

THE EFFECT OF CHARACTERISTICS OF THE BOARD OF COMMISSIONERS AND AUDIT COMMITTEE ON THE LEVEL OF ACCOUNTING CONSERVATISM

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Abstract: Accounting conservatism is frequently with reliable reporting in the past and auditor behavior. Shareholders are required to be more available with public, that's where the role of accounting conservatism can support the credibility of conservative disclosure of information. This research using multiple regression method, the data used is secondary data from the company's annual report. The population of this study is a Manufacturing Company listed on the Indonesia Stock Exchange in 2009-2011, The sample used is 33 companies. From the results of the study, it was concluded that the characteristics of the board of commissioners had no significant effect on accounting conservatism, while indicators of the audit committee such as the size of the audit committee, the frequency of committee meetings, and the competence of the audit committee had a significant effect on accounting conservatism.

Keywords: Accounting Conservatism, Characteristics Commissioners, Audit Committee

INTRODUCTION

Basically, accounting is a process to provide financial information of an organization regarding the financial position and results of the company's operations that can be used by interested parties in the decision-making process (Rahmawati, 2010). In presenting quality financial statements, presenters are faced with constraints, one of which is conservatism which is a prudent principle by presenting the value of assets and income understatement and presenting liabilities and expenses overstate.

The need for conservatism is often associated with reliable reporting of past events which implies an emphasis on backward looking, managing and auditor behavior. The need for conservatism is often associated with reliable reporting of past events which implies an emphasis on backward looking, managing and auditor behavior. An auditor is not required to make financial statements too conservative.

The cause of the global financial crisis can be interpreted that, company shareholders demand to be more open to information, which means companies must disclose more information to the public, which is neutral without any auditing mechanism. That's where the role of accounting conservatism in supporting the credibility of conservative disclosure of information by showing that companies will also disclose other information conservatively (Bapennas, 2009).

Among researchers, the principle of accounting conservatism is still considered a controversial principle. Many criticisms have arisen regarding the application of the

principle of conservatism, among others, conservatism is considered an obstacle that will affect the financial statements if they are prepared using a very conservative method. Accounting reports produced using conservative methods tend to be biased and do not reflect reality (Kiryanto and Supriyanto, 2006). Therefore, the characteristics of the board of commissioners and audit committee will affect the level of conservatism that will be used by the company in preparing its financial statements. The characteristics of the board of commissioners are related to the proportion of independent commissioners. This needs to be considered so that there is independence in the monitoring process carried out on the company's performance. In terms of the size of the board of commissioners, this is related to the number of members of the board of commissioners which will affect the supervisory mechanism of the company. A larger size of the board of commissioners will cause the duties of each member of the board of commissioners to be more specialized because there are committees that are more specialized in overseeing the company. According to Beasley et al. (2000) in Zulaikha (2012) states that the existence of an audit committee is associated with a lower level of fraud. Meanwhile, according to Krishnan and Visuanathan (2006) in Wardhani (2008) proves that the existence of an audit committee has a positive effect on the level of conservatism of financial statements and the background of expertise of the audit committee is also positively related to conservatism. The results of this study are consistent with the opinion which states that accounting expertise related to accounting, finance, and auditing knowledge as well as experience in corporate governance possessed by members of the audit committee contributes to a greater level of monitoring by members of the audit committee so that it will increase the level of conservatism used in the financial reporting process.

The board of commissioners is a characteristic of a company that has an independent attitude to supervise the company's operations and performance. According to James A Hall & Tommie Singleton (2007:15) the board of commissioners of large and publicly traded companies forms a sub-committee called the audit committee which is specifically responsible for auditing. In this study of the characteristics of the board of commissioners, the factors to be assessed are the proportion of the board of commissioners and the size of the board of commissioner. The audit committee is a group of people elected by a larger group to carry out certain jobs or to perform special tasks or a number of members of the company's board of commissioners (KNKG, 2006). The audit committee is one of the institutional elements in the concept of Good Corporate Governance which is expected to be able to make a high contribution to the level of implementation. Its existence is expected to be able to improve the quality of the company's internal supervision, and be able to optimize the checks and balance mechanism, which in turn is intended to provide optimum protection to shareholders and other stakeholders (IKAI, 2010). In this study, the audit committee factors to be assessed are the size of the audit committee, the frequency of audit committee meetings, and the competence of the audit committee.

Conservatism is a prudent principle in financial reporting where companies are not in a hurry to recognize profits and measure assets and immediately recognize losses and debts that are likely to occur (Watts, 2003).

The Influence of the Characteristics of the Board of Commissioners on Accounting Conservatism

The size of the board of commissioners is an important element of the characteristics of the board of commissioners that affect the level of accounting conservatism. Research Lara, et al. (2005) in Indriyanti (2010) show that companies with strong boards as a corporate governance mechanism require a higher level of conservatism than companies with weak boards.

Research by Ahmed and Duellman, (2007) states that in carrying out their functions, independent commissioners will really need accurate and quality information. Conservatism is a very useful tool for the board of commissioners (especially independent commissioners) in carrying out their functions as decision makers and those who monitor management.

The Effect of the Audit Committee on Accounting Conservatism

The audit committee has the main responsibility to assist the Board of Commissioners in carrying out its responsibilities, especially with issues related to the company's accounting policies, internal controls, and financial reporting systems, as well as ensuring that financial statements are presented fairly in accordance with generally accepted accounting principles.

Kusumastuti et al., (2007) in Rustiarini (2012) The competence of the audit committee in the company is influenced by the level of formal academic education possessed by members of the audit committee. Meanwhile, according to Dezoort et al. (2002) in Zulaikha (2012) states that the competence of the audit committee will increase a material misstatement that is found to be immediately communicated and corrected as soon as possible.

Hypothesis Development

Based on the literature review, research objectives, and framework of thought above, the authors formulate the research hypothesis as follows:

- H1: The proportion of independent commissioners affects the level of accounting conservatism in manufacturing companies listed on the Indonesia Stock Exchange
- H2: The size of the board of commissioners affects the level of accounting conservatism in manufacturing companies listed on the Indonesia Stock Exchange
- H3: The characteristics of the board of commissioners which consist of the proportion of independent commissioners and the size of the board of commissioners affect

the level of accounting conservatism in manufacturing companies listed on the Indonesia Stock Exchange.

- H4: The size of the audit committee affects the level of accounting conservatism in manufacturing companies listed on the Indonesia Stock Exchange.
- H5: The frequency of audit committee meetings affects the level of accounting conservatism in manufacturing companies listed on the Indonesia Stock Exchange.
- H6: The competence of the audit committee affects the level of accounting conservatism in manufacturing companies listed on the Indonesia Stock Exchange.

METHODS

The research variable in this study, the X variable is the Characteristics of the Board of Commissioners (X1) and the Audit Committee (X2). While the variable that is affected or that becomes the result of the independent variable is Accounting Conservatism (Y).

Variable Operation

1) Characteristics of the Board of Commissioners (X1)

The characteristics of the board of commissioners are divided into research sub-variables, including:

a) Proportion of independent commissioners

The proportion of independent commissioners is obtained by adding up the independent commissioners and then dividing by the total number of commissioners. According to the formula as below:

$$= \frac{\sum \text{Independent commissioner}}{\sum \text{Commissioner}}$$

Information on the number of independent commissioners is obtained from the company's annual report and from announcements issued by the IDX.

Size of the board of commissioners

This sub variable is measured by using the numbers in the company's annual report which states the number of members of the board of commissioners in a company. The size of the board of commissioners is the right number of members of the board of commissioners in carrying out their duties. The number of members of the board of commissioners must be adjusted to the complexity of the company (KNKCG, 2006).

Audit Committee (X2)

The audit committee variable is divided into several research sub-variables, including:

Size of audit committee

This sub variable is measured by using numbers in the company's annual report which states the number of members of the audit committee in a company. Based on the

Decree of the Board of Directors of the Indonesia Stock Exchange Number Kep-339/BEJ/07/2001 part C, namely: Membership of the audit committee consists of at least three people including the chairman of the audit committee.

Frequency of Audit Committee Meetings

This sub-variable is measured using numbers in the company's annual report which states the number of audit committee meetings in one year.

Kompetensi Komite Audit

Measurement of audit committee competence is measured by the percentage of the number of audit committee members who have accounting or financial competence to the total number of audit committees (Pamudji et al, 2009 in Zulaikha, 2012).

Accounting Conservatism

Conservatism as a precautionary principle in financial reporting where companies are not in a hurry to recognize and measure assets and profits and immediately recognize losses and debts that are likely to occur. Conservatism with accrual measures is calculated by the following formula as used by Givoly and Hayn (2000) in the research of Sari and Adhariani (2009):

$$\text{CON_ACC} = \frac{\text{NI} - \text{CF}}{\text{RTA}}$$

Data analysis method

The analysis in this study uses parametric statistical data analysis using the Multiple Linear Regression model. According to Sugiyono (2017) that parametric statistics are used to test population parameters through statistics, or to test population size through sample data. While the regression analysis aims to find a relationship between the dependent variables and several independent variables. To enter the regression model, the data must be tested for classical assumptions first. All data analysis calculations will be assisted by using statistical software, namely the SPSS 17 for Windows program.

RESULTS AND DISCUSSION

Research Sample

Based on the data that has been obtained, the sample used in manufacturing companies listed on the Indonesia Stock Exchange in 2009-2011 were 33 companies.

Classic assumption test

Classical assumption test is used to assess the presence or absence of bias on the results of the regression analysis that has been carried out. Classical assumption testing in this study was carried out with the help of the SPSS 17.0 for windows program.

Normality test

Normality testing in this study uses a normal probability plot by comparing the cumulative distribution and the normal distribution distribusi.

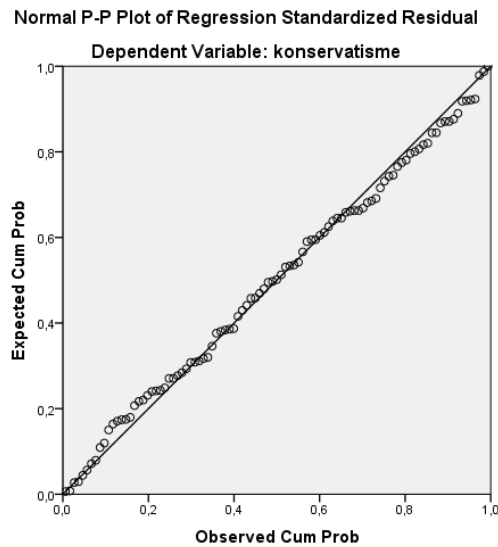


Figure. 1 Normality

Source: SPSS. 2017

Judging from the normality graph above (Normal P-Plot of Regression Standardized Residual) shows that the regression model is feasible to use because it meets the assumption of normality.

Multicollinearity Test

Multicollinearity test results can be concluded that the model does not experience multicollinearity symptoms because it has a tolerance greater than 0.01 and a VIF less than 10.

Autocorrelation Test

The autocorrelation test in this study uses the Durbin Watson (DW) test, which shows a value of 1.325, the value lies between -2 to +2. This means that it can be concluded that this research model is free from autocorrelation.

Heteroscedasticity Test

The results of the heteroscedasticity test can be concluded that there are no symptoms of heteroscedasticity because the points spread irregularly or do not form a certain pattern and the points spread above and below zero.

Multiple Linear Regression Analysis

Table 1. Multiple Regression Proportion of Independent Commissioners, Size of the Board of Commissioners, Size of the Audit Committee, Frequency of Audit Committee Meetings and Competence of the Audit Committee to Conservatism Level Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-,126	,144		-,878	,382
independent commissioner ratio	-,037	,135	-,027	-,273	,785
1 number of commissioners	-,006	,008	-,070	-,726	,470
audit committee	,107	,029	,386	3,682	,000
meeting frequency	,016	,014	,112	2,003	,043
competency ratio	,128	,060	,206	,2120	,037

a. Dependent Variable: konservatisme

Source: SPSS. 2017

The constant coefficient value of -0.126 means that when the proportion of independent commissioners, the size of the board of commissioners, the size of the audit committee, the frequency of audit committee meetings and the competence of the audit committee are equal to 0. Meanwhile, the proportion of independent commissioners is 0.037 which is a linear regression direction coefficient which means that every increase the proportion of independent commissioners is 1 unit. The size of the board of commissioners of 0.006 is a linear regression direction coefficient, which means that every increase in the size of the board of commissioners is 1, the size of the audit committee of 0.107 is a linear regression direction coefficient, which means that every increase in the size of the audit committee is 1 The frequency of audit committee meetings of 0.016 is a direction coefficient linear regression, which means that each increase in the frequency of audit committee meetings by 1 and the competence of the audit committee by 0.128 is a linear regression direction coefficient which means that every increase in the competence of the audit committee by 1

Hypothesis Test

The Effect of the Proportion of the Board of Commissioners on the Level of Accounting Conservatism

Table 2. T -Test Calculation Results

		Coefficients ^a			t	Sig.
Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta		
1	(Constant)	,200	,058		3,437	,001
	independent commissioner ratio	-,124	,139	-,090	-,889	,376

a. Dependent Variable: conservatism

Source: SPSS. 2017

Decision: Because the value of $t_{count} < t_{table}$ or $-0.889 < 1.985$ and $sig > 0.05$ or $0.376 > 0.05$ then H_0 is accepted and H_a is rejected. This means that the proportion of the board of commissioners does not significantly affect the level of accounting conservatism. in the company

The Influence of the Size of the Board of Commissioners on the Level of Accounting Conservatism

Table 3. T -Test Results
Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error			
1	(Constant)	,164	,042		3,929	,000
	number of commissioners	-,003	,008	-,037	-,369	,713

a. Dependent Variable: konservatisme

Source: SPSS. 2017

Decision: Because the value of $t_{count} < t_{table}$ or $-0.369 < 1.985$ and $sig > 0.05$ or $0.713 > 0.05$ then H_0 is accepted and H_a is rejected. This means that the size of the board of commissioners has no significant effect on the level of accounting conservatism. This shows that the number of commissioners is considered to be able to cause misunderstandings in coordinating in carrying out supervision.

Effect of Audit Committee Size on Accounting Conservatism Level

Tabel 4.T- Test Calculation Results

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-,203	,079		-2,564	,012
	komite audit	,115	,026	,416	4,510	,000

a. Dependent Variable: conservatism

Source: SPSS. 2017

Decision: because the value of $t_{count} > t_{table}$ or $4,510 > 1,985$ and $sig < 0.05$ or $0.000 < 0.05$ then H_0 is rejected and H_a is accepted. This means that the size of the audit committee has a significant effect on the level of conservatism. This is supported by the fact that in general the audit committee is experienced through external parties so that it has a good review of tasks, especially in financial statements.

The Effect of Frequency of Audit Committee Meetings on the Level of Accounting Conservatism

Table 5. T- Test Calculation Results

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	,111	,029		3,867	,605
	meeting frequency	,006	,004	,212	2,093	,039

a. Dependent Variable: conservatism

Source: SPSS. 2017

Decision: because the value of $t_{count} > t_{table}$ or $2,093 > 1,985$ and $sig < 0.05$ or $0.039 < 0.05$ then H_0 is rejected and H_a is accepted. This means that the frequency of audit committee meetings has a significant effect on the level of conservatism. This will result in the level of frequency of meetings or the number of meetings held by the audit committee ensuring that the monitoring of management for fraud will be minimized

The Effect of Audit Committee Competence on Accounting Conservatism Level

**Table 6. T- test calculation results
Coefficients^a**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-,279	,048		-5,879	,000
1 competency ratio	,209	,060	,331	3,457	,001

a. Dependent Variable: conservatism

Source: SPSS. 2017

Decision: because the value of tcount > t table or 3,457 > 1,985 and sig < 0.05 or 0.001 < 0.05 then Ho is rejected and Ha is accepted. This means that the competence of the audit committee has a significant effect on the level of conservatism. With these results it can be explained that the audit committee with members who have a higher educational background and work experience and are more suitable will be significantly able to control management performance.

CONCLUSION

The proportion of independent commissioners has no effect on accounting conservatism and has a very low relationship. The size of the board of commissioners has a low relationship. This means that the size of the board of commissioners has no effect on accounting conservatism. The size of the audit committee has a positive relationship, which means it has an effect on accounting conservatism. Audit committee meetings have a positive relationship, which means that the frequency of audit committee meetings has a significant effect on accounting conservatism. The competence of the audit committee has a positive relationship, which means it has an effect on accounting conservatism.

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