THE EFFECT OF GOOD CORPORATE GOVERNANCE AND CEO'S GENDER ON INCOME SMOOTHING WITH AUDITOR QUALITY AS A MODERATING VARIABLES IN MANUFACTURING COMPANIES IN INDONESIA STOCK EXCHANGE 2015-2019

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Proposed as one of the requirements for Bachelor Degree in Economics

MINISTRY OF EDUCATION, CULTURE, RESEARCH AND TECHNOLOGY

SRIWIJAYA UNIVERSITY

FACULTY OF ECONOMICS

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COMPREHENSIVE EXAM APPROVAL LETTER

THE EFFECT OF GOOD CORPORATE GOVERNANCE AND CEO's GENDER ON INCOME SMOOTHING WITH AUDITOR QUALITY AS MODERATING VARIABLES IN MANUFACTURING COMPANIES IN INDONESIA STOCK EXCHANGE 2015-2019

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Is truly the result of my word under guidance of supervisors. There is no other people work in this script that I copied without mentioning the original source.

I made this statement in a good faith. If turn out my statement is not true in the future then I will be willing to accept the sanctions in accordance with regulations, including the cancellation of my degree.

Palembang, May 12^{th} 2022

Who gave the statement

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MOTTO

Motto

“God has made everything beautiful in its time”

(Ecclesiastes 3:11)

“Commit to The Lord whatever you do, and He will establish your plans”

(Proverb 16:3)

“There is surely a future hope for you, and your hope will not be cut off”

(Proverb 23:18)

“But Jesus immediately said to them: “Take courage! It is I. Don’t be afraid!”

(Matthew 14:27)

“The future is determined today, not tomorrow!”

(Saint Pope John Paul II)

“Stay Hungry, Stay Foolish”

(Steve Jobs)

“All is well”

(3 Idiots Movie)

I present this script to:

- My God
- My Parents
- My Brothers
- My Family
- My Friends
- My University

PREFACE

Praise and thank to Almighty God for the blessing and mercy so author can complete script entitled **"The Effect of Good Corporate Governance and CEO's Gender on Income Smoothing With Auditor Quality As Moderating Variables in Manufacturing Companies in Indonesia Stock Exchange 2015-2019".** The script is made as one of the requirements to achieve Bachelor Degree of Economics (S1) in Economics Faculty, Sriwijaya University. My sincere appreciation to many parties who have help me to finish the script. Therefore, author would like to express gratitude to:

1. **Prof. Dr. Ir. H. Anis Saggaff, MSCE** as the Rector of Sriwijaya University.
2. **Prof. Dr. Mohammad Adam, S.E., M.E** as the Dean of Economic Faculty.
3. **Arista Hakiki, S.E., M.Acc., Ak., CA** as the Head of Accounting Department.
4. **Dr. E. Yusnaini., S.E., M.Si., Ak** as the Secretary of Accounting Department.
5. **Dr. Mukhtaruddin, S.E., M.Si., Ak., CA** as the first script supervisor and **Umi Kalsum S.E., M.Si., Ak** as the second script supervisor who have patiently guided the author and provided criticism, suggestions, opportunities, time and energy so that this thesis could be completed.
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10. My Beloved Parents, **Mr. Suharyanto** dan **Mrs. Pia Pretty Pininta** who have given me so much and so infinity love, affection, charity, advice, time, guidance and energy to your son. Thank you for your sweats, bloods, tears and all of those best efforts that you always given to me. Thank you for mentioning my name in your every prayer. I am proud of many things in life but nothing beats for being your son. I wouldn't be able to get to this point without you two. I Love You For Infinity!
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13. My Aunt and Lecturer of Sociology Department of Sriwijaya University, **Vieronica Varbi Sununianti, S.Sos., M.Si,** for always reminding me to always finish my script, and always helping me in the process of preparing this script. Hope you get your doctorate soon.
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15. My Friends of the **Accounting Department**, Faculty of Economics, Sriwijaya University **batch 2016**, thank you for our beautiful togetherness during our college, and thank you for your help so I can finish this script. Hopefully one day we can meet again.
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18. **Sriwijaya Accounting National Days 2018** committee friends who have involved me in managing national scale events. Thank you for entrusting me to be the General Secretary in this event.
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23. Thank you to my script guidance friends, who always provide information and encourage each other so that we can immediately complete our script and studies.
24. Thank you to all parties who cannot be mentioned one by one, who sincerely provide motivation and prayers so that this script can be completed. May God always bless and reward you all.

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The author realizes that in the preparation of this script there are many shortcomings due to the limited knowledge and experience that the author has. Therefore, criticism and suggestions are always expected as input for the future improvements. The author hopes that this script can be useful for various parties.

Indralaya, May 12th 2022

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ABSTRACT STATEMENT LETTER

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ABSTRACT

THE EFFECT OF GOOD CORPORATE GOVERNANCE AND CEO's GENDER ON INCOME SMOOTHING WITH AUDITOR QUALITY AS MODERATING VARIABLES IN MANUFACTURING COMPANIES IN INDONESIA STOCK EXCHANGE 2015-2019

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This study aims to analyze the effect of good corporate governance as proxied by independent commissioners, audit committees, managerial ownership and institutional ownership and CEO's gender on income smoothing in manufacturing companies listed on the Indonesia Stock Exchange in 2015-2019. By using purposive sampling method, it was obtained 30 manufacturing companies that became the research sample. The data analysis technique used logistic regression analysis and moderation regression analysis which was processed using SPSS version 26.0 software.

The results show that institutional ownership has a significant positive effect on income smoothing in manufacturing companies. Meanwhile, independent commissioners, audit committees, managerial ownership and CEO's gender have no effect on income smoothing. The quality of auditors as a moderating variable does not strengthen the relationship between good corporate governance and CEO's gender on income smoothing.

Keywords: Independent Commissioner, Audit Committee, Managerial Ownership, Institutional Ownership, CEO's Gender, Auditor Quality, Income Smoothing

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ABSTRAK

PENGARUH TATA KELOLA PERUSAHAAN DAN GENDER CEO TERHADAP PERATAAN LABA DENGAN KUALITAS AUDITOR SEBAGAI VARIABEL PEMODERASI PADA PERUSAHAAN MANUFAKTUR DI BURSA EFEK INDONESIA 2015-2019

Oleh:
Hubertus Regan Krisnamurti
Dr. Mukhtaruddin, S.E., M.Si., Ak., CA
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Penelitian ini bertujuan untuk mengalisis pengaruh *good corporate governance* yang diproksikan dengan komisaris independen, komite audit, kepemilikan manajerial serta kepemilikan institusional dan gender CEO terhadap *income smoothing* pada perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia tahun 2015-2019. Dengan menggunakan metode *purposive sampling,* maka diperoleh 30 perusahaan manufaktur yang menjadi sampel penelitian. Teknik analisis data menggunakan analisis regresi logistik dan analisis regresi moderasi yang diproses menggunakan perangkat lunak SPSS versi 26.0.

Hasil penelitian menunjukkan bahwa kepemilikan institusional berpengaruh positif signifikan terhadap *income smoothing* pada perusahaan manufaktur. Sedangkan komisaris independen, komite audit, kepemilikan manajerial dan gender CEO tidak berpengaruh terhadap perataan laba. Adapun kualitas auditor sebagai variabel pemoderasi tidak memperkuat hubungan antara *good corporate governance* dan gender CEO terhadap *income smoothing*.

Kata Kunci: Komisaris Independen, Komite Audit, Kepemilikan Manajerial, Kepemilikan Institusional, Gender CEO, Kualitas Auditor, Perataan Laba

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CHAPTER I

INTRODUCTION

1.1. Background

Business is a process or organization that produces goods and/or services which are then sold for the purpose of making a profit. Profits obtained from a business are the result of company revenue minus expenses (Sunardi & Primastiwi, 2015). Information regarding the company's revenues, expenses and profits is then informed and disclosed in a financial report with the applicable accounting standards. This is where many claim that accounting is the language of business.

Accounting, also known as business language, is an information system designed by a company or organization to identify, analyze, record, summarize, and communicate internal and external stakeholders and policy makers on activities that impact the financial position and results of company (Pontoh, 2013). The output of an accounting system is a financial report that provides information on wealth, liabilities, equity, profit projections, changes in capital and other relevant financial information.

Financial information contained in financial reports is very important information for all stakeholders in making decisions, including investors and shareholders. Earnings data is one of the most significant pieces of material in a company's financial statements. Profit is important since it is one of the indicators was using to assess a business's success. It may also be used to forecast long-term profits, quantify risk while borrowing, or lend money. Additionally, earnings data is used to measure possible shifts in available economic opportunities that can be managed, generate cash flow from existing capital, and make choices on the company's ability to use new resources (Sari & Amanah, 2017).

Generally, investors tend to look for businesses and companies that are able to generate consistent profits each year. Information about company profits will be a projection for investors and shareholders of the company's success over the next few months. If a corporation is able to make constant profits, it suggests that it will be able to generate consistent profits in the future. Investors tend to bring their capital into businesses that are low-risk, which is reflected in the relatively small fluctuations in company profits. In addition, investors who are looking for passive income from company dividends will certainly choose to invest in companies that are able to generate consistent profits each year. Therefore, investors will always receive dividends from the company with a fixed and stable amount each year.

Investors tend to only pay attention to the profit figures presented from the calculation output in the income statement without wanting to know the process the company is taking to get that profit. Thus, company management often performs dysfunctional behavior in managing company profits in the income statement to make it look attractive to stakeholders. This can also be referred to as the practice of manipulating financial statements. One of the financial statement manipulation practices that companies often do is income smoothing.

An activity of income smoothing is a source of contention for a number of parties. There are those who claim that income smoothing is not a forbidden activity. Sweden, for example, is one of the few countries that allows income smoothing. Because income smoothing may be done without breaching commonly recognized accounting procedures and standards, it is considered a common practice. Accounting offers a variety of methods for companies to create their financial reports. All recording methods in accounting can be used, there are no right and wrong methods, there is only whether the accounting method is used fairly or not. Thus, this accounting method provides flexibility for companies to choose accounting methods according to their interests.

In preparing financial reports, companies must also follow established accounting standards. Accounting standards are not static, but dynamic. This means that this accounting standard can also change every year, and every time there is a change, the company will also adjust its financial reporting process according to the latest accounting standards. This is where sometimes, companies take advantage of these changes in accounting standards and use available recording methods to perform income smoothing. This means that the accounting standards themselves also contribute to encouraging companies to carry out income smoothing (Sumarno & Heriyanto, 2012). This is the reason why by some parties, income smoothing is considered reasonable if it continues to use the prevailing accounting standards and methods.

However, many people also assume that income smoothing is immoral, that it breaks the rules, and that it leads to the distortion of financial reports. Income smoothing is able to be detrimental to investors and shareholders because the earnings information submitted by the company in the income statement does not match the actual conditions. The existence of income smoothing also manipulates the financial ratios in it. In fact, these financial ratios are the material for stakeholders, especially investors and shareholders, in making decisions. So that automatically, the practice of income smoothing makes the stakeholders wrong in making decisions which of course will be very detrimental.

Income smoothing is almost always the result of a determined effort on the part of business executives, and it's impossible to separate this activity from the significance of effective corporate governance. Management considerations and sound corporate governance are the most determining and responsible for the income smoothing practice of the organization, according to the findings shown in this investigation. The independent commissioners, audit committee, management ownership, and institutional ownership are all proxies for excellent corporate governance in this study.

Apart from being caused by the good corporate governance mechanism that does not work well, the CEO's actions and features in the business also relate to the income smoothing. The performance of corporation will be largely determined by the CEO's performance, the board of directors and the upper echelons of corporate, and the performance of the CEO will be largely determined by the characteristics of its CEO. The differences in the characteristics of the CEO will greatly determine the ability of a CEO to face problems, make decisions and make policies on the company, including policies for preparing the financial report of corporation. CEO's characteristics such as age, ethnicity, educational background, work experience, and one of them is gender.

Research related to the effect of CEO's gender on income smoothing practices is actually still very rarely studied. In Indonesia, studies examining the effect of CEO's gender on income smoothing were conducted by Dian (2018) and Kusumaningrostati & Mutasowifin (2014). Research conducted by Dian (2018) examines the effect of CEO characteristics consisting of background of education of CEO, educational level of CEO and CEO's gender between 2014 to 2016 on income smoothing operations in manufacturing firms. The study looked at data from the annual reports of the firms surveyed to see whether income smoothing was affected by gender differences between CEOs.

Research of Kusumaningrostati & Mutasowifin (2014) was conducted by observing the effect of CEO's gender as a moderating variable for corporate financial ratios on income smoothing in banking companies. As a result, the CEO's gender will boost the impact of the return on assets ratio and net interest margin on income smoothing thus decreasing the impact of the debt to equity ratio. With the gap between these studies, it is of interest for the author to conduct research and examine the influence of CEO's gender with income smoothing practices.

Since income smoothing is often performed on purpose by the management and directors, external parties must be involved to minimize the probability of income smoothing activities that create knowledge asymmetry between the company and its owners. This external party must be a credible institution and which can work independently without intervention from any party. The external party in question is the external auditor. The external auditor is an institution outside the company that works independently and credibly and is in charge of auditing the financial statements written by the company.

External auditors' presence is significant since it reduces the asymmetry in financial information that may be carried out by the firm, rendering the financial information found throughout the company's financial results more credible and reliable in the decision-making phase of stakeholders. Broadly speaking, external auditors are divided into two major groups, namely the Big Four and Non Big Four public accounting firms. When it comes to audit conclusions, Big Four auditors are believed to have more qualified competence, more credibility, and higher quality than non-Big Four auditors. Thus, Big Four auditors are considered to have a greater influence in preventing income smoothing in the company.

This research is a study development of Marfuah (2019). The following are the things that have been introduced to this research and have become differences from earlier research:

1. In this study, the authors based their findings on the most recent data from manufacturing firms listed on the Indonesia stock exchange from 2015 - 2019.
2. In this research, the authors added an additional variable, namely the effect of CEO's Gender as an independent variable on income smoothing.
3. The authors also added a moderating variable, namely auditor quality, to moderate the relationship between the independent variables, namely good

corporate governance and CEO's gender, with the dependent variable, namely income smoothing.

From the description of the background, the authors compiled a study entitled: **"The Effect of Good Corporate Governance and CEO's Gender on Income Smoothing with Auditor Quality as a Moderating Variable in Manufacturing Companies Listed on the Indonesia Stock Exchange in 2015-2019."**

1.2. Formulation of Problem

On the basis of the previous background, the problem formulations in this analysis are as follows:

1. How does the Independent Commissioners affect income smoothing in manufacturing companies?
2. How does the Audit Committee affect income smoothing in manufacturing companies?
3. How does Managerial Ownership affect income smoothing in manufacturing companies?
4. How does Institutional Ownership affect income smoothing in manufacturing companies?
5. How does CEO's Gender affect income smoothing in manufacturing companies?
6. How does auditor quality moderate the relationship between the independent commissioners and income smoothing in manufacturing companies?

7. How does auditor quality moderate the relationship between the audit committee and income smoothing in manufacturing companies?
8. How does the quality of auditors moderate the relationship between managerial ownership and income smoothing in manufacturing companies?
9. How does auditor quality moderate the relationship between institutional ownership and income smoothing in manufacturing companies?
10. How does auditor quality moderate the relationship between CEO's gender and income smoothing in manufacturing companies?

1.3. Research Purpose

This research aims to:

1. Test, analyze and investigate the effect of the independent commissioners on income smoothing in manufacturing companies.
2. Test, analyze and investigate the effect of the audit committee on income smoothing in manufacturing companies.
3. Test, analyze, and investigate managerial ownership of income smoothing in manufacturing companies.
4. Test, analyze and investigate the effect of institutional ownership on income smoothing in manufacturing companies.
5. Test, analyze and investigate the effect of CEO's Gender on income smoothing in manufacturing companies.
6. Test, analyze and investigate the influence of auditor quality in moderating the relationship between the independent commissioners on income smoothing in manufacturing companies.

7. Test, analyze and investigate the influence of auditor quality in moderating the relationship between the audit committee and income smoothing in manufacturing companies.
8. Test, analyze and investigate the influence of auditor quality in moderating the relationship between managerial ownership and income smoothing in manufacturing companies.
9. Test, analyze and investigate the influence of auditor quality in moderating the relationship between institutional ownership and income smoothing in manufacturing companies.
10. Test, analyze and investigate the influence of auditor quality in moderating the relationship between CEO's gender on income smoothing in manufacturing companies.

1.4. Research Benefits

1. **Theoretical Benefits**

   This research is intended to contribute to the advancement of accounting theory by offering new knowledge on income smoothing activities and the reasons that affect them, as well as acting as a source of reference material for future studies.

2. **Practical Benefits**

   a. For the company, this study should be taken into account when formulating earnings control strategies so that it can increase value for the company, without the need to interfere with the financial records of the company, such as the process of income smoothing

b. For investors, this study is intended to provide investors with insight about how businesses use income smoothing in their financial reporting, so that investors can be wiser in analyzing company fundamentals and making the right investment decisions.

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