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Distribution of Audit Committee, Board of Independent Commissioner, and Institutional Ownership on Earnings Quality with Strengthening of Earnings Growth

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Abstract

Purpose: This study aims to analyze the distribution of the audit committee, independent board of commissioners, and institutional ownership on earnings quality with strengthening earnings growth. **Research Design data and Methodology:** This quantitative research uses a comparative causal approach. The research population is manufacturing companies in the basic and chemical industry sector listed on the Indonesia Stock Exchange in 2016-2022. Samples were obtained as many as 112 using purposive sampling method. The analysis technique to test the hypothesis uses multiple linear regression tests and moderation tests with an absolute difference approach. **Results:** The results showed that the audit committee and board of commissioners provide a significant positive distribution on earnings quality, while institutional ownership provides a significant negative distribution on earnings quality. Earnings growth strengthens the distribution of the audit committee and independent board of commissioners on earnings quality. However, earnings growth does not strengthen the distribution of institutional ownership on earnings quality. **Conclusions:** Audit oversight from the audit committee and management performance oversight from the independent board of commissioners improve earnings quality credibility. Management oversight from institutional ownership reduces earnings quality. The interaction of earnings growth with maximum supervision can improve earnings quality, except for supervision from institutional ownership.

Keywords : Audit Committee, Board of Independent Commissioners, Institutional Ownership, Earnings Growth, Earnings Quality

JEL Classification Code: G10, L11, M41

1. Introduction

The chemical industry sector is one of the industrial sector companies that investors choose to invest. This forces companies to improve their business performance. In the current state of economic recovery

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after the Covid-19 pandemic, chemical sector industrial companies remain among the resilient sectors in their economic level (Harianja & Riyadi, 2023).

The industrial sector still makes the largest contribution to the structure of GDP or national gross domestic product, which during the second quarter of 2020 reached 19.87 percent. In order to maintain the performance of the industrial sector, the government is committed to providing the stimulus or incentives needed at this time. The basic and chemical industry sector is one of the sectors in the manufacturing industry branch (non-oil and gas) which produces raw materials to be processed into final products (Putri & Meirisa, 2023). Competition between companies triggers the attention of outside investors through the presentation of the company's financial statements. There are many ways, one of which is changing company profits to make financial reports look more attractive (Puspaningrum & Indarti, 2021).

For shareholders, profit is an increase in economic value or wealth that they will get from dividends paid or which will be distributed later (Arisonda, 2018). Profit is also used as a tool to measure the performance of company management during a certain period. which will later become an estimate of management performance and is a matter of investor consideration (Kinasih et al., 2018). A company must show good performance and position so that it will help stakeholders in making decisions (Healy & Wahlen, 1998). As the manager of the company, management has a better understanding of internal data. One of them knows which earnings are said to be of quality or not, because management is not the owner of the company, it allows the creation of earnings that are of poor quality (Agustin et al., 2019).

Earnings quality is defined as important information for a company to display the company's actual performance as seen from the financial statements. The company's financial statements are one of the things that are considered very important for decision makers in a business entity. (Healy & Wahlen, 1998). According to Azizah (2020) to make an accurate assessment of the company's current performance and to predict its future performance with earnings quality. Board of independent commissioners, institutional ownership, and audit committee are some of the factors that affect earnings quality.

The Audit Committee has functions within the company, among others, as an observer and supervisor of the internal and external audit control process along with the business risks faced by the company (Mardianto & Carin, 2021). To ensure that the company has Good Corporate Governance, the board of independent commissioners is the best place to carry out monitoring tasks (Taruno, 2013). The board of independent commissioners is responsible for overseeing the company's operations carried out by management (Novieyanti & Kurnia, 2016). It is hoped that the supervision carried out by the board of independent commissioners will allow the company's financial statements to be more open and fair (Aziza et al., 2022).

The implementation of the duties of the board of independent commissioners is no less important than the implementation of institutional ownership because institutional ownership is part of good corporate governance. The share structure owned by the government, insurance companies, foreign investors, or banks is referred to as institutional ownership. Institutional ownership allows for more oversight (Aurelia et al., 2020). Institutional ownership has a very important role in minimizing agency conflicts that occur between managers and shareholders (Muliadi, 2019).

The application of the relationship between the audit committee, board of independent commissioners, and institutional ownership allows earnings growth to strengthen in producing earnings quality, because earnings growth shows the company's ability to experience an increase in net profit from the previous year. This shows that the quality of business profits tends to increase as profit growth increases. (Swacahayawati et al., 2023).

The basic and chemical industry plays a big role in driving Indonesia's economic growth so that an investor invests his shares. The contributions and products produced from the basic and chemical industries are part of the needs of society (Muhyidin et al., 2021). The audit committee, board of independent commissioners, and institutional ownership in basic and chemical industry companies on the Indonesia Stock Exchange (IDX) affect the earnings quality which is estimated to occur in 2016-2022.

As is the case, PT Impack Pratama Industri Tbk. with coded IMPC experienced a decrease in earnings quality from 2014-2016 of 0.80 to 0.19 but the number of audit committee members remained at 0.33, and the number board of independent commissioners and institutional ownership increased (www.idx.com). These conditions indicate that the role of the audit committee as a supervisor in financial reporting and the board of independent commissioners as a supervisor of management performance is not optimizing its function, so that earnings quality is manipulated. However, most companies in this sector show optimal earnings quality and grow from year to year.

2. Literature Review

2.1. Agency Theory

The concept of agency theory is the relationship between principals and agents. Principals are owners or shareholders, while agents are management who manage the company (Jensen & Meckling, 1976). Agency theory emphasizes the importance of separation of interests between principal and agent. The purpose of separating the management of company ownership is to ensure that company owners get the most profit at the lowest cost (Ni'mah & Poerwati, 2019).

Agency problems arise due to conflicts of interest between agents and principals who want to obtain maximum returns. First, the purpose of agency theory is to evaluate the environment for decision making so that individual abilities (both principal and agent) increase. Second, it aims to evaluate the results of decisions that have been made so that the results are distributed between the principal and the agent according to the employment contract (Wahyudi et al., 2021).

2.2. Audit Committee

The audit committee is a committee formed by the board of commissioners to oversee the management of the company so that the financial statements are more accurate and the information is better (Dewi et al., 2020). The audit committee is often referred to as part of the institutional component in the corporate governance framework or better known as good corporate governance which is expected to make a significant contribution to the level of implementation. To protect shareholders and stakeholders in the best way, namely the implementation of the existence of an audit committee so as to improve the quality of the company's internal supervision (Kartika et al., 2023).

The audit committee has the responsibility to improve the ability of the board of commissioners to carry out supervisory functions (Lufita & Suryani, 2018), ensure that the financial statements made by management are in accordance with the actual financial situation (Marsha & Ghozali, 2017), and evaluate the suitability of internal and external audits with applicable audit standards. Audit committees also often attend seminars, workshops, and conferences to improve their abilities and keep up with current industry developments (Supomo & Amanah, 2019).

2.3. Board of Independent Commissioners

The National Committee on Corporate Governance Policy states that members of the board of commissioners who are not affiliated with the directors or other members of the board of commissioners are referred to as independent commissioners or controlling shareholders (Dahlia, 2018). The board of commissioners is also free from business relationships or other relationships that prevent them from acting independently or solely in the interests of the company. The board of commissioners is the core of corporate governance, they play an important role in carrying out good corporate governance (GCG). Its function is responsible for ensuring the company's strategy is implemented, overseeing management when managing the company, and ensuring accountability is fulfilled (Isynuwardhana & Rahmawati, 2023).

The board of independent commissioners performs a supervisory function but the number of board members influences management in preparing financial reports, resulting in good earnings reports (Firnanti, 2018). The existence of independent commissioners is expected to do a better job, which will result in good company management. The board of independent commissioners functions as a neutral supervisory board and has an impact on the company's financial statements, especially the earnings report which shows the company's value (Isynuwardhana & Rahmawati, 2023).

2.4. Institutional Ownership

Institutional ownership is the proportion of ownership owned by institutions in a company. These institutions are government institutions, private institutions, domestic and foreign (Suparlan, 2019). Institutional ownership has the ability to oversee management through an effective supervisory process, thereby helping to reduce agency conflicts. This can improve its performance so that it produces good quality profits. The existence of institutional investors is involved in strategic decision making and does not believe in actions that change earnings, so it is considered capable of being an effective supervisory tool for every manager's decision (Kartika et al., 2023).

Institutional ownership is some shares owned directly by individual investors, mostly owned by financial institutions, such as mutual funds, pension funds, and insurance (Brealey & Marcus, 2007). Institutional ownership has the ability to oversee management through an effective monitoring process, which results in a lack of management responsibility to manage profits (Taruno, 2013). The more institutional ownership, the better the utilization of company assets and is expected to prevent management from cheating (Waryanto, 2010). One of the mechanisms of institutional ownership is to assist corporate governance and is considered to have qualified expertise (Hassan, 2013). Further, morality and ethics emerged as key factors and the most recommended solution (Abdullah, et al., 2023).

2.5. Earnings Quality

Earnings quality is an attempt to protect the company's capabilities at the beginning and end of the period, so that the amount used in one period is always the same. According to Bawoni and Shodiq (2020), earnings quality is measured by assessing whether the profit earned and planned are the same or not. For investors, earnings are used as a reference to predict future profits (Widiatmoko & Indarti, 2019). Therefore, it is necessary to have earnings information that is relevant, reliable, and free from manipulation (Puspaningrum & Indarti, 2021). PSAK Number 1 states that earnings information is needed to assess potential changes in controlled economic resources in the future, so that it can determine how effectively the business utilizes its resources (Aurelia et al., 2020). Financial analysts use accounting information as a basic and important resource when estimating a firm's value (Nam, 2019).

Earnings quality is one of the important factors used to evaluate the company's financial health. Earnings quality shows the current financial condition of a company and is used to predict future financial conditions (Abdullah & Suardi, 2017). According to Suryanto (2016), earnings quality is profit that is useful for decision making and is relevant, understood, trusted, and comparable. Earnings quality is a way to assess the quality of financial information. High quality financial reporting results in high quality financial information (Supomo & Amanah, 2019).

2.6. Earnings Growth

Earnings growth is a ratio that shows the company's ability to increase net profit compared to the previous year. Profit is one of the main objectives of the company in carrying out its activities (Sumertiasih & Yasa, 2022). The profit earned by the company will be used for various purposes, profit will be used to improve the welfare of the company for the services it provides (Nababan et al., 2022).

Earnings growth is a surprise profit generated during the current period. If management is involved in preparing financial statements and investors use surprise earnings information, thereby increasing their profits, the resulting profit does not reflect the actual state of the company (Arisonda, 2018). Earnings growth shows the company's ability to increase net profit from the previous year. Stable earnings growth will give investors confidence, because investors respond very quickly to earnings information (Swacahayawati et al., 2023).

2.7. Hypothesis Development

2.7.1. Distribution of Audit Committee on Earnings Quality

The audit committee is a committee formed by the board of commissioners to oversee company management so that financial reports are more accurate and informative. This audit committee supervises the agent so that it eliminates the opportunity to commit fraud in the financial statements (Firnanti, 2018). The implementation of the audit committee's work will report higher quality earnings than companies that are not supervised by the audit committee (Widmasari et al., 2019). Zabrina and Widiatmoko's research (2022), shows the results that the audit committee has a negative effect on earnings quality. The audit committee does not act as a supervisor of company management. However, different research results Pratiwi et al. (2022), Polimpung (2020), and Supomo and Amanah (2019) show that the audit committee has a positive effect on earnings quality. The hypothesis is formulated as follows:

H1: The audit committee provides a positive distribution on earnings quality.

2.7.2. Distribution of Board of Commissioners on Earnings Quality

The board of commissioners has an important role for a company, namely monitoring the role and work of management within a company. Companies that have a large board of independent commissioners have better performance (Zabrina & Widiatmoko, 2022). If we look at it using agency theory, the existence of a board of commissioners helps shareholders to oversee the behavior of their managers, so that managers will not be able to easily act freely to improve their own welfare (Zabrina & Widiatmoko, 2022). Zabrina and Widiatmoko's research (2022) shows that the board of independent commissioners has a positive effect on earnings quality. However, this contradicts the results of Polimpung's research (2020) showing that the board of independent commissioners has a negative effect on earnings quality, because there are limitations in the application of the board of commissioners which has the function of overseeing management performance. This is in line with the results of research by Rahmawati and Retnani (2019) and Ilham et al., (2022) shows that the board of independent commissioners has a negative effect on earnings quality. The hypothesis is formulated as follows:

H2: The board of independent commissioners provides positive distribution on earnings quality.

2.7.3. Distribution of Institutional Ownership on

Earnings Quality

Institutional ownership has a very important role, because it can result in agency problems between managers and shareholders being reduced and have a positive impact on the company. This is because institutional ownership has the ability to supervise management effectively so as to minimize earnings manipulation. (Murniati et al., 2018). Putri and Imron's research (2022) shows the results of institutional ownership have a positive effect on earnings quality because institutional ownership has the power to control management through an efficient control process, and minimize management activities to make mistakes so that quality earnings information. However, in contrast to the results of research by Ilham et al, (2022), Dewi et al. (2020), and Polimpung (2020), institutional ownership has a negative effect on earnings quality. The hypothesis is formulated as follows:

H3: Institutional ownership provides positive distribution on earnings quality.

2.7.4. Distribution of Earnings Growth and Audit Committee on Earnings Quality

One form of supervision to reduce the conflict of interest between principal and agent is to form an audit committee. The audit committee is responsible for overseeing financial reports, supervising external audits, and observing the internal control system, thereby improving earnings quality. The existence of an audit committee is considered a liaison between shareholders and the board of commissioners and management in handling control issues (Aprilyanti et al., 2022). The role of the audit committee is needed because it affects the quality of the company's earnings which is one of the important information for external parties of the company, and so that investors can easily assess the company. Companies that produce quality earnings will affect earnings growth. Increased profit growth in a company can cause the amount of annual profit to increase (Astuti et al., 2022). The hypothesis is formulated as follows:

H4: Earnings growth strengthens the audit committee distribution on earnings quality.

2.7.5. Distribution of Earnings Growth and Board of Independent Commissioners on Earnings Quality

Board of independent commissioners in carrying out its function, namely overseeing the board of commissioners so that the role of the board of independent commissioners can minimize agency problems between the board of directors and shareholders. Therefore, the board of independent commissioners must be able to oversee the performance of directors based on the interests of shareholders (Pratama & Sunarto, 2018). The board of independent commissioners is tasked with overseeing the course of corporate governance carried out by management, so that the results of the preparation of quality financial reports (Dewi et al., 2020). Consequently, the profits generated are of high quality and experience growth in the future. Companies that experience high growth will be able to complete their projects, because increased profits will be responded positively by investors (Zein, 2016). The hypothesis is formulated as follows:

H5: Earnings growth strengthens distribution board of independent commissioners on earnings quality.

2.7.6. Distribution of Earnings Growth and Institutional Ownership on Earnings Quality

The role of institutional ownership in minimizing agency conflicts is very important, because it acts as effective monitoring and institutional investors are involved in decision making by managers. A greater level of supervision arises because of the high level of institutional ownership, so that managers' opportunistic behavior can be avoided (Rahmawati & Retnani, 2019). Institutional ownership is trusted because it is more accurate in analyzing earnings information (Daryatno & Santioso, 2021). Company profits that are constantly growing can easily attract investors. When the company has the ability to grow, the conditions indicate that the company will be able to increase its profits in the future (Dewi et al., 2020). The hypothesis is formulated as follows:

H6: Earnings growth strengthens distribution of institutional ownership on earnings quality

3. Research Methods and Materials

This research uses a hypothesis testing study. Hypothesis testing to analyze, describe, and obtain empirical evidence of the relationship pattern between two or more variables, both correlational, causal and comparative in nature (Wahyudin, 2015). Secondary data is obtained by collecting and reviewing data on manufacturing companies in the basic and chemical industry sectors sourced and obtained from audited financial reports and published on the Indonesia Stock Exchange (IDX) website, namely www.idx.co.id. The research population is manufacturing companies in the basic and chemical industry sectors listed on the Indonesia Stock Exchange for the period 2016-2022. Determination of research samples using purposive sampling, including manufacturing companies in the basic and chemical industry sectors that consistently publish financial reports and do not experience losses during the observation period. The number of samples obtained was 112.

The analysis technique to test the hypothesis uses multiple linear regression tests and moderation tests with an absolute difference approach. The statistical equations for the two tests are as follows:

$$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + e$$
$$Y = \alpha + \beta 1ZX1 + \beta 2ZX2 + \beta 3ZX3 + \beta 4[ZX1 - ZM] + \beta 5[ZX2 - ZM] + \beta 6[ZX3 - ZM] + e$$

Information:

Y	:	Earnings quality
A	:	Constant
β	:	Regression coefficient
X1	:	Audit Committee
X2	:	Independent Board of Commissioners
X3	:	Institutional ownership
ZX1	:	Standardize audit committee
ZX2	:	Standardize Independent Board of Commissioners
ZX3	:	Standardize Institutional ownership
ZM	:	Standardize earnings growth
[ZX1 – ZM]	:	Interaction measured by difference value ZX1 – ZM
[ZX2 – ZM]	:	Interaction measured by difference value ZX2 – ZM
[ZX3 – ZM]	:	Interaction measured by difference value ZX3 – ZM
e	:	Error term

The Audit Committee variable considers the number of audit committee members consisting of at least three members. According to the decision of the chairman of Bapepam Number KEP-29/PM/2004, the members of the audit committee come from independent commissioners who are chairmen of the audit committee and from external parties who have expertise in accounting (Astuti et al., 2022). The audit committee variable is measured comparing the number of audit committee members from outside the company with the total audit committee members (Isynuwardhana & Rahmawati, 2023).

Board of Independent Commissioners variable is measured based on the decision of the board of directors of the Jakarta Stock Exchange No. Kep-305/BEJ/07-2004 which stipulates that the number of independent commissioners that must be owned by a go public company is at least 30% of the total members of the board of commissioners. Board of independent commissioners variable is calculated by comparing the number of independent commissioners with the total board of commissioners (Murniati et al., 2018).

The institutional ownership variable is proxied by the percentage of share ownership by other institutions outside the company. High institutional share ownership, the supervision carried out on the company will increase so that the company will produce quality profits. The institutional ownership variable is calculated by comparing the number of institutional shares with the number of shares outstanding (Agustin et al., 2019).

The Earnings Quality variable is the profit generated by the company which is presented in the financial statements and used as a basis for predicting future financial performance (Azizah, 2020). The earnings quality variable is calculated using the Penman model, which compares operating cash flow with earnings before interest and taxes (Astuti et al., 2022).

The Earnings Growth variable is a ratio that shows the company's ability to increase net profit higher than the previous year. If a company can increase its profit, then the company has good financial performance (Astuti et al., 2022). The earnings growth variable is calculated based on the current year's net profit minus the previous year's net profit divided by the previous year's net profit (Astuti et al., 2022).

4. Results and Discussion

4.1. Descriptive Statistics

Descriptive research variables include minimum value (minimum), maximum value (maximum), average value (mean), and standard deviation (standard deviation). Descriptive statistics of the variables are shown in Table 1 below

Table 1: Descriptive Statistics of Variables

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Audit Committee	112	.33	.67	.3907	.13080
Board of Independent Commissioners	112	.33	.67	.4148	.09388
Institutional Ownership	112	.14	1.00	.6439	.24021
Earnings Quality	112	.03	10.96	1.4455	1.86063
Earnings Growth	112	-.93	83.51	1.2346	7.97890
Valid N (listwise)	112				

Source: Output SPSS 26, 2023

4.2. Classic Assumption Test

Testing of classical assumptions or model assumptions includes: 1) Multicollinearity test shows all variables have a Variance Inflation Factor (VIF) value of < 10.00 and a tolerance value of > 0.10. 2) The autocorrelation test shows a Durbin-Watson value of 1.790 or 1.7664 < 1.769 < 2.2336. 3) The heterokedasticity test shows a pattern of spreading points randomly above and below or around the number axis of the scatterplot graph between SRESIDS and ZPRED. The test results qualify statistically to proceed to multiple linear regression analysis based on Ordinary Least Square (OLS) which is expected to be the Best Linear Unbiased Estimators (BLUE).

4.3. Hypothesis Test

4.3.1. Coefficient of Determination (R^2)

According to Imam Ghozali (2013), the R2 test aims to measure how far the model's ability to explain variations in the dependent variable. The test of the ditermination coefficient is seen based on large of the R Square (R2) value. To find out how far the independent variables audit committee, board of independent commissioners, and institutional ownership on earnings quality. The R2 value has an interval between 0 and 1 ($0 \leq R2 \leq 1$). If the R2 value is large (close to 1), it means that the independent variables can provide all the information needed to predict the dependent variable. Meanwhile, the dependent variable is very limited.

Table 2: Determination Coefficient Test Results Summary Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.534[a]	.285	.265	.44760

a. Predictors: (Constant), Audit Committee, Board of Independent Commissioners, Institutional Ownership
Source: Output SPSS 26, 2023

Table 2 shows the R^2 value of 0.285. This shows that 28.5% of earnings quality is influenced by the distribution of audit committees, independent commissioners, and institutional ownership, while the remaining 71.5% (100% - 28.5%) is influenced by the distribution of other variables not examined in this study.

The profit quality characteristics of manufacturing companies, basic industrial and chemical sectors vary greatly between companies and vary from year to year (the highest standard deviation among all variables). This condition causes R2 to be low-value, that is, the independent variable has difficulty predicting the quality of profit which is the dependent variable. Low R2 with such conditions, did not become bad or interfere with the quality of the results of this study.

4.3.2. Simultaneous Test (F Test)

According to Ghozali (2016), the F statistical test basically shows whether all the independent variables included in the model together have a distribution on the dependent variable. The simultaneous test results are shown in Table 3 below.

Table 3: Simultaneous Test Results (F Test)
ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	8.623	3	2.874	3.905	.011[b]
	Residual	59.488	108	.736		
	Total	68.111	111			

a. Dependent Variable: Earnings quality
b. Predictors: (Constant), Audit Committee, Board of Independent Commissioners, Institutional Ownership
Source: Output SPSS 26, 2023

Table 3 of the multiple linear regression test results for simultaneous testing shows a significance level (ρ) of $0.011 < 0.05$. These statistical results indicate that the audit committee, board of independent commissioners, and institutional ownership simultaneously distribute earnings quality.

4.3.3. Partial Test (t Test)

Partial test (t test) is used to show the amount of contribution of independent variables individually (partially) explaining the dependent variable. The partial test results are shown in Table 4 below.

Table 4: Partial Test Result (Uji t)
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.195	.576		5.543	.000
	Audit Committee	.741	.632	.109	1.672	.044
	Board of Independent Commissioners	1.903	.896	.201	2.123	.036
	Institutional Ownership	-1.041	.348	-.281	-2.995	.003

a. Dependent Variable: Earnings Quality
Source: Output SPSS 26, 2023

Table 4 shows that testing the distribution of the audit committee on earnings quality shows a positive coefficient of 0.741 with a significance level (ρ) of 0.044 < 0.05 (H1 accepted). Thus, the audit committee provides a positive and significant distribution on earnings quality. Testing the distribution of the board of independent commissioners on earnings quality shows a positive coefficient of 1.903 with a significance level (ρ) of 0.036 < 0.05 (H2 accepted). This shows that the board of independent commissioners provides a positive and significant distribution on earnings quality. Testing the distribution of institutional ownership shows a significance level (ρ) of 0.003 < 0.05, but a negative coefficient of -1.041 (H3 rejected). This shows that institutional ownership provides negative and significant contributes to earnings quality.

4.3.4. Moderation Regression Test with Absolute Difference Value Approach

Ghozali (2013) proposes a different regression model to test the moderating effect, namely using the absolute difference value model of the independent variable. According to Ghozali (2013) this communication is preferred because previous expectations relate to the combination of X1, X2, X3 and have an effect on Y.

Table 5: Moderation Test Results Using the Absolute Difference Approach
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.595	.925		2.805	.006
	Zscore (Audit Committee)	2.406	.833	2.406	2.890	.005
	Zscore (Borad of Independent Commissioners)	.312	.105	.312	2.973	.004
	Zscore (Institutional Ownership)	-.396	.088	-.396	-4.502	.000
	Zscore(Earnings Growth)	-3.240	1.126	-3.240	-2.879	.165
	Audit Committee_ Earnings Growth	3.040	1.117	3.673	2.721	.008
	Board of Independent Commissioners_Profit Growth	.096	.202	.091	2.479	.033
	Institutional Ownership_ Earnings Growth	.048	.141	.057	2.340	.734

a. Dependent Variable: Zscore (Earnings Quality)
Source: Output SPSS 26, 2023

The results of the absolute difference test in table 5, that the moderating variable audit committee_earnings growth shows a positive coefficient of 3.040 with a significance level (ρ) of 0.008 < 0.05. This shows that earnings growth strengthens the distribution of the audit committee on earnings quality (H4 accepted).

The moderating variable of the board of independent commissioners_earnings growth shows a positive coefficient of 0.096 with a significance level (ρ) of 0.033 < 0.05. This shows that earnings growth strengthens the distribution of the board of independent commissioners on earnings quality (H5 accepted).

The moderating variable of institutional ownership_earnings growth shows a positive coefficient of 0.048 with a significance level (ρ) of 0.734 > 0.05. This shows that earnings growth does not strengthen the distribution of institutional ownership on earnings quality (H6 rejected).

4.4. Discussion

4.4.1. Audit Committee is Positively Distributed to Earnings Quality

The results showed that the audit committee has a significant positive distribution on earnings quality. The distribution of audit committees for manufacturing companies in the basic and chemical industry sector has an impact on earnings quality. The existence of this audit committee has realized the company's goal of improving earnings quality. The audit committee increases the credibility and perception of the company's earnings quality, creating transparency, accountability, responsibility, independence, and fairness. The existence of an audit committee further ensures the quality of financial reporting to improve the quality of the company's earnings. The audit committee acts as controlling and motivates managers to carry out the task and responsibilities assigned to them (Bawoni & Shodiq, 2020).

An audit committee with more than three members makes investors more confident to invest in the company, because the committee will carry out its duties properly. This makes investors assume that the audit committee is capable of carrying out its duties to oversee financial reports, and the internal control system, so that the existence of an audit committee has a distribution on the quality of earnings presented by the company (Nadirsyah & Muharram, 2015).

The audit committee in this study is in line with agency theory because it has carried out its function as a supervisor in auditing and financial reporting. The audit committee minimizes the conflict of interest between the principal and the agent (Situmorang, 2019). Conflicts of interest between managers and shareholders can be minimized by a monitoring mechanism that aligns related interests (Haryadi, 2014). The results of this study are in accordance with the research of Pratiwi et al (2022), Polimpung (2020), and Supomo and Amanah (2019) showing that the audit committee has a positive and significant effect on earnings quality.

4.4.2. Board of Independent Commissioners is Positively Distributed to Earnings Quality

The results showed that the board of independent commissioners had a significant positive distribution on earnings quality. The existence of a board of independent commissioners has realized the company's goal of improving earnings quality. To reduce conflicts between management and company owners, the board of commissioners is responsible for supervising the company. The composition of the board of commissioners is one of the board characteristics related to the information content of earnings (Nadirsyah & Muharram, 2015). Through its role in carrying out the function of supervising management performance, board composition influences management in preparing financial reports, resulting in a quality earnings report (Boediono, 2005).

The board of independent commissioners in this study is in line with agency theory because it has carried out its duties and functions as a supervisor in management performance. The board of independent commissioners can reduce agency conflicts between the interests of owners and management. Agency conflicts cause selfishness that leads to manipulation of earnings quality. The way that can be used to control agency conflicts is by using good corporate governance, such as the implementation of a board of independent commissioners (Polimpung, 2020). The results of this study are in accordance with the research of Zabrina and Widiatmoko (2022), as well as Ni'mah and Poerwati (2019) which shows that the board of independent commissioners has a positive and significant effect on earnings quality.

4.4.3. Institutional Ownership is Positively Distributed to Earnings Quality

The results showed that institutional ownership has a negative and significant distribution on earnings quality. Based on the results of descriptive statistical tests, it describes the overall state of the sample data, and shows that the minimum value of institutional ownership is the lowest among other independent variables. In addition, the average (mean) value of institutional ownership is the largest among other independent variables. This negative and significant effect indicates that if the distribution of institutional ownership is large, earnings quality decreases (or vice versa).

The results of this study found that institutional ownership has not realized interest control between management and shareholders. The existence of institutional ownership is expected to be able to reduce managers' opportunistic behavior, but in this study, there is no evidence of a significant positive distribution between institutional ownership and earnings quality. This means that the existence of institutional ownership as shareholders is unable to become an external party whose role is to supervise management and limit earnings management practices (Rahmawati & Retnani, 2019). Investors cannot directly influence the process of preparing financial statements by management. Investors have the main focus on market response through increasing stock prices, so that the size of the shares owned by the institution has no effect on earnings quality (Kartika et al., 2023).

Based on the results of this study, it is possible that there are still differences in interests to be achieved (agency conflict) between the two parties, management usually prioritizes its own interests by managing profits in order to report profits opportunistically. If these conditions will result in low earnings quality so that the risk of errors in decision making cannot be avoided by users of financial statements (Bawoni & Shodiq, 2020). The results of this study are in accordance with Ilham et al. (2022), Dewi et al. (2020), and Polimpung (2020) which show that institutional ownership has no effect on earnings quality.

4.4.4. Earnings Growth Strengthens the Distribution of Audit Committee on Earnings Quality

The results of this study found that earnings growth strengthens the audit committee's distribution of earnings quality. The audit committee supports the integrity and effectiveness of the company's financial statements by monitoring internal controls, as well as the company's compliance with applicable laws and regulations. The audit committee is responsible for reviewing the company's financial statements including the delivery of quality earnings before they are submitted to outside parties and published (Supomo & Amanah, 2019). The rate of earnings growth shows the company's performance which can be seen from the profits generated. Companies tend to focus on their main objectives, so companies optimize the audit committee as the company's supervisory board to obtain profits that continue to increase every month.

The results of this study are in line with agency theory, according to Jensen and Meckling (1976) agency relationship is a contract in which one or more people (company owners) authorize other people (agents) to perform a service on their behalf and make the best decisions for the company. This agency relationship will cause conflict. However, the existence of an audit committee which is part of good corporate governance, this conflict can be minimized. The audit committee in the company will improve earnings quality so that profits will experience growth. Earnings growth that has increased from year to year is good news for investors which indicates that the company has good performance (Sumertiasih & Yasa, 2022).

4.4.5. Earnings Growth Strengthens the Distribution Board of Independent Commissioners on Earnings Quality

The results of this study found that earnings growth strengthens the distribution of the board of independent commissioners on earnings quality. The more boards of independent commissioners in a company, the more earnings grow and the earnings are of quality. Companies that experience increased profits will have greater assets, increasing their chances of making a profit (Abas et al., 2020). Profit growth obtained in a period, whether it reaches the target or even exceeds the target. If it reaches the target or exceeds the target because the supervision carried out by the board of independent commissioners can be said to be successful. However, on the contrary, if the profit does not reach the target, then they can be said to have failed in carrying out the company's mission (Hakim & Naelufar, 2020).

Earnings prediction can be observed, one of which is the performance of the board of commissioners as a supervisor in management performance. The more board of independent commissioners the company has, the more investors believe that management's financial statements have good profits (Nadirsyah & Muharram, 2015). The results of this study are in line with agency theory because the implementation of a board of independent commissioners is one of the tools that can be used to reduce agency conflict (Aurelia et al., 2020). The board of independent commissioners is the best position to carry out the monitoring function in order to create a company with Good Corporate Governance (Taruno, 2013). A board of independent commissioners that can influence the company's profits so that it has the ability to develop means that the company's management is working well and generating good profits as well (Jumady et al., 2022).

4.4.6. Earnings Growth Strengthens the Distribution of Institutional Ownership on Earnings Quality

The results showed that earnings growth does not strengthen the distribution of institutional ownership on earnings quality. The results of descriptive statistical tests that describe the overall state of the sample data, show the lowest minimum value of earnings growth compared to other variables. Likewise, the minimum value of institutional ownership is also low. The results of the moderation test using the absolute difference value approach show a positive direction of earnings growth, because earnings growth has the highest maximum value among other variables.

The results of this study found that earnings growth is not able to strengthen the distribution of institutional ownership on earnings quality. This is due to investors' negative reaction to information about earnings quality and profit growth. Increased profit growth does not always result in good earnings quality for the company (Erawati & Wuarlela, 2022). The role of earnings growth in predicting future earnings is unable to strengthen the distribution of institutional ownership on earnings quality. Fluctuating earnings cause the role of earnings growth to predict future earnings to have uncertainty. Investors or shareholders can estimate indications and interventions from management in the financial statements, so that earnings have increased or decreased (Septiano et al., 2022).

The results of this study are not in line with agency theory because of the application of institutional ownership which is part of good corporate governance which functions as a controller within the company. Institutional ownership is shares circulating in a company that can improve earnings quality so that profits can also grow. The role of institutional ownership can cause the role of earnings growth to predict future earnings to have uncertainty so that the resulting profit contribution to cash will also increase or decrease (Septiano et al., 2022).

5. Conclusions and Suggestions

The audit committee provides a significant positive distribution on earnings quality. The existence of an audit committee, whose function is to oversee the auditing of financial statements, is able to create transparency, accountability, responsibility, independence, and fairness, thereby increasing the credibility and perception of earnings quality. The board of independent commissioners has carried out its function as oversight of management performance. The presence of the board of commissioners is able to control the quality of management work, so that the financial information presented provides a positive distribution on earnings quality. Institutional ownership, which is a shareholder, is unable to play a role in supervising management and limiting earnings management practices. The size of institutional ownership cannot closely monitor and supervise management performance to produce quality earnings.

Strengthening profit growth makes the company optimize the audit committee and board of independent commissioners as the company's supervisory board in order to obtain profits that continue to increase every month, so that profits will also experience growth. Its main task is to review financial reports including quality earnings reporting before being submitted to outside parties. However, the size of earnings growth and the number of institutional ownership stock do not strengthen the distribution of control over earnings quality. Fluctuating earnings cause the role of earnings growth to predict future earnings to have uncertainty. Investors or shareholders expect indications and interventions from management.

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