the effect of profit management on the value of the company.
2) Audit committee variables in moderating financial performance are measured using the t test. t value calculates 1.418 and t table of 0.678 so that t calculates > t table. The significant value of 0.046 > 0.05 means the audit committee cannot moderate the effect of financial performance on the value of the company.

d. Coefficient of Determination

The coefficient of determination is used to determine how much the ability of free variables in explaining dependent variables. The value of determination is calculated by the value of R2.

Table 6 Results of the Coefficient of Determination Test

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.673[a]	.453	.301	1.12341

a. Predictors: (Constant), X2, X1

Source: SPSS Output Data Processing Results

Based on the ouput spss table above, it is known that the value of the coefficient of determination or R Square is 0.340. Square's R value of 0.340 is derived from the squaring of the correlation coefficient or "R" which is 0.673 x 0.673 = 0.453. The magnitude of the coefficient of determination (R Square) is 0.45.3 or equal to 45.3%. The figure means that the variables of profit management and financial performance simultaneously affect the company value variable by 45.3% while the rest (100%-45.3% = 54.7%) are influenced by other variables outside the regression equation or un studied variables.

3.2. Discussion

Based on SPSS output shows that profit management variables have no effect on the value of the company. This shows that managers are more likely to choose other methods to increase profits with the aim of avoiding violations of debt agreements, because it will be sanctioned in the form of restrictions on dividends between investors or shareholders and the difficulty of obtaining additional benefits if it violates the agreement. So this causes investors to respond positively as the value of the company is reflected in the stock price to the investor's view in embedding his shares in the manufacturing company. The results of this study support research conducted by Indriani & Darmawan (2014) and Herawati (2010) which states that profit management has no effect on the value of the company.

Financial performance variables have a positive effect on the value of the company. This shows that the value of the company is determined by the strength of profit from the turnover of the company's assets that have positive results or feel good enough. Thus the greater the occurrence of earnings power, the more efficient the turnover of assets obtained in manufacturing companies. In this case will have an impact on the decline in the value of the company that has been projected through Tobin'Q every year, then the value of significance obtained through the influence of the higher level of financial ratio (ROA) will be the better the level of productivity of the company's assets in obtaining profit margin. The results of this study support research conducted by Munawor (2013) and Rina (2014) which states that Financial Performance with proxies (ROA) has a significant positive effect on the value of the company.

Audit committee variables (moderation variables) cannot strengthen the impact of profit management against the value of the company. The audit committee can exercise its authority to be able to access company documents so that the process of supervision of management in reporting the company's finances can run optimally so that profit management actions can be reduced. The greater the number of audit committees in the implementation of its duties is less effective for managerial supervision so that profit management actions can be freely carried out. However there are many things that can support profit management against the value of the company apart from the audit committee. The results of this study support research conducted by Prawita (2014) and Widianto (2011) which states that the audit committee does not moderate profit management to the value of the company.

Audit committee variables (variable moderation) can strengthen the influence of financial performance on a company's value. This shows that the audit committee assists the board of commissioners in performing the function of supervision over the company's performance. This is primarily related to the review of the company's internal control system, ensuring the quality of financial statements and improving the effectiveness of audit functions. The quality of the audit committee in its function can reduce the opportunistic nature of management that performs profit management. In addition, the existence of an audit committee is also able to improve the quality of the company's internal supervision, as well as being able to optimize the mechanism of checks and balances, which is ultimately aimed at providing optimal protection to shareholders and other stakeholders. To establish these roles and functions, the principles and foundations that must be held by the Audit Committee include independence, transparency and discipline, accountability and responsibility, and fairness. Research supported by Klein (2002) in his research provides empirical evidence that companies that form independent audit committees report profits with smaller discretionary accrual content compared to companies that do not form independent audit committees. Sam'ani (2008) tested the influence of GCG (with the audit committee's proxies) on financial performance and the results were significant.

4. Conclusion

Based on the analysis of research data and discussions, it can be concluded that profit management has no effect on the value of the company. Financial performance has a positive effect on the value of the company. The audit committee is unable to strengthen the influence of profit management on the value of the company, while the audit committee is able to strengthen the influence of financial performance on the value of the company. The results of the study are expected to contribute to managers to improve financial performance so that the value of the company increases. In addition, the audit committee should play a role in assisting the board of commissioners in performing supervisory functions over financial performance so as to increase the value of the company.

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