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Earnings Quality and the Effect of Internal Monitoring Corporate Governance: Evidence from Indonesia

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Abstract

The Indonesian regulators have made internal monitoring corporate governance more optimal in controlling earnings quality in the companies that are listed on the Indonesia Stock Exchange (IDX) with regulation BAPEPAM, 2012. Therefore, the objective of this paper has been to use earnings quality with discretionary accruals by Yoon et al. (2006) to establish the relationship between the internal monitoring mechanism and earnings quality. The result of the paper revealed that a board's independence has significant influence in detecting discretionary accruals in a board that is comprised of more members. The study has also established the relationship of audit committee tenure and duality role. A shorter audit committee tenure and more duality role members in the structure of corporate governance was found to be more effective in controlling earnings management to improve earnings quality.

Keywords: internal monitoring corporate governance, earnings quality, Indonesia.

1. INTRODUCTION

The quality of a company's earnings cannot be separated from the agency conflict. When the owner (principal) delegates decision-making authority to management (agent) then the management has broader information than the owner (asymmetry). According to Richardson (1998), information asymmetry cannot be separated from the existence of earnings management. When information asymmetry is high, stakeholders would not have resources, incentives or access to relevant information to monitor the activities of the manager. Certainly, this condition provides for higher earnings management which will, in turn, lower the earnings quality (Velury & Jenkins, 2006).

To improve the quality of the earnings, by limiting the actions of the earnings management, a supervisory mechanism is needed for these management actions, and the monitoring mechanism is known as corporate governance. Babatunde and Olaniran (2009) stated that corporate governance mechanisms can be divided into two, namely internal and external mechanisms. Internal corporate governance mechanisms are executed through the board of commissioners being assisted by an audit committee. On the other hand, an external mechanism can be played by an external auditor who provides assurance of the companies' financial statements.

According to a report issued by the Asian Corporate Governance Association (2014), Indonesia had a low corporate governance index of 39 as compared with the average index of ten Asian countries of 52.8 (Hong Kong, Malaysia, Singapore, Japan, Thailand, Taiwan, China, India, and Korea). In view of the foregoing, the aim of this paper has been to empirically examine the associations between internal monitoring corporate governance (board characteristics: size and independence and audit committee characteristics: independence, duality role expertise, meeting attendance, size, tenure, and meeting) and earnings quality proxied by the discretionary accruals model by Yoon et al. (2006). Prior studies have focused on characteristics such as board independence and earnings management (Chen et al., 2006), earnings management and board size (Sun et al., 2014; Xie et al., 2003), audit committee (expertise, size, meeting, and independence), and earnings quality (Baxter & Cotter, 2009; Lin et al.

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2006). In addition, duality role and tenure of the audit committee are important in overseeing opportunistic earnings management. Notwithstanding, there is a little bit of literature that examines these possibilities.

The present study replicated and extended the studies of Rusmin (2011) and Nuraini (2015). Rusmin (2011) found that board size and board independence can increase earnings quality. On the other hand, Nuraini (2015) also established that the quality of the audit committee improved financial reporting quality in manufacturing companies in Indonesia. In view of these two studies, the present paper added some variables to their models. The variables were audit committee characteristics (tenure, attendance at meetings, and duality role). Consequently, these variables together with the proxies of earnings quality with discretionary accruals were all anticipated to have influenced the usage decisions in the non-finance firms listed in the IDX after the implementation of the BAPEPAM-LK in 2012.

2. LITERATURE REVIEW AND DEVELOPMENT OF THE HYPOTHESES

2.1 Corporate Governance in Indonesia

The Sarbanes-Oxley Act (2002) suggested that corporate governance should be able to protect the interests of shareholders in the context of accounting earnings information. The corporate governance structure has two systems: a single-board system and dual-board system. Companies in the UK, the US, Malaysia, and other countries use the single-board system, and the system is being influenced by the Anglo-Saxon model (Ismail et al., 2009). Adversely, in Indonesia, the dual-board system is being adhered to, which is also called the Continental European model. In this system, the committee on Governance in Indonesia (KNKG, 2006) provides that the board of commissioners oversees the board of directors. In essence, the two-tier system has two boards, namely: the board of directors and the board of commissioners. This is the reason that the model is called the dual-board system. With the present dual-board system in Indonesia, the issue of CEO Duality does not arise (Hermawan, 2011).

Based on the KNKG 2006, the board of commissioners is collectively responsible for overseeing and providing advice to the board of directors and ensuring that the company carries out good corporate governance. The task of the audit committee is to assist the Board of Commissioners (BOC) in monitoring financial reporting. In accordance with the KNKG, the chairman of the audit committee comes from an independent board of commissioners; in other words, it still has the role of duality in the practice of the audit committee members in Indonesia. The audit committee's duality role is where the director's overlapping roles leads to ineffective CEO rewards and, in turn, reduces the effectiveness of the board oversight on financial reporting (Laux & Laux, 2009). Based on the BAPEPAM-LK in 2012, it was aimed to strengthen the audit committee monitoring function by limiting the audit committee tenure to a maximum of ten years. Vafeas (2003) argued that an audit committee member with a long tenure is likely to be compromised since friendly relations have already been built. Thus, the longer tenure of the audit committee members, the more exposed the committee is to compromise, which will eventually lead to lower earnings quality.

2.2 Earnings Quality

Earnings quality provides information on a firm's financial performance which is relevant to a specific decision being made (Dechow et al., 2010). According to Alves (2014), investors perceive that companies that possess high earnings quality tend to be measured as being more transparent. Several factors have been proposed to be used in measuring earnings quality. These factors are earnings management (EM), income smoothing, predictability, total accruals, smoothness, value relevance, persistence, and discretionary accruals. However, it has been posited that discretionary accruals are the most powerful of all the measures of EQ (DuCharme et al., 2004). Al-Rassas and Kamardin (2015) documented that Yoon et al.'s (2006) model was more effective in detecting DA as a measure of EQ in Malaysia's main market listed firms but the same model was not fit in detecting earnings management in Korea (Yoon et al., 2006). In Indonesia, the study of Leuz et al. (2003) revealed that EM practices in Indonesia were more intensive than in other countries that had stronger protection for investors.

2.3. Corporate Governance Practices

2.3.1 Board of Commissioners' Characteristics

Fama and Jensen (1983) argued that the board of directors serves to protect the interests of shareholders vis-à-vis other regulatory agencies. One of the requirements as stipulated by the BAPEPAM (2012) is that at least 30 per cent of all board of commissioners must be independent of the total constitution of a board. With a more independent board, there will be an effective reduction of earnings manipulation (Osma & Naguer, 2007; Peasnell et al., 2005). Some previous studies had examined the relationship between board independence and earnings quality (Jaggi et al., 2009; Siregar & Utama, 2008). Jensen (1993) argued that a larger board would be easier to monitor management, but it could be challenging in terms of communication and coordination. On the other hand, in a weak board, managers can advance their own interests and shareholders to make opportunistic choices (Vafeas, 2000). Also, a small board is more effective in monitoring because it is easier to coordinate and communicate to improve the quality of financial reporting and to provide more relevant information (Vafeas, 2000). Some previous studies examined the relationship between board size and earnings quality (Dimitropoulos & Asteriou, 2010; Ismail et al., 2009).

2.3.2 Audit Committee Characteristics

The importance of audit committees as a corporate governance mechanism has been emphasized in recent years (Abbot and Parker, 2000). AC characteristics can be measured from the way they perform their functions in accordance with their responsibilities (Hermawan, 2011). The audit committee characteristics were noted to be critical in controlling, detecting earnings management, and improving earnings quality (Baxter & Cotter, 2009). The audit committee is an independent committee charged with the responsibility of overseeing the company's financial reporting process (Ismail et al., 2009). That means, if the audit committee functions effectively, there will be a reduction in the manipulation of financial reports (Xie et al., 2003). Therefore, larger audit committees will be more effective in detecting and controlling the practices of earnings management and, by extension, improve earnings quality (Abdul Rahman & Ali, 2006).

According to Baxter and Cotter (2009), the frequency of the meetings of the AC is considered important because it improves audit committee effectiveness and enhances earnings quality. The BAPEPAM-LK (2012) mandates all public companies to disclose audit committee meeting attendance for one year in their annual reports. Agrawal and Chadha (2005) found that the higher the attendance of meetings by audit committee members, the more effective it becomes. Several empirical studies have instituted a positive relationship between audit committee meeting attendance and their attendance functionality in overseeing financial reporting which can be substantially categorized as reliable and shows a true and fair view of the operations of the organization (Rickling, 2014).

Furthermore, audit committee expertise is an important characteristic of effective operations. For effect performance of their functions, audit committee members with accounting and auditing expertise are encouraged to be considered (Davidson et al., 2005; DeFond et al., 2005). This is because, the quality of financial reporting is directly linked with financial expertise (Krishnan & Visvanathan, 2008). Audit committee tenure is also identified as one of the attributes that can affect the effectiveness of the audit committee (DeZoort et al., 2002). However, the BAPEPAM-LK highlights that an audit committee tenure should be for a maximum of two periods and of five years or a maximum ten years. In this respect, Vafeas (2003) noted that, with a stipulated tenure for audit committee members, there is bound to be independence and less compromise.

The duality role in the corporate governance structure is an issue that is concerned with performing the duties and responsibilities in protecting the interests of stakeholders within the company (Rahman & Haniffa, 2005). Based on the BAPEPAM-LK (2012), a duality role occurs with BOC members and other committee members in the audit committee in which the chairman must be an independent member in the board of commissioners and, practically, there are several overlapping roles in the corporate governance structure in Indonesia. With the occurrence of the audit committee duality role, there is less time owned by committee members to be effective in performing their duties (Hoitash & Hoitash, 2009). Similarly, Laux and Laux (2009) suggested that the presence of CEOs with overlapping tasks results in less effective financial reporting controls.

2.4 Hypotheses Development

The board serves to monitor the executive management to ensure that managers fulfil their responsibilities in serving the interests of the shareholders (Fama & Jensen, 1983). In Indonesia, the importance of an independent board has been established in the BAPEPAM-LK rule (2012), which is in reference to the Cadbury Reports of 1992 that required a minimum of three members for the BOC and at least one independent member, or a minimum thirty per cent of the total board members. This is to ensure that the BOC independence has contributed to the implementation of its responsibilities. Jaggi et al. (2009) found similar results for Hong Kong firms. They showed that an independent board could reduce discretionary accruals. The study of Sun et al. (2014) has also supported that a high proportion of independent board members could suppress opportunistic management and improve earnings quality in North American firms. Therefore, a larger board provides more diversity and expertise to improve the capabilities in monitoring (Pearce & Zahra, 1992).

To reduce the agency problem, setting up a larger board can increase the ability of the board to monitor the management and thereby improve the earnings quality (Jensen, 1993). Previous literature (Ismail et al., 2009) found a positive and significant relationship between the size of the board and earnings quality in Malaysian firms. Similarly, Chin et al. (2006) used a sample of 313 firms in Hong Kong and found a positive and significant relationship between board size and earnings quality. Thus, the present study examined the board of commissioner characteristics (size and independence) in predicting the use of improved earnings quality and postulated the following hypotheses:

> H1 – H2-: There are positive relationships between the board of commissioner characteristics (independence and size) and earnings quality.

It is a well-known fact that the Audit Committee's (AC) role is to protect shareholders by monitoring financial reporting (Bradbury, 1990). As such, the BAPEPAM-LK (2012) requires a minimum of three AC members from each of the independent Boards and at least two other members from outside the company and one of them should have the requisite expertise in accounting or finance and have four meetings in a year. The audit committee characteristics (independence, size, and expertise) can affect the credibility and quality of financial reporting and reduce earnings quality (Baxter & Cotter, 2009). Bedard et al. (2004) contended that when audit committee members are more in number, there is the likelihood of covering and resolving potential problems, especially in the financial process. Also, the more independence, the better the effectiveness in monitoring management to reduce earnings management practices and improve earnings quality (Baxter & Cotter, 2009; Ismail et al., 2009). It was also found that with a high frequency of meetings by audit committees, it reduces financial problems (Menon & Williams, 1994). Equally, with a greater percentage of meeting attendance, improved monitoring of management activities will be enhanced, especially in terms of the integrity of the financial statements (Vafeas, 2000). Also, audit committees that are comprised of a considerate number of members with accounting and finance expertise will aid in the effective monitoring of the management in the review of the financial statements of the firm (Badolato et al., 2014).

Furthermore, audit committee tenure is the average number of years that audit members have served in a firm (Dhaliwal et al., 2010). The shorter the tenure, the more independent the members and the more effective the monitoring management activities (Vafeas, 2003). A few studies have found negative relationships between audit committee tenure and earnings quality (Dhaliwal et al., 2010; Yang & Krishnan, 2005). The audit committee duality role is a situation where an AC member has a dual role in the corporate governance structure within the company. An overlapping board structure can affect the effectiveness of a board's oversight (Chang et al., 2012) because the directors of the boards may prevalently focus more on monitoring functions than strategies or the protection of the shareholders' interests. Thus, the present study examined audit committee characteristics (independence, size, expertise, meeting frequency, meeting attendance, tenure, and duality role) in predicting the improvement of earnings quality.

> H3 – H9: There are positive relationships between the characteristics of the audit committee (independence, size, expertise, meeting frequency, attendance at meetings, tenure, and role duality) and earnings quality.

3. RESEARCH METHODOLOGY

The population of this study was comprised of 427 firms that were listed on Bursa Indonesia for the year 2016. The study period was for four years (2013 to 2016). In this study, all finance-related companies and unit trusts were excluded. Also, firms that had not updated their online annual reports for the stated period above and those with missing data in regard to the study variables were also expunged. In the end, a sample size of 216 firms was realized.

3.1 Measurement of Earnings Quality

In this study, Earnings quality (EQ) as the dependent variable was measured by the absolute value of the discretionary accruals (DA) using Yoon et al. (2006) model as found in previous studies. The studies by Yoon et al. (2006) in Korea and Al-Rassas and Kamardin (2015) in Malaysia clearly signified the non-robustness of the modified Jones model by Dechow et al. (1995) in Asian companies. The model for Yoon et al. (2006) proposes that the sum of the accruals is directly associated with changes in cash revenue or sales, non-cash expenses of depreciation expenses, cash expenses, and retirement benefit expenses. Thus, discretionary accruals were termed as the difference between the accruals and non-discretionary accruals as stated below:

$$\frac{ACC_{it}}{REV_{it}} = \beta_0 + \frac{\beta_1(\Delta REV_{it} - \Delta REC_{it})}{REV_{it}} + \frac{\beta_2(\Delta EXP_{it} - \Delta PAY_{it})}{REV_{it}} + \frac{\beta_3(\Delta DEP_{it} + \Delta RET_{it})}{REV_{it}} + \epsilon_{it}$$

Where:
ACC_{it} = total accruals
REV_{it} = sales of revenue
ΔEXP_{it} = change in the sum of the cost of goods sold and general administrative expenses and selling expenses, excluding non-cash expenses
ΔREV_{it} = change in sales or revenue
ΔREC_{it} = change in accounts receivable
ΔPAY_{it} = change in accounts payable
DEP_{it} = expenses of depreciation
RET_{it} = expenses of retirement benefits
it = *i* represents industry and *t* is a year
ϵ_{it} = error term

$$DA_{it} = \frac{ACC_{it}}{REV_{it}} - [\beta_0 + \frac{\beta_1(\Delta REV_{it} - \Delta REC_{it})}{REV_{it}} + \frac{\beta_2(\Delta EXP_{it} - \Delta PAY_{it})}{REV_{it}} + \frac{\beta_3(\Delta DEP_{it} + \Delta RET_{it})}{REV_{it}}] + \epsilon_{it}$$

Where:
DA_{it} = discretionary accruals.

The absolute value of the discretionary accruals is equal to earnings management since earnings management is either income-increasing or income-decreasing accruals. It was also suggested that the absolute value of the abnormal accruals is a significant proxy in a relation to the joint effect of income-increasing and/or income-decreasing earnings management (Bedard et al., 2004; Abdul Rahman & Ali, 2006). Thus, it could be clearly stated that the high absolute value of the discretionary accruals relatively shows a low earnings quality and the reverse is the case.

3.2 Earnings Quality Model Specification

This study examined the relationship between board characteristics (independence and size) and audit committee characteristics (size, independence, frequency of meetings, attendance at meetings, expertise, tenure, and duality role). In line with previous studies (Ismail et al., 2009; Lin et al., 2006; and Siregar & Utama, 2008), firm size, return on assets, leverage, loss, industry, and family ownership were all maintained as control variables in this current study.

EQ = β_0 + β_1 BOCIND + β_2BOCSIZE + β_3ACIND + β_4ACSIZE + β_5ACMEET + β_6ACEXPERT + β_7ACATTEND + β_8 ACTENURE + β_9ACDUALITY + β_{10} LEV + β_{11} FSIZE + β_{12} ROA + β_{14} LOSS + β_{15} FAMOWN + e

Table 1: Summary of the Measurements of the Study's Independent Variables

Variables	Acronym	Measurement	Source
Board of Commissioners Independence	BOCIND	The proportion of independent members from the total number of board of commissioners' members	(Siregar & Utama, 2008)
Board of Commissioners Size	BOCSIZE	Total number of board members	(Rusmin, 2011)
Audit Committee Independence	ACIND	The proportion of independent members from the total number of audit committee members	(Muhardi, 2010)
Audit Committee Size	ACSIZE	Number of audit committee members	(Rusmin, 2011)
Audit Committee Meetings	ACMEET	Number of meetings of AC per year	(Rusmin, 2011)
Audit committee Expertise	ACEXPERT	The proportion of audit committee members who have an accounting background or financial experience	(Badolato et al., 2013)
Audit committee Attendance at the meeting	ACATTEND	The proportion of meeting attendance of audit committee members for one year	(Musa et al., 2017)
Audit committee Tenure	ACTENURE	The average tenure of a member of the audit committee per year	(Dhaliwal et al., 2010)
Audit committee Duality role	ACDUALITY	The proportion of AC members having a dual role in the corporate governance structure in the company	
Leverage	LEV	The proportion of total liabilities represented by total assets	(Abdul Rahman & Ali., 2006)
Firm size	FSIZE	The natural logarithm of total assets	(Abdul Rahman & Ali., 2006)
Return on Assets	ROA	The proportion of earnings before interest and tax (EBIT) represented by total assets	(Ismail et al., 2009)
Loss	LOSS	Dummy variable equal to one if firm had loss and zero otherwise	(Lin et al., 2006)
Family ownership	FAMOWN	The proportion of family ownership in the ownership structure of the firm	(Siregar & Utama, 2008)

4. DESCRIPTIVE STATISTICS AND ANALYSIS

Table 2 showed the average size of the board of commissioners of Indonesian listed companies. On average, firms had four members and board independence was at 41.41 per cent, which was more than the minimum requirement of the Bapepam-LK (2012). According to Table 2, the mean of the audit committee independence was 99.11 per cent and this indicated that independent members dominated the committee. Also, the standard number required for audit committee members as provided by the Bapepam-LK (2012) is three, but many firms still had an average of only two members. The average frequency of meetings of the audit committee was six times. Therefore, with attendance at meetings' average of 97.29 percent as shown in Table 2, it was more than the required regulation of the 4 times minimum which required only 75 per cent attendance from members in one year.

Table 2: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
DA	864	.004	.219	-.781	.569
BOCIND	864	.414	.105	.222	1.000
BOCSIZE	864	4.26	1.787	2.000	12.000
ACIND	864	.991	.046	.750	1.000
ACSIZE	864	3.039	.328	2.000	4.000
ACMEET	864	6.429	4.542	3.000	24.000
ACEXPERT	864	.674	.264	0.000	1.000
ACATTEND	864	.973	.062	.750	1.000
ACTENURE	864	4.259	2.723	1.000	18.000
ACDUALITY	864	.370	.097	.330	.670
LEV	864	.511	.280	.071	1.407
ROA	864	.051	.098	-.173	.3216
FAMOWN	864	.264	.166	0.000	.950
FSIZE	864	14.607	1.739	8.533	19.383

Furthermore, Table 2 revealed that the tenure of the audit committee members' average was 4.2 years, which followed the recommendation of the Bapepam-LK (2012) of a maximum of ten years. Furthermore, the average value of 37 per cent and a maximum of 67 per cent for audit committee duality role indicated an overlapping in corporate governance structure in many Indonesian firms.

Table 3: Descriptive Statistics of the Dichotomous Variables

Variable	**Observations**	**Frequency**		**Percentage**	
		1	0	1	0
LOSS	864	217	647	25.12%	74.88%

Table 3 contained the descriptive statistics of the dichotomous variables of the study. According to the table, it indicates that 25.12 per cent of them had net income losses whilst 74.18 per cent was comprised of the companies that had net income gains.

Going in line with previous studies (e.g., Yoon et al., 2006; Ball & Shivakumar, 2005), the winsorised distribution technique was employed to eliminate outliers in all the continuous variables, both at the top and bottom, to uphold the features of the original data. The standard errors of Driscoll and Kraay were used in estimating the study regression models to resolve heteroskedasticity, cross-sectional independence, and autocorrelation issues. Also, skewness and kurtosis were used for the normality assumption. Hair et al. (2006) recommended a higher threshold of ±3. Equally, Kline (1998) suggested a higher threshold of ±10 in case of kurtosis. In addition, the Pearson correlation matrix was used to test for a multicollinearity issue between the variables, and fortunate enough, Table 4 reveals that no correlation exited of more than 0.80 (Hair et al., 2006); thus, multicollinearity seemed to be an insignificant issue.

5. RESULTS AND DISCUSSION

Fixed-effects regression was used and to control heteroscedasticity, autocorrelation, and cross-sectional dependence, we adjusted the SEs using Driscoll and Kraay's SEs as suggested by Hoechle (2007). For the first dependent variable (DA), the model was fit and significant at the 0.00 level (with the F-value = 412.33, R2 = 0.1756).

Table 5 shows that BOCIND was negatively significant with EQ ($t = -3.98$, $p < 0.05$). The result supports the agency theory which suggests that more independent board members would effectively monitor earnings management to enhance financial reporting quality. But this study found that BOCSIZE was not significant but was positive with EQ. Table 5 shows that audit ACIND was not significant with EQ. This result contrasted with H3 suggested that, with limited access to financial data, the audit committee cannot function optimally, in this case, for monitoring opportunistic management practices.

This study's findings disputed the hypothesis that there is a negative relationship between ACSIZE and DA or a positive relationship with earnings quality. In other words, fewer members of the audit committee can be better effective in controlling management practice and thus, increase earnings quality. The result failed to confirm the arguments of Jiambalvo (1996) and Yang and Krishnan (2005) that, a greater number of audit committee members can lead to more effective internal monitoring. ACMEET, ACATTEND, and ACEXPERT were found to be not significantly related to EQ. This result rejected hypotheses H5, H6, and H7, which were the frequency of meetings, meeting attendance, and expertise of the AC.

Table 4: Multiple Regression Results

Variables	**Predicted**	**DA**	
	Sign	Drisc/Kraay Coef.	t-stat.
_cons	?	-.6025	-2.58
BOCIND	-	-.1540 **	-3.98
BOCSIZE	-	-.0103	-1.72
ACIND	-	.2585	1.23
ACSIZE	-	.0691***	7.36
ACMEET	-	.0025	0.87
ACEXPERT	-	.1139	1.92
ACATTEND	-	.0676	1.62
ACTENURE	+	-.0099***.	-10.65
ACDUALITY	+	-.3955 **	-3.48
LOSS	+	-.0293	-1.93
LEV	+	-.0754	-1.57
ROA	+	1.2043***	14.95
FAMOWN	+	-.0592	-1.81
FSIZE	-	.01909	0.97
F-value			22.63
Sig			0.0000
R-squared			0.1756
N			864

ACTENURE was found to be in a significantly negative relationship with DA ($t = -10.65$, $p < 0.01$). This result rejected hypothesis H8; audit committee member's short tenure makes the audit committee more effective in monitoring the occurrence of earnings management with DA was not proven in this study. This result proves that the long tenures of members of the audit committee give effective monitoring of opportunistic management practices in the listed non-financial firms in Indonesia. This is as a result of the long tenure of the audit committee members giving them a better understanding of the company's financial condition.

The results showed an association between ACDUALITY with DA that was significant and negative ($t = -3.48$, $p < 0.05$). Hypothesis H9 was rejected. The significant relationship indicates by this finding that there was an overlapping board structure which could affect the effectiveness of the board's oversight (Chang et al., 2012). This is because, the board of directors will prevalently focus more on monitoring functions than strategies or the protection of the shareholders' interests (Adams, 2003). Thus, this finding contradicts the hypothesis. This study examined a comprehensive set of internal corporate governance monitoring characteristics to investigate its impact on EQ. In addition, the independence and size of the board must be appropriate to improve EQ, and the independence of the audit committee in the company can also be monitored when the duality role is lower than the number of audit committee members so that there is more support for the board of commissioners and the AC to be effective in monitoring the EM practices and reduce agency costs.

The findings of this study should be of potential interest to policymakers, managers, creditors, and investors, especially concerning issues relating to EQ and the monitoring of the corporate governance mechanism. In relation to the new dimension of AC tenure, the findings indicated a practical contribution of the longer tenure of AC members increasing the level of EQ in the listed companies of Bursa Indonesian. The ROA coefficient values of the control variables were of significantly positive levels of DA. The present study revealed that the performances of the firms were negatively related to their earnings quality. The finding is in consonance with the result of Abdul Rahman and Ali (2006) who argued that earnings management is likely to present with firms with low performance. Meanwhile, the result showed that LEV, FSIZE, LOSS, and FAMOWN were found to be insignificant with EQ.

6. CONCLUSION

This study used the M-Jones model by Yoon et al. (2006), which is still rarely used in detecting discretionary accruals in companies listed on the Indonesian stock exchange. In addition, it has provided evidence that more independent members on the board of commissioners and more members of the audit committee significantly influence the level of revenue quality. However, the findings of this paper also revealed that some audit committee characteristics (attendance, frequency of meetings, and financial expertise) may not always be a contributing factor to improving the EQ. This finding also showed that the audit committee members' longer tenures were more effective at monitoring EM practices and increasing earnings quality. Also, the higher the percentage of the members' duality roles on the audit committee, the more effective it is to improve the level of earnings quality, the return of leverage, and investments related to EQ.

Like other studies, this research was also limited in scope to cover only companies registered in Indonesia for a certain four-year period (2013 to 2016). It is recommended that future research should attempt to examine the effectiveness of the working period of the audit committee, specifically for the company, and use different measurements to capture the monitoring of the corporate governance mechanisms.

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