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# *The Role of the Board of Commissioners and Audit Committee in Influencing the Financial Performance of Banks Listed on the Indonesian Stock Exchange (IDX)*

# Peran Dewan Komisaris dan Komite Audit dalam Mempengaruhi Kinerja Keuangan Bank yang Terdaftar di Bursa Efek Indonesia (IDX)

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***ABSTRACT***

*This research aims to determine the influence of the board of commissioners (DK) and audit committee (KA) on the financial performance of those listed on the Indonesia Stock Exchange in 2018-2022. The years used in this research are five years, starting from 2018-2022. Samples were taken using the purposive sampling method. A population of 43 companies listed on the Indonesian Stock Exchange obtained 33 companies as samples with an observation period of five years (2018-2022). Data were analyzed using panel data regression. Based on the results of data analysis, it was concluded that the board of commissioners had no positive and insignificant effect on financial performance and Audit Committee has a positive and significant effect on financial performance.*
***Keywords:*** *Financial Performance, Board of Commissioners, Audit Committee*

**ABSTRAK**

Penelitian ini bertujuan untuk mengetahui pengaruh dewan komisaris (DK) dan komite audit (KA) terhadap kinerja keuangan yang terdaftar di Bursa Efek Indonesia pada tahun 2018-2022. Tahun yang digunakan dalam penelitian ini adalah lima tahun, dimulai dari tahun 2018-2022. Sampel diambil dengan menggunakan metode purposive sampling. Dari 43 perusahaan yang terdaftar di Bursa Efek Indonesia, diperoleh 33 perusahaan sebagai sampel dengan periode pengamatan selama lima tahun (2018-2022). Data dianalisis dengan menggunakan regresi data panel. Berdasarkan hasil analisis data disimpulkan bahwa dewan komisaris tidak berpengaruh positif dan tidak signifikan terhadap kinerja keuangan dan Komite Audit berpengaruh positif dan signifikan terhadap kinerja keuangan.
**Kata Kunci**: Kinerja Keuangan, Dewan Komisaris, Komite Audit

## 1. Introduction

Along with advances in education and technology, companies are growing rapidly, resulting in competition in the corporate world. So proper governance is needed for companies to be able to compete. Good Corporate Governance (GCG) is corporate governance with principles such as transparency, accountability, independence and equity (Arum et al., 2022).

The aim of implementing Good Corporate Governance is to protect stakeholders from dishonest and non-transparent management. As well as increasing corporate value by improving bank financial performance and minimizing risks in making investment decisions. According to Darwis 2009, he said that implementing corporate governance practices can improve company performance through monitoring management performance and management accountability. So that GCG is very necessary in the company (Arismajayanti & Jati 2017).

Companies with good financial performance will continue to survive, but companies with poor financial performance will experience a slow decline and will die (Amin et al., 2018). Based on this statement, many companies are competing to improve perfect financial performance. The

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company's financial performance is an indicator of the company's success in generating profits. Profit is an indicator used to measure a company's financial performance. Bank financial performance is a description of the results of what a bank has achieved in its operations. Financial performance is a key and very important factor and is very important in assessing performance itself (Di et al., 2017; Almatari et al., 2014).

Bank analysis can be seen from its financial reports, so that financial ratios can be calculated to measure the bank's health level. Financial ratio analysis can help business people in assessing company performance, the measuring tool used in measuring company performance is Return On Assets (ROA) because most of the funds in assets come from public savings so that it can be representative in measuring banking financial performance (Rikasari & Hardiyanti , 2022).Dewan komisaris adalah anggota dewan yang netral dan tidak memihak, sehingga tidak ada badan yang dapat mempengaruhinya. Komisaris independen ini berperan as a supervisor who represents stakeholders in the company and also as a representative of shareholders, so that when the supervisory function is optimal it will improve financial performance (Sitanggang, 2021; Herdiono & Sari 2017).

Several previous studies conducted by researchers stated that the influence of GCG showed different results. This is because the indicators for each variable that measure GCG and financial performance are different. According to Arifani (2013), his research shows that GCG has a significant positive impact on financial performance as measured by independent reviewers. According to (Ekonomi et al., 2022), there is a positive relationship between an independent board of commissioners and financial performance. However, this is not in line with research conducted by (Wulandari et al., 2018), which states that there is no clear relationship between financial results and an independent board of commissioners

## 2. Methods

The type of research used is quantitative. The population in this research is banking companies listed on the Indonesia Stock Exchange for the 2018-2022 period with a total of 43 companies, and the sample in this research is 33 companies. The data collection technique is in the form of document data. The data source in this research uses secondary data, namely the source is obtained by not directly providing data to the data collector, but through other people or through documents, namely sourced from financial reports published on the Indonesian Stock Exchange. Where the data in question is the number of companies selected randomly and financial reports accessed via www.idx.co.id and www.idnfinalncial.co.id .

**Table 1. Operational Definition of Variables**

| No | Variable | Definition | Measurement | Source |
|---|---|---|---|---|
| 1. | Board of Commissioners (X1) | Company organs that are collectively responsible for supervising and providing advice to the board of directors and ensuring that the company implements GCG | Board of Commissioners = ∑ Board of Commissioners | Ekonomi et al.,(2022) |
| 2. | Audit Committee (X2) | A professional and independent working committee formed by the board of commissioners with the aim of assisting and strengthening the board of commissioners | The total number of members of the company's Audit Committee | Ayu & Septiani (2018) |
| 3. | Financial performance (Y) | Financial performance is a reflection of the company's success | *Return On Asset* (ROA)= | Nazilah (2018) |

| | | | |
|---|---|---|---|
| | in managing finances in a period in accordance with the budget | Net Profit: Total Assets | |

**Data analysis technique**

**Descriptive Statistical Analysis**

Descriptive analysis is a statistic that functions to provide an overview or description of the object to be studied through sample or population data as it is and does not carry out analysis or make conclusions that apply to the general public (Sugiyono, 2019). This descriptive statistics will be presented in tabular form, explaining the group through mean, median, maximum, standard deviation and number of observations (Muchson, 2017; Sukmono & Yadiati 2016).

**Panel Data Model Feasibility Test**

Common Effect Model (CEM)

This technique is the simplest technique for estimating panel data model parameters, namely by combining cross section and time series data as one unit without looking at time and individual differences. The approach used in this model is the Ordinary Least Square (OLS) method.

Fixed Effect Model (FEM)

This technique estimates panel data using dummy variables to capture different intercepts for each subject (cross-section), but the slope for each subject does not change over time (Gujalralti, 2004). This kind of estimation model is often referred to as the Least Squares Dummy Valriable technique or abbreviated as (LSDV).

Random Effect Model (REM)

This model will estimate panel data where disturbance variables may be interconnected over time and between individuals. The method used in this model is the Generalized Lealst Square (GLS) method. Uji normalitas adalah sebuah uji yang dilakukan dengan tujuan untuk menilai sebuah data pada sekelompok data atau variabel, apakah sebuah data tersebut berdistribusi normal atau tidak. karena model regresif yang baik adalah mengasumsikan bahwa nilai residual mengikuti distribusi normal

**Classic assumption test**

Normality test

Rachman (2020) The method used to find out whether the residual is normally distributed or not is by looking at Kolmogorov-Smirnov. If a sig value is > 0.05 then the data is said to be normally distributed. Meanwhile, if a sig value is <0.05 then the data is said to be not normally distributed.

**Model Feasibility Test**

Test Chow

The Chow test is used to determine the Common Effect or Fixed Effect model that is most appropriate to use in estimating panel data. If the Cross-section Chi-Square is smaller than alpha (α), namely (0.0000 < 0.05), then H0 is rejected. This means that the Fixed Effect model is better to use than the Common Effect model (Hadya et al., 2017).

**Lagrange Multiplier Test**

This test is used to find out whether the Random Effect Model is better than the Common Effect Model. If the profitability value is greater than 0.05 then H0 is accepted. This means that the best model to use is the Common Effect Model. Conversely, if the profitability value is smaller than 0.05 then the best model to use is the Random Effect Model (Rahmadiani & Barry, 2020).

**Selection of the Best Model**

CEM (Common Effect Model) is chosen when the conclusion of the Chow test is that profitability is obtained with a value of >0.05, where CEM is better than FEM. In the Fixed Effect Model (FEM), we will choose this model when the conclusion from the Chow test is that the profitability value is <0.05, where FEM is better than CEM.

**Panel Data Regression Analysis**

This research was conducted to see the influence of independent variables on dependent variables. Panel data regression analysis is used to see whether the hypothesis that has been created will be accepted or rejected. The significance level used is 5% (Yusra; Hadya, 2017).

$Y_{it} = \alpha + \beta 1DK_{it} + \beta 2KA_{it} + e_{it}$

Where:

$Y_{it}$: Financial Performance

DK: Board of Commissioners

KA: Audit Committee

α: Constant

β: Regression Coefficient

e: Standard Error

**Hypothesis testing (t – test)**

The t test (individual test) is a test of the regression coefficient of the independent variable, in order to find out how much influence the independent variable has on the dependent variable. Decision making in this t-test is based on two things, namely: If the t-count < t-table or the significant value is > 0.05 then the independent variables individually have no effect on the dependent variable or the hypothesis is rejected. And if t-count > t-table or significant value < 0.05, then the independent variable individually has an effect on the dependent variable or the hypothesis is accepted

## 3. Results and Discussion

The results of the data in this descriptive analysis are used to see a picture of research observations (N), sample average (mean), middle value (median), highest value (maximum), lowest value (minimum) and standard deviation (σ) for each variable. The results of the descriptive data research can be seen in the following table:

**Table 2. Descriptive Statistics Test Results**

| Indicator | N | Mean | Median | Maximum | Minimum | Standar Dev |
|---|---|---|---|---|---|---|
| Y | 165 | 0.008606 | 0.005421 | 1.000000 | -0.180577 | 0.081614 |
| X1 | 165 | 4.98789 | 4.000000 | 12.00000 | 2.000000 | 2.414357 |
| X2 | 165 | 3.860606 | 3.000000 | 10.00000 | 2.000000 | 1.253760 |

Source: processed data, Eviews 12

Table 1 shows the descriptive figures for each variable with a total of 165 observations. The explanation of the descriptive analysis is as follows: Financial performance is the dependent variable using ROA as a measuring tool. The minimum value obtained is -0.180577, the maximum value is

1.000000. The mean value obtained was 0.008606, the medium was 0.005421 and the standard deviation was 0.081614.

For the variable Board of Commissioners which is measured by the total number of board of commissioners, it shows a minimum value of 2.000000, a maximum value of 12.00000, a mean value of 4.98789, a median of 4.000000 and a standard deviation of 2.414357. The Audit Committee is a measuring tool used to measure the Audit Committee. The minimum KA value is 2.000000, the maximum value is 10.00000, the mean value is 3.860606, the median value is 3.000000 and the standard deviation is 1.253760.

## Classic assumption test

### Normality test

The basis for decision making in this test is if the probability value is greater than the alpha value of 0.05 then the data is normally distributed and the assumption of normality has been met, conversely if the probability value is smaller than the alpha value of 0.05 then the data is not normally distributed. The normality test results of all variables can be seen in the image below.

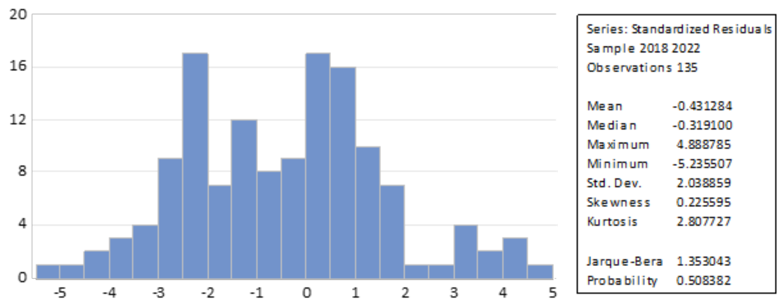


**Figure 1. Normality Test Results**

Based on Figure 1 above, the estimation results of all variables for the board of commissioners and audit committee on company value show that the Jarque-Berra test results have a value of 1.353043 with a probability of 0.508382. The probability value is greater than alpha (0.508>0.05), so it can be said that the residuals in this research model are normally distributed.

## Model Feasibility Test

### Chow Test

Chow's further test aims to determine which model is the best between the commo effect model and the fixed effect model. The chow test is carried out because the assumption of normality in the fixed effect model has been fulfilled. The results of the chow test for each variable can be seen in the table below.

**Table 3. Chow Test**

| Effects Test | Statistic | d.f | Prob |
|---|---|---|---|
| Cross-section F | 0.8611704 | (33,129) | 0.6833 |
| Cross-section Chi-square | 32.850873 | 33 | 0.4746 |

Source: processed data, Eviews 12

Based on table 3, the results of estimates by the board of commissioners and audit committee on financial performance can be seen that the probability cross-section chi-squares value is 0.4746<0.05, which means that Ho is accepted and Ha is rejected. Thus the Common Effect model is better to use than the Fixed Effect model.

**Selection of the Best Model**

**Table 4. Selection of the Best Common Effect Model**

| *Variable* | *Coefficient* | *Std. Error* | *t-Statistic* | *Prob* |
|---|---|---|---|---|
| C | -0.001689 | 0.020699 | -0.081613 | 0.9351 |
| X1 | -0.003246 | 0.003414 | -0.950839 | 0.3431 |
| X2 | 0.006861 | 0.006574 | 2.043576 | 0.0291 |

Source: processed data, Eviews 12

From the regression results, the efficiency value for all variables using x1 is 0.920463 with a probability value smaller than alpha (0.0000<0.05) with a Tcount greater than the table (8.628708>2.021). Thus, DER has a positive and significant effect on company value. The KM coefficient value is 0.298272 with a probability value smaller than the alpha value (0.0230<0.05) with a calculated T that is greater than the T table (2.289338>2.021), which means that KM has a positive and significant effect on company value.

**Panel Data Regression Analysis**

In this research, data analysis techniques are used to process, discuss the samples that have been obtained and to assess the suspected hypotheses. Constant, company value is the dependent variable (Y), debt policy (X1), managerial ownership (X2). The results of research testing with debt policy and managerial ownership using the debt to equity ratio indicator, managerial ownership (KM) can be seen in the following table:

**Table 5. Panel Data Regression Estimation Results**

| **Variable** | **Coefisien** |
|---|---|
| Constant | -0.001689 |
| Board of Commissioners | -0.003246 |
| Managerial ownership | 0.006861 |

Source: processed data, Eviews 12

In Table 5, it can be seen that there are similarities in constant values between Panel Data Regression and the Common Effect Model, which are as follows:

$$ROA_{it} = -0{,}001689 + (-0{,}003246)Dk_{it} + 0{,}006861KA_{it}$$

The numbers in the panel data regression equation are obtained from the coefficient values. The constant value is -0.001689, so the company value has a fixed value of -0.001689. The regression coefficient for the Board of Commissioners is -0.003246 units, meaning that every increase of 1 unit means an increase in financial performance by -0.003246 units and assumes that other variables are constant. The audit committee regression coefficient is 0.006861 units, meaning that every increase in the audit committee by 1 unit means it will increase financial performance by 0.006861 units and assumes that other variables are constant.

**Hypothesis Test (t-test)**

This hypothesis test aims to determine the significant relationship between the board of commissioners and audit committee variables and the financial performance variables. Statistical tests show how much influence an independent variable has on the dependent variable, carried out to further examine whether the board of commissioners and audit committee variables are significant or not on the financial performance variable. The test criteria are if the Tcount probability value is greater than the table then H1 is rejected and H2 is accepted and if the Tcount probability value is smaller than the table then H1 is rejected and H2 is accepted with a significance level of 0.05 (5%).

**Table 6. T Test**

| Variable | T-Statistic | T-Table | Prob | Alpha | Conclusion |
|---|---|---|---|---|---|
| *Dk* | -0.950839 | 1.97445 | 0.3431 | 0.05 | H1 Rejected |
| *KA* | 2.043576 | 1.97445 | 0.0291 | 0.05 | H2 Accepted |

Source: processed data, Eviews 12

In table 6 for the board of commissioners variable, it shows that the Tcount value is smaller than Ttable (-0.950839<1.97445) or the probability is greater than alpha (0.3431>0.05), so the hypothesis (H1) in the research is rejected. For the audit committee, it shows that the T value is greater than the table (2.043576>1.97445) or the probability is smaller than alpha (0.0291<0.05), then Hypothesis (H2) is accepted.

**Discussion**

Based on the results of this research, it can be said that the influence of the board of commissioners on the financial performance of those listed on the Indonesia Stock Exchange where the t test results show that the T-count value is smaller than the T-table (-0.950839<1.97445) or the probability is greater than at alpha (0.3431>0.05) then hypothesis 1 in this study is rejected.

The number of board of commissioners is too large, causing the decision-making process to be slow. The measuring instrument used is that the board of commissioners is the same as the number of members of the board of commissioners, this is because the decisions taken must be discussed first and result in agreement from all the board of commissioners (Carcelio et al., 2011). Apart from that, decisions are not dynamic because changing an agreed decision requires more time to negotiate and reach a joint decision. Thus, effectiveness in decision making is reduced and results in decreased performance.

This research is supported by research conducted (Dewi et al., 2018) which states that the board of commissioners has a negative and insignificant effect on financial performance (ROA), because the large number of commissioners is less effective in controlling management and tends to commit fraud in reporting. company finances. According to (Mulianita et al., 2019) in their research, the board of commissioners has a negative and insignificant effect on financial performance.

The results of the regression test on the audit committee variable show a coefficient value of 0.006861 with a probability of 0.0291<0.05 because the probability value is smaller than the predetermined significance value, so the audit committee has a positive and significant effect on financial performance.

The results of this research are in line with research conducted (Sitanggang, 2021) which concluded that audit committees have a positive and significant effect on financial performance, the existence of an audit committee is very important in order to improve a company's financial performance, especially from the control aspect. Currently, having an effective audit committee is one aspect of implementing good corporate governance.

The existence of an audit committee which is responsible for supervising financial reports, supervising external audits, and observing the internal control system (including internal audit) can reduce the opportunistic nature of management which carries out earnings management and other things that are detrimental to the company by monitoring financial reports and carrying out supervision. on external audits. According to (Shanti, 2020) the number of audit committee members can maximize supervision in the presentation of financial reporting. Every company registered on the IDX has implemented standards regarding the number of audit committee members in accordance with applicable regulations.

## 4. Conclusions

This study examines the role of the Board of Commissioners and the Audit Committee in influencing the financial performance of banks listed on the Indonesia Stock Exchange (IDX). The research results show that: The Board of Commissioners appears to have an insignificant impact on the bank's financial performance. Although the Board of Commissioners has an important role in strategic supervision and control, in this context, their role does not seem to have a significant impact on financial performance. On the other hand, the Audit Committee shows a significant and positive influence on the bank's financial performance. This demonstrates that the presence and function of the Audit Committee in the internal and external audit process can improve overall efficiency and financial performance. Therefore, this study provides evidence that the Audit Committee plays a crucial role in improving the bank's financial performance, while the Board of Commissioners may need to review and strengthen their role in this context.

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