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The Effect of Stock Ownership, Independent Board of Commisioners and Characteristics of the Audit Committee on Creative Accounting Practices

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Abstract:- This study aims to analyze the effect of stock ownership, independent board of commissioners and characteristics of the audit committee on creative accounting practices. The object of this research is a state-owned company listed on the Indonesia Stock Exchange for the 2016-2020 period. A total of 90 companies became the research sample which were tested using purposive sampling method. Based on the results of the multiple regression analysis conducted, it can be concluded that managerial ownership has a negative effect on creative accounting practices. The expertise of the audit committee has a positive effect on creative accounting practices. Institutional ownership, independent board of commissioners, audit committee activity and audit committee independence have no effect on creative accounting practices. The implications of the results of this study is for accountants to be wiser in making decisions that are beneficial to stakeholders.

Keywords:- *Stock Ownership, Independent Board of Commissioners, Characteristics of the Audit Committee, and Creative Accounting Practices.*

I. INTRODUCTION

Financial statement is a medium describing how the enterprise's financial performance is the basis for internal and external parties in making better decisions in the future. In preparing financial statements, an accountant in Indonesia must follow the Generally Accepted Accounting Principles (Jaelani, 2014: 1). The purpose of the establishment of Generally Accepted Accounting Principles is as a standard that synchronizes the financial statements of an entity in a country that produces financial statements, making it easier for the reporting process to be known as an audit. In addition, this principle also provides flexibility for practicing accountants in a business entity to choose the accounting method used in preparing financial statements. However, in practice, this accounting standard has limitations that can cause the enterprise's management to carry out Creative Accounting practice activities on its financial statements, making financial statements less reliable.

Every enterprise has expectation of obtaining high and stable profits because in the Statement of Financial Accounting Concept No. 1 states that profit is one of the main indicators for measuring performance and management accountability, so that the good and bad performance of management is measured by the amount of profit achieved by the enterprise. If the enterprise's financial performance is considered less profitable so that it does not match expectation, then the management will tend to manage its financial statements so it can impress the investor. This is what triggers the management team to implement Creative Accounting.

According to Bhasin (2016), Creative Accounting is a practice that follows (or may not) follow accounting principles or standards, but deviates from the real goal in order to show the image desired by the enterprise to stakeholders. The term can be equated with disclosure management in terms of intervention in the financial statements process (Schipper, 1989). The emergence of Creative Accounting practices is caused by market pressure on business entities to be able to meet profit targets as expected by the market. This market pressure has an impact on the income generation for the management, so the manager decides to carry out earnings management in influencing the profit figure which results in a decrease in the quality of financial statements. Watts & Zimmerman (1986) in their book on positive accounting theory propose three hypotheses of earnings management motivation, namely: (1) the bonus plan hypothesis, (2) the debt covenant hypothesis, and (3) the political cost hypothesis. However, other studies have found evidence that earnings management can be limited by good corporate governance (Klein, 2002; Dechow, 1996; Beasley, 1996).

According to Indonesian Institute for Corporate Governance (IICG), corporate governance is a series of mechanisms that direct and control a enterprise so that the enterprise's operations run in accordance with the expectations of stakeholders who apply the principles of transparency, accountability, responsibility, independence, and fairness. The classification of good corporate governance mechanisms according to Lins & Warnock (2004) is divided into two groups, namely internal mechanisms and external mechanisms.

The method for controlling the enterprise by using an external mechanism is the existence of institutional ownership. Institutional investor is considered capable of being an effective monitoring mechanism in every decision taken by managers. According to Bernandhi (2013), institutional ownership is ownership of a enterprise's shares by institutions or institutions such as insurance enterprises, banks, investment enterprises and other institutional ownership. A high institutional level will lead to greater supervisory efforts by institutional investors so that they can hold self-interested ownership behavior which will ultimately harm the enterprise's owners. Meanwhile, the method for controlling the enterprise is by using internal mechanisms such as the General Meeting of Shareholders (GMS), namely the existence of managerial ownership and an independent board of commissioners. Managerial ownership provides an opportunity for managers who are involved in share ownership so that their involvement are equal to shareholders. Managers are not merely external parties who are paid for the benefit of the enterprise but are treated as shareholders. Therefore, it is expected that the involvement of managers in ownership can be effective in improving the performance of managers. The internal control process is also carried out with the inclusion of a board of commissioners from outside the enterprise that can increase the effectiveness of the board in supervising management to prevent the fraud of financial statements (Beasley, 1996).

Creative Accounting practices in a enterprise arise because of a conflict of interest between shareholders (principals) and managers (agents). Agency theory (Jensen & Meckling, 1976) is often used to explain accounting fraud in financial statements. Agency problems occur when the principal finds it difficult to trace what the agent actually does. Therefore, it takes an independent party who is considered capable as a mediator of interests between the principal and the agent in managing finances, namely the Auditor. The audit committee is considered a liaison between shareholders and the board of commissioners and management in dealing with control issues. Thus, audit committee members are expected to be able to understand the complexity of financial statements, evaluate accounting policies, understand auditor decisions, and assess the quality of financial statements (Kalbers & Fogarty 1993).

Based on the description above, researchers are interested to test these variables by focusing on the study, entitled "The effect of stock ownership, independent board of commissioners and characteristics of the audit committee on Creative Accounting practices (Case studies on state-owned enterprises listed on the Indonesia Stock Exchange in 2016-2020)".

II. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

A. Positive Accounting Theory

From an economic perspective, positive accounting theory assumes that managers will rationally choose accounting policies that they think good (Aryani, 2011). This theory also explains that Creative Accounting is influenced by an economic framework that aims for self-interest. There are various motivations suspected to underlie and encourage a manager to behave opportunistically. Positive accounting theory has three hypotheses that are used as the basis for the main motivation for managers to practice Creative Accounting, namely bonus motivation, debt contract motivation and political cost motivation (Watts & Zimmerman, 1986).

B. Agency Theory

One of the triggering factors for conflict of interest according to Jensen & Meckling (1976) is the separation of the ownership and control functions of the enterprise, so that this can lead to agency costs. The emergence of earnings management as a result of Creative Accounting practices occurs when the agent as the manager of the enterprise knows more about internal information about the enterprise's prospects in the future than the owners (shareholders). The imbalance in the mastery of information will trigger the emergence of a condition called information asymmetry, which is a condition caused by the unequal distribution of information between the principal and the agent (Anggraeni, 2011). The principal is motivated to prosper himself with ever-increasing profitability, while the agent is motivated to maximize the fulfillment of his economic and psychological needs. Thus, there are two different interests in the enterprise where each party, namely the principal and agent, seeks to achieve or maintain the desired level of prosperity as stated by Setyantomo (2011).

C. Institutional Ownership

Institutional ownership is part of the enterprise's shares owned by institutions or institutions (insurance enterprises, banks, investment enterprises, and other institutional ownership). The existence of institutional ownership is thought to be able to provide a supervisory mechanism that aims to align various interests in the enterprise because they are considered sophisticated investors with a significant amount of ownership that can monitor management which has an impact on reducing managers' motivation to perform earnings management (Mahariana and Ramantha, 2014).

D. Managerial Ownership

Jensen & Warner (1988) stated that managerial ownership can balance the interests of shareholders with the interests of enterprise management because management can directly feel the benefits that will be obtained and will bear the risks for the decisions taken. Thus this is expected to motivate the management to improve its performance. The management is the manager of the enterprise, such as directors, managers, and employees (Boediono, 2005).

E. Independent Board of Commissioners

According to the Forum for Corporate Governance (FCGI) (2001) that the board of commissioners is the core of corporate governance, which is tasked with ensuring the implementation of corporate strategy, supervising management in managing the enterprise and requiring accountability. The existence of independent commissioners has an important role in terms of monitoring the running of the enterprise by ensuring that managers have implemented the practices of transparency, accountability, independence of disclosure, and fairness in accordance with the applicable regulations in the enterprise.

F. Characteristics of the Audit Committee

The audit committee plays an important role in overseeing the operations and the enterprise's internal control system with the aim of contributing to the development of the enterprise's strategic plan and is expected to provide input and recommendations to the board of directors with regard to any financial or operational issues. Therefore, an effective audit committee will focus on improving the enterprise's performance and competitiveness, especially in a changing business environment that is beyond the enterprise's control (Charan, 1998; Craven & Wallace, 2001). There are several characteristics of the audit committee, including (1) the activity of the audit committee, the more frequency of audit committee meetings with management, it is also expected that the potential for Creative Accounting practices in the enterprise will decrease, (2) the expertise of the audit committee, expertise in finance and auditing is considered important for the effectiveness of the audit committee because in its assignment the audit committee really needs expertise in the field of accounting/finance which is very good (Zaman, et. al. 2011), and (3) the independence of the audit committee, the existence of independence on audit committee can increase investor confidence in the report enterprise finances and reduce the risk of Creative Accounting practices.

G. Creative Accounting

According to Khatri (2015), Creative Accounting practically uses the flexibility provided in accounting principles or accounting standards to manage different accounting recognition, measurement and presentation to serve the purposes of those who prepare accounts (management) than those who tend to use accounts (external parties, shareholders, creditors). The various motivations and goals of management in implementing Creative Accounting practices. Therefore, positive accounting theory accommodates the use of this practice by referring to generally accepted accounting principles as legal standards used.

H. Hypothesis

Extensive managerial ownership in the enterprise will be effective in supervising the activities of the enterprise Pujiati, D., & Widanar, E. (2009). This is in line with Wardani (2011) who said that increasing managerial ownership in the enterprise encourages managers to create optimal enterprise performance and motivates managers to act carefully because they share the consequences for their actions. This means that an increase in share ownership by managers in the enterprise will be able to create optimal enterprise performance and motivate managers to act to be more careful, because they share the consequences of every action they take. Based on this, the hypothesis that can be proposed is:
H_1: *Managerial ownership* has a negative effect on Creative Accounting practices.

Institutional investors have excel abilities in monitoring Creative Accounting practices compared to individual investors (Kholis, 2014). A high level of ownership by institutions in a enterprise will lead to greater oversight efforts carried out by institutional investors so that they will be able to control managers not to take actions that are not in line with the interests of shareholders which will ultimately reduce agency costs (Saffudin, AZ, & Prasetiono, P. (2011)). Based on this, the hypothesis that can be proposed is:
H_2: *Institutional Ownership* has a negative effect on Creative Accounting practices.

The role of directors and commissioners is very important and quite decisive for the successful implementation of corporate governance (Effendi, 2016). Based on agency theory, the existence of a supervisory board by the board of commissioners will increase the belief that management has acted in the interests of the shareholders because the board of commissioners is appointed by the shareholders so they must represent the interests of the shareholders in overseeing the actions of management. Based on this, the hypothesis that can be proposed is:
H_3: *Independent Board of Commissioners* has a negative effect on Creative Accounting practices.

The implementation of good corporate governance will be more complete and effective with the activeness of the audit committee in holding meetings. The frequency of audit committee meetings is at least 4 times a year. The higher the frequency of meetings held by management, the effectiveness of the audit committee in supervising management will increase in order to minimize Creative Accounting practices. Based on this, the hypothesis that can be proposed is:
H_4: *The activity of the audit committee* has a negative effect on Creative Accounting practices.

Dwiharyadi, A. (2017) revealed that accounting expertise focuses on the process of preparing financial statements to produce information that describes the enterprise's financial condition, while financial expertise focuses more on financial management for enterprise operational activities. Thus, the audit committee tasked with supervising in order to reduce Creative Accounting practices, requires accounting expertise because the preparation of financial statements is closely related to expertise in understanding the accounting cycle. Based on this, the hypothesis that can be proposed is:
H_5: *The expertise of the audit committee* has a negative effect on Creative Accounting practices.

The present of an independence of audit committee is able to optimize the reputation of the audit committee as a good supervisor, able to provide a more objective opinion and better able to provide recommendations in relation to the policies set and carried out by management (Rahmat & Iskandar, 2009). The independence that is always maintained on the audit committee will increase investor confidence in the financial statements and can reduce the possibility of the enterprise being in a state of financial difficulty caused by cases of irregularities in corporate governance. Revitasari, et. Al. (2017). Based on this, the hypothesis that can be proposed is:
H_6: *The independence of the audit committee* has a negative effect on Creative Accounting practices.

III. RESEARCH METHODS

This research explains the causal correlation among variables through the submission of formulated hypotheses.

The variables in this study consist of independent variables (managerial ownership, institutional ownership, independent board of commissioners, audit committee activity, audit committee expertise and audit committee independence) and the dependent variable (Creative Accounting practices). This study uses secondary data with multiple linear regression analysis method to test how far the relationship and the influence of independent variable on dependent variable. The data was first analyzed using Microsoft Excel 2010, then testing was carried out using SPSS software (Statistical Product and Service Solution) version 25. The data processing process begins with the input of research variables into the SPSS program and produces output according to the data analysis method that has been determined. The object in this study is a state-owned enterprise listed on the Indonesia Stock Exchange from 2016 to 2020 which focuses on financial statements and annual reports in the form of annual reports. Based on criteria specified in the sample selection, the sample enterprises used were 18 enterprises with an observation period of 5 years so that the number of observations was 90 samples.

IV. RESULT

A. Descriptive Statistics

Descriptive statistics are used to determine the description of a data. Descriptive statistical analysis is done by looking at minimum value, maximum value, and mean value and standard deviation of data. Based on the research data can be known descriptive analysis as follows:

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Y	90	-.01	.41	.1314	.11004
x1	90	5.16	99.55	36.5973	23.95391
x2	90	.00	1.17	.0462	.18842
x3	90	.20	.40	.2889	.07412
x4	90	9.00	34.00	17.6333	5.10001
x5	90	.20	.60	.3644	.12480
x6	90	.30	.60	.3900	.13825
Valid N (listwise)	90				

Table 1. Descriptive Statistics
Source: Data processing, SPSS 25.0 version

The number of samples in this study were 18 enterprises with a total observation of 90 units of analysis (18 enterprises multiplied by 5 years of the research period). Creative Accounting (y) has a minimum value of -0.01 and a maximum value of 0.41 with a standard deviation of 0.11004. Institutional ownership (X1) has a minimum value of 5.16 and a maximum value of 99.55 with a standard deviation of 23,95391. Managerial ownership (X2) has a minimum value of 0 and a maximum value of 1.17 with a standard deviation of 0.18842 . The Independent Board of Commissioners (X3) has a minimum value of 0.20 and a maximum value of 0.40 with a standard deviation of 0.07412. The activity of the Audit Committee (X4) have an average value of 17.633 with a standard deviation of 5.100001. The expertise of the Audit Committee (X5) has an average value of 3.644 with a standard deviation of 0.128. The independence of the Audit Committee (X6) has an average value of 0.3900 with a standard deviation of 0.13825.

B. Multiple Linear Regressions

The results of multiple linear regression testing can be seen in the following table:

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	T	Sig.
1	(Constant)	0,006	0,078		0,073	0,942
	x1	-0,001	0,000	-0,176	-1,632	0,107
	x2	-0,056	0,064	-0,096	-0,881	0,031
	x3	0,120	0,158	0,081	0,759	0,450
	x4	0,003	0,002	0,123	1,195	0,235
	x5	0,226	0,096	0,256	2,365	0,020
	x6	-0,015	0,090	-0,019	-0,170	0,866

Table 2. Multiple Linear Regressions
Source: Data processing, SPSS 25.0 version

Based on the results of multiple linear regression test above obtained the regression equation as follows:

Y = 0,006– 0,001 X1 - 0,056 X2+ 0,120 X3+0,003 X4 +0,226 X5- 0,015 X6

A constant of 0.006 indicates that if there are no independent variables (i.e institutional ownership, managerial ownership and independent board of commissioners, audit committee activity, audit committee expertise and audit committee independence) then the Creative Accounting level (Y) of state-owned enterprises (BUMN) in 2016-2020 on the Stock Exchange Indonesia is equal to 0.006.

The regression coefficient of the Proportion of institutional ownership (X1), managerial ownership (X2) and audit committee independence (X6) is negative which indicates that there is a unidirectional change on Creative Accounting practices. Meanwhile, the regression coefficient of independent commissioners (X3), audit committee activity (X4) and audit committee expertise (X5) are positive which indicates that there is a directional change on Creative Accounting practices.

C. Hypothesis testing (Partial test)

T – test statistic known as partial test, namely test to know how influence each independent variable individually to dependent variable. The result of t Test Statistical if probability value t 0,05 Ha is rejected.

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0,006	0,078		0,073	0,942
	x1	-0,001	0,000	-0,176	-1,632	0,107
	x2	-0,056	0,064	-0,096	-0,881	0,031
	x3	0,120	0,158	0,081	0,759	0,450
	x4	0,003	0,002	0,123	1,195	0,235
	x5	0,226	0,096	0,256	2,365	0,020
	x6	-0,015	0,090	-0,019	-0,170	0,866

Table 3. Partial Test
Source: Data processing, SPSS 25.0 version

- Hypothesis 1

The count value of t equal to -0,001 with a significance value of 0.107>0,05, therefore the decision is H0 rejected. So, it can be concluded that there is a negative influence between institutional ownership (X1) and Creative Accounting practices (Y).

- Hypothesis 2

The count value of t equal to -0,056 with a significance value of 0.031<0,05, therefore the decision is H0 accepted. So, it can be concluded that there is a negative influence between managerial ownership (X2) and Creative Accounting practices (Y).

- Hypothesis 3

The count value of t equal to 0,120 with a significance value of 0.45>0,05, therefore the decision is H0 rejected. So, it can be concluded that there is a positive influence between independent board of commissioners (X3) and Creative Accounting practices (Y).

- Hypothesis 4

The count value of t equal to 0,003 with a significance value of 0.235>0,05, therefore the decision is H0 rejected. So, it can be concluded that there is a positive influence between the activity of audit committee (X4) and Creative Accounting practices (Y).

- Hypothesis 5

The count value of t equal to 0,226 with a significance value of 0.02<0,05, therefore the decision is H0 rejected. So, it can be concluded that there is a positive influence between the expertise of audit committee (X5) and Creative Accounting practices (Y).

- *Hypothesis 6*

The count value of t equal to -0,015 with a significance value of 0.866>0,05, therefore the decision is H0 rejected. So, it can be concluded that there is a negative influence between the independence of audit committee (X6) and Creative Accounting practices (Y).

D. F Test (Simultaneous)

F Test is a test to see how the influence of all independent variables together on the dependent variable.

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	0,169	6	0,028	2,567	.025[b]
	Residual	0,909	83	0,011		
	Total	1,078	89			
a. Dependent Variable: y						
b. Predictors: (Constant), x6 , x4, x5 , x3 , x1 , x2						

Table 4. Simultaneous Test
Source: Data processing, SPSS 25.0 version

- *Hypothesis* 7

The count value of 2,567> F table with significance level is 0.025 which is smaller than α = 0.05, therefore the decision is Reject H0. So it can be concluded that there is influence jointly Institutional ownership (X1), managerial Ownership (X2), independent board of commissioners (X3), the activity of audit committee (X4), the expertise of audit committee (X5) and the independence of audit committee (X6) on Creative Accounting (Y).

E. Determination Coefficient Test

The value of the determination coefficient can be measured by the R-Square value when the independent variable is only 1, or Adjusted R-Square is used when the independent variable is more than two.

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.596[a]	0,457	0,096	0,10466	1,190
a. Predictors: (Constant), x6 , x4, x5 , x3 , x1 , x2					
b. Dependent Variable: y					

Table 5. R Square Test
Source: Data processing, SPSS 25.0 version

From the table above obtained coefficient of determination or Adjusted R Square valued at 0.457 or 45.7% means the variation of independent variables used in the model of Proportion of institutional ownership (X1), managerial Ownership (X2), independent board of commissioners (X3), the activity of audit committee (X4), the expertise of audit committee (X5) and the independence of audit committee (X6) are able to explain by 45.7% dependent variable that is Creative Accounting practices (Y), while the remaining 54.3% influenced by other factors outside the variables studied.

V. DISCUSSION

A. The Effect of Institutional Ownership on Creative Accounting Practices

The reason of the institutional ownership negatively affects on Creative Accounting practices, according to Kristanti (2017), Institutional investors only carry out their role as transient investors (temporary owners of enterprises) which only focus on short-term profits, so the institutional ownership is not necessarily able to improve monitoring effectively on management which will affect the reduction of management policies in conducting earnings management. This research is in accordance with research conducted by Perdana, A. A. (2019) and Marsyah, S. R. (2020).

B. The Effect of Managerial Ownership on Creative Accounting Practices

The reason of the managerial ownership negatively affects on Creative Accounting practices, according to Kusumawardana, Y., & Haryanto, M. (2019), managerial ownership will make management's position equal to that of enterprise owners who can align or unify the interests of management and shareholders. Hence, management will act the same as investors in general and will carry out earnings management in order to know the real state of the enterprise. This indicates that managerial ownership can contribute to controlling Creative Accounting practices. This research is in accordance with research conducted by Gunarto, K., & Riswandari, E. (2019) and Aeni, H. N., et. al (2019).

C. The Effect of Independent Board of Commissioners on Creative Accounting Practices

The reason of the independent board of commissioners positively affects on Creative Accounting practices, according to Puspitasari and Ernawati (2010), the Independent Board of Commissioners does not contribute to the improvement of financial performance. The more commissioners coming from outside the enterprise resulted in less knowledge of the members of the Commissioners Board on the issues and ins and outs of the enterprise. This research is in accordance with research conducted by Aprillian, S. K., Pratomo, D., & Asalam, A. G. (2021).

D. The Effect of the Activity of audit committee on Creative Accounting practices

The reason of the activity of audit committee positively affects on Creative Accounting practices, according to Widasari, T., & Isgiyarta, J. (2017), audit committees who are proactive in holding periodic or routine meetings every year do not have more opportunities to discuss financial statements issues and improving the results of the enterprise's supervision and control performance in detecting deviations from accounting practices. This shows that the number of meeting activities held by committee members in the form of audit committee meetings during the current period does not affect earnings management. This research is in accordance with research conducted by Widiastuty, E. (2016).

E. The Effect of the Expertise of Audit Committee on Creative Accounting practices

The reason of the expertise of audit committee positively affects on Creative Accounting practices, according to Dwiharyadi, A. (2017), the possibility of forming an audit committee in a enterprise with audit committee expertise that has been assessed as good is only mandatory in order to meet applicable regulatory standards without showing the actual quality that the members have, so that it will not affect how effective the audit committee itself is. This research is in accordance with research conducted by Hamzah, H., & Mu'id, D. (2018).

F. The Effect of the Independence of Audit Committee on Creative Accounting practices

The reason of the independence of the audit committee negatively affects on Creative Accounting practices, according to Core et al. (1991), the effectiveness of audit committee will decrease when its members work in many enterprises. Therefore, if the enterprise has an audit committee that has an important position in many enterprises, the enterprise's management tends to carry out earnings management. Independence is the most important characteristic that the audit committee must possess to fulfill its supervisory role. This research is in accordance with research conducted by Aini, A. N. (2018).

VI. CONCLUSION

Based on the results of research and discussion in the previous chapter, here are the conclusion as follows:

- The influence of institutional ownership, managerial ownership and committee interdependence audit partially negatively affect on Creative Accounting practices.
- The influence of independent board of commissioners, committee activity and expertise audit partially has a positive affect on Creative Accounting practices.
- There is simultaneously influence of institutional ownership, managerial ownership, independent board of commissioners, the activity of audit committee, the expertise of audit committee, and the independence of audit committee on creative accounting practices.

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