

The Effect of Audit Committee Effectiveness and Operating Cash Flow on Earnings Persistence in Banking Companies Listed on the Indonesia Stock Exchange

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ABSTRACT

This study aims to determine the effect of the effectiveness of the audit committee and operating cash flow on earnings persistence in banking companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2021 period. The research method used in this research is a quantitative approach with descriptive methods where the results of data research are in the form of exposure to statistical results processed using E-views version 12 software. The study used secondary data in the form of annual financial reports of banking companies for the 2018-2021 period. Sampling used purposive sampling technique and there were 29 banking companies with a period of four years. Based on the analysis that has been carried out in this study, the results show that the variable effect of the effectiveness of the audit committee and operating cash flow has no effect on earnings persistence. And simultaneously the variable effectiveness of the audit committee and operating cash flow has no effect on earnings persistence.

Keywords: audit committee effectiveness; operating cash flow; earnings persistence.

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History of Article: Received: Jan 2023. Revision: April 2023. Published: May 2023.

DOI Prefix 10.32832/

Introduction

The financial report is a description of the financial condition of the company's operating results for a certain period which can be used as a source of information about an entity to parties who have an interest. The financial statements function to present information relating to the entity's financial position, financial performance, and cash flow that can be used in decision making (Martani et al., 2017: 62).

One of the priorities for users of financial statements in the components of financial statements for decision making is profit. Quality earnings are earnings that are able to predict future earnings (Salsabiila et al., 2016). One component of earnings quality is earnings persistence. According to Penman in Gunawan et al. (2020) earnings persistence is earnings that have the ability to indicator future earnings obtained by the company repeatedly over a long period of time (sustainable).

However, earnings in financial statements are often used by management to attract potential investors, so that earnings are often engineered in such a way by management to influence investor decisions. Earnings that are expected to provide information for decision making are of doubtful quality. Earnings that do not show actual information about management performance can mislead users of financial statements (Bayuningtias et al., 2022).

There are several factors that affect earnings persistence, namely the effectiveness of the audit committee and operating cash flow. The role of the audit committee is important in conveying relevant and reliable information to shareholders. In a company, you definitely want to get maximum profit. In order to generate the desired profit, companies often manipulate earnings. In the research of Anfas and Zainuddin (2022), the results show that the audit committee has a negative effect on earnings persistence. However, this contradicts the research conducted by Sukma and Triyono (2021) which states that the audit committee has no effect on earnings persistence.

Cash flows related to the company's operations within a certain period are called operating cash flows. Operating cash flow also reflects the amount of cash spent on operations, in other words, earning profits. With a high amount of operating cash flow, the quality of earnings or earnings persistence can increase, and vice versa (Bayuningtias et al., 2022). According to the results of research by Gunawan and Gurusinga (2022) explains that operating cash flow has a positive influence on persistence. However, this is not in line with research conducted by Sarah et al. (2019) which shows that there is no influence between operating cash flow on earnings persistence.

This study takes the object of research on banking companies that control most of the financial services sector. The problem often experienced by banks is bad credit or non-performing loans (NPL). Based on the Indonesian Banking Statistics of the Financial Services Authority (OJK) until the beginning of 2021, it looks quite high, this is due to the covid-19 pandemic which has caused a decline in the performance of the banking sector and a decrease in profits received. A number of banks lost trillions of profits for bad loan reserves.

By looking at the results of previous studies that provide different results, researchers are increasingly interested in discussing the independent variables, namely the effectiveness of the audit committee and operating cash flow. Then for the dependent variable is earnings persistence. Another reason is that researchers have not seen many previous studies that discuss the two independent variables simultaneously. And conducting the latest research on banking companies listed on the IDX for the 2018-2021 period. The purpose of this study was to determine the effect of the effectiveness of the audit committee and operating cash flow on earnings persistence in banking companies listed on the Indonesia Stock Exchange.

Research Method

Object of Research

The population used in this study are banking companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2021 period consisting of 47 companies. The sampling procedure used in this study was purposive sampling, namely the technique of determining the sample using certain considerations and criteria. The criteria taken in this study have the following criteria: (1) banking companies listed on the Indonesia Stock Exchange for the 2018-2021 period, (2) banking companies that publish financial reports for the 2018-2021 period and can be accessed or available on the website, (3) companies that did not experience losses during the 2018-2021 period, (4) banking companies that present financial reports using rupiah currency during the 2018-2021 period, and (5) companies that have complete research data. Based on the predetermined criteria, 29 companies were selected as research samples so that the total sample was 116 data

Data Type and Source

The type of research used is descriptive quantitative. The data source used in this study is secondary data obtained from the financial statements of Banking Companies listed on the Indonesia Stock Exchange for the 2018-2021 Period. The data collection techniques used are documentation and literature study.

Research Variables

This study divides variables into 3 categories, namely independent variables, dependent variables, and control variables.

Independent Variable

In this study, the independent variables consist of Audit Committee Effectiveness and Operating Cash Flow. (1) The effectiveness of the audit committee, the main measurement of this variable is measured by the number of audit committees in the company (Bambang and Munandar, 2022). Additional measurements for this variable are measured by the frequency of audit committee meetings during one year (Agustina and Mulyani, 2019). (2) Operating cash flow is measured using the following formula (Salsabiila et al., 2016):

$$\frac{\text{Total Operating Cash Flow}}{\text{Total Asset}}$$

Dependent Variable

The dependent variable in this study is earnings persistence. To measure earnings persistence, the following formula is used (Salsabiila et al., 2016):

$$\frac{\text{Profit before tax } t - \text{Profit before tax } t - 1}{\text{Total Asset}}$$

Control Variables

In this study, industry type control variables are used with dummy variables. The measurement for industry type is that if a BUMN company is coded 1 and a private company is coded 0

Data Analysis Method

The data analysis method used in this research is first, descriptive statistical analysis. Second, conduct a model selection test. Third, conduct a classical assumption test which consists of several tests including normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test. Fourth, conduct panel data regression analysis. Fifth, conduct hypothesis testing, namely the coefficient of determination, F test, and t test. This analysis was carried out with computer assistance through the E-views 12 software program.

Result

Descriptive Analysis

Tabel 1 Descriptive Statistic

	X1_Number of Committees	X1_Meeting Frequency	X2_AKO	X3_Industry Type	Y_PL
Mean	4.000000	12.31034	0.038112	0.137931	0.001755
Median	4.000000	10.50000	0.028080	0.000000	0.001004
Maximum	8.000000	30.00000	0.268967	1.000000	0.090786
Minimum	2.000000	4.000000	-0.159810	0.000000	-0.045875
Std. Dev.	1.208664	6.882130	0.080492	0.346424	0.012197
Skewness	1.483837	0.747065	0.438408	2.100000	3.410181
Kurtosis	5.129252	2.485738	3.848332	5.410000	29.04439
Jarque-Bera Probability	64.48057	12.06830	7.194283	113.3325	3503.334
	0.000000	0.002396	0.027402	0.000000	0.000000
Sum	464.0000	1428.000	4.421031	16.00000	0.203537
Sum Sq. Dev.	168.0000	5446.828	0.745072	13.79310	0.017107
Observations	116	116	116	116	116

Source: Secondary data processed by Eviews 12, 2023

Inferential Analysis

The tests carried out in this study are regression model selection test, classical assumption test, regression test results, and hypothesis testing..

1. Regression Model Selection Test

After conducting the appropriate model selection test, this research uses the common effect model (CE

2. Classical assumption test

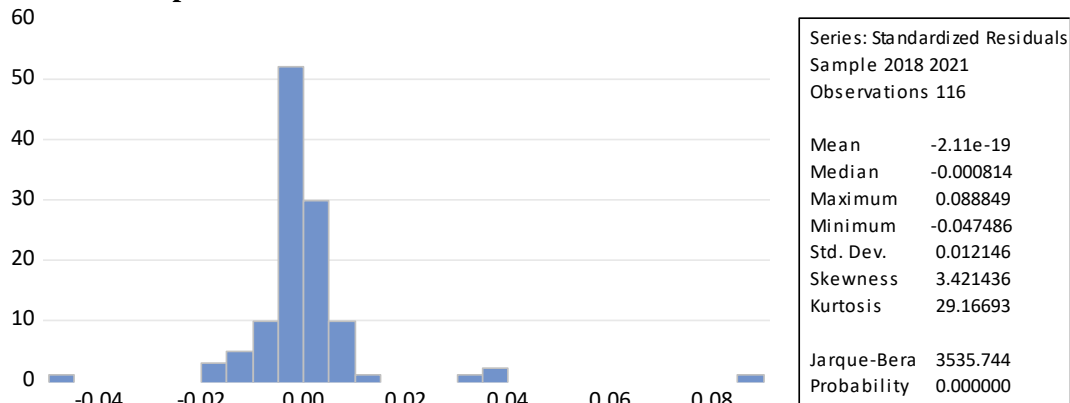


Figure 1 Normality Test

Based on Figure 1, the normality test results produce a Jarque-Bera value of 3535.744 with a probability value of 0.000000. Thus it can be concluded that the data is not normally distributed because the probability in the normality test < 0.05 . However, according to Gujarati and Porter (2015) for the amount of data in research that is more than 100, the normality assumption data is not something important. The data is still assumed to be normal if the amount of data is more than 100 so that these results can still be used for hypothesis testing. This study uses 116 data, so that to test the hypothesis the data can still be used.

Table 2 Multicollinearity Test Results

	X1_Jumlah Komite	X1_Frekuensi Rapat	X2_AKO	X3_Tipe
X1_JumlahKomite	1.000000	0.280161	0.011883	0.560891
X1_FrekuensiRapat	0.280161	1.000000	-0.101123	0.426983
X2_AKO	0.011883	-0.101123	1.000000	-0.038840
X3_Tipe	0.560891	0.426983	-0.038840	1.000000

Source: Secondary data processed by Eviews 12, 2023

Based on the results in table 2 of the multicollinearity test results, it can be seen that the correlation coefficient value of each independent variable < 0.90 , it can be concluded that H_0 is accepted, which means that there is no multicollinearity problem in the data used.

Table 3 Heteroscedasticity Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.006166	0.004263	1.446308	0.1509
X1_JUMLAHKOMITE	0.000287	0.001012	0.283468	0.7773
X1_FREKUENSIRAPAT	-0.000153	0.000163	-0.937216	0.3507
X2_ARUSKASOPERASI	0.005255	0.012626	0.416233	0.6780
X3_TIPEINDUSTRI	0.000706	0.003746	0.188423	0.8509

Source: Secondary data processed by Eviews 12, 2023

Based on the results obtained in table 3 of the heteroscedasticity test results, it can be seen that the probability value of each independent variable is greater than the significance level (α) 0.05, then

It can be concluded that H_0 is accepted, which means that there is no heteroscedasticity problem in the regression model used..

Tabel 4 Durbin Watson

Durbin-Watson stat	2.208313
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Source: Secondary data processed by Eviews 12, 2023

Table 4 shows the Durbin-Watson value of 2.208, the amount of data (n) = 116 and the number of independent variables (k) = 3. Then by looking at the Durbin Watson statistical table, the dL value = 1.6445 and the dU value = 1.7504 and the significance level of 0.05. So that the $4-dU$ value is 2.2496. Then according to the requirements $dU < dW < 4-dU$ ($1.7504 < 2.208 < 4-1.7504$) so that the results obtained are $1.7504 < 2.208 < 2.2496$, and it can be concluded that the Durbin-Watson test does not occur autocorrelation.

3. Panel Data Regression Results

Table 5 Panel Data Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.000285	0.004471	-0.063747	0.9493
X1_Number of Committees	0.000580	0.001148	0.505172	0.6144
X2_Cash FlowOperations	0.004635	0.014288	0.324381	0.7463
X3_Industry Type	-0.003318	0.004011	-0.827353	0.4098

Source: Secondary data processed by Eviews 12, 2023

From the results obtained in table 5, the regression equation is:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

$$Y = -0.000285 + 0.000580X_1 + 0.004635X_2 - 0.003318 X_3 + \varepsilon$$

4. Hypothesis Test

Statistically, hypothesis testing can be measured by the coefficient of determination (R^2) test, t statistical test, and F statistical test.

Table 6 Test Results of the Coefficient of Determination and F Test

R-squared	0.007308	Mean dependent var	0.001755
Adjusted R-squared	-0.019282	S.D. dependent var	0.012197
S.E. of regression	0.012314	Akaike info criterion	-5.922350
Sum squared resid	0.016982	Schwarz criterion	-5.827399
Log likelihood	347.4963	Hannan-Quinn criter.	-5.883806
F-statistic	0.274851	Durbin-Watson stat	2.207079
Prob(F-statistic)	0.843434		

Source: Secondary data processed by Eviews 12, 2023

variance of the dependent variable. This can be caused by too little data or observations used. So that the sample used in this study is too small.

From the research conducted in the F test, table 6 shows that the F value is 0.274851 with a probability of 0.843434. For the calculation of the F table:

$F \text{ tabel} = F(k; n-k-1) = (2; 116-3-1) = (3; 113) \text{ maka } F \text{ tabel} = 2.69$
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It can be concluded that the probability value for the effect of X_1 , X_2 , and X_3 as control variables simultaneously on Y is $0.843 > 0.05$ and the F hitung value is $0.274 < F \text{ tabel } 2.69$, so there

is no influence between the independent variables X1, X2, and X3 on the dependent variable Y simultaneously.

Table 7 Statistical Test Results t

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.000285	0.004471	-0.063747	0.9493
X1_Number of Committees	0.000580	0.001148	0.505172	0.6144
X2_Cash FlowOperations	0.004635	0.014288	0.324381	0.7463
X3_Industry Type	-0.003318	0.004011	-0.827353	0.4098

Source: Secondary data processed by Eviews 12, 2023

Based on the tests that have been carried out using the t statistical test, it can be seen in table 7 above that it can be concluded that:

$$t_{table} = t(\alpha/2; n-k) = (0.025; 116-3) = (0.025; 113) \text{ maka } t_{table} = 1.98118$$

- From the results of the t statistical test for the audit committee variable, the tcount is 0.505 with a probability value of 0.614. With this value, the resulting probability value is $0.614 > 0.05$ or 5%. And with a tcount value of $0.505 < t_{table} 1.98118$. So it can be concluded that H1 is rejected, which means that there is no influence between the effectiveness of the audit committee on earnings persistence.
- From the results of the t statistical test for the operating cash flow variable, the tcount is 0.324 with a probability value of 0.746. With this value, the resulting probability value is $0.746 > 0.05$ or 5%. And with a tcount value of $0.324 < t_{table} 1.98118$. So it can be concluded that H2 is rejected, which means that there is no influence between operating cash flow on earnings persistence.
- From the results of the t statistical test for the industry type control variable, the tcount is -0.827 with a probability value of 0.409. With this value, the resulting probability value is $0.409 > 0.05$ or 5%. And with a tcount value of $-0.827 < t_{table} 1.98118$. So it can be concluded that there is no influence between industry type on earnings persistence.

To see the consistency of the research results, the audit committee effectiveness variable uses the proxy for the frequency of meetings conducted by the audit committee in fulfilling its responsibilities in carrying out its duties.

Table 8 Additional t Statistical Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.001130	0.002514	0.449398	0.6540
X1_Meeting Frequency	6.46E-05	0.000185	0.348114	0.7284
X2_Cash FlowOperations	0.005396	0.014348	0.376077	0.7076
X3_Industry Type	-0.002724	0.003669	-0.742358	0.4594

Source: Secondary data processed by Eviews 12, 2023

Based on the tests that have been carried out using the t statistical test, it can be seen in table 8 above that the audit committee variable with the proxy for the frequency of audit committee meetings obtained a tcount of 0.348 with a probability value of 0.728. With this value, the resulting probability value is $0.728 > 0.05$ or 5%. And with a tcount value of $0.348 < t_{table} 1.98118$.

So it can be concluded that H1 is rejected, which means that there is no influence between the effectiveness of the audit committee on earnings persistence.

Discussion

Effect of Audit Committee Effectiveness on Earnings Persistence

The results showed that the Audit Committee Effectiveness variable had no effect on Earnings Persistence. With the supervision of the audit committee, managers are more likely to improve their performance than having to manipulate earnings. As a result, the supervision carried out by the audit committee will improve manager performance in producing persistent earnings. However, the results of this study do not support this statement, the absence of influence indicates that the size of the audit committee and the number or frequency of audit committee meetings have no effect on earnings manipulation by company management to produce persistent earnings. In this case, it shows that it is more about the integrity of the audit committee itself to carry out its duties as an effective supervisory function. And there are still many companies that pay less attention to corporate governance, so that when choosing an audit committee, they only fulfill compliance. This research is in line with research conducted by Sukma and Triyono (2021) where the study explains that the Audit Committee has an effect on Earnings Persistence. This is because investors do not see the number of audit committee members but investors focus more on the value of earnings obtained and the market response to the announced earnings information so that the number of audit committees is not the main focus of investors in making investments. However, in the research of Anfas and Zainuddin (2022) the audit committee has a negative effect on earnings persistence..

Effect of Operating Cash Flow on Earnings Persistence

The results showed that the Operating Cash Flow variable had no effect on Earnings Persistence. This does not support the statement that the main generator of company income is operating cash flow where cash flow from operating activities affects whether the company experiences profits or losses. In this study, it states that the greater or lesser operating cash flow has no effect on whether or not a profit is persistent in banking companies listed on the Indonesia Stock Exchange for the period 2018-2021. This is due to the low cash flow of operating activities so that the company's ability to generate profits is not good.

This research is in line with research conducted by Sarah et al., (2019) where the study explains that cash flow from operating activities has no effect on earnings persistence. Whereas in the research of Gunawan and Gurusinga (2022) operating cash flow has a positive influence on earnings persistence.

The Effect of Audit Committee Effectiveness and Operating Cash Flow on Earnings Persistence simultaneously

Based on the results of the study, it shows that the Effectiveness of the Audit Committee and Operating Cash Flow together have no effect on earnings persistence in banking companies listed on the IDX. The effectiveness of the audit committee and operating cash flow is considered unable to be a factor affecting earnings persistence, with the effective supervision of the audit committee having no effect on the company's earnings persistence. And operating cash flow which is the main income of corporate income that can affect corporate profits has no effect on corporate earnings persistence.

Conclusion

Based on the research results, it can be concluded that partially the effectiveness of the audit committee and operating cash flow has no effect on earnings persistence. Simultaneously, the effectiveness of the audit committee and operating cash flow together has no effect on earnings persistence. The limitations of this study only use two independent variables, the sample used as the object of research is only banking companies, and the research observation period is only four years.. Suggestions for future researchers, can use other independent variables that have an influence on earnings persistence. Then it is expected to use a wider sample coverage not only banking companies. For the audit committee effectiveness variable, it can use other measurements such as audit committee expertise or others.

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