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## **The Influence of the Board of Commissioners and Audit Committee on Financial Performance with the as A Moderating Variables**

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### **Abstract**

This study has a purpose, namely to test and analyze the existence of a board of commissioners and audit committee on Banking Financial Performance in 2016-2019 with firm size as a moderating variable. The sampling technique was purposive judgment sampling and obtained 28 companies as the research sample. The data analysis technique applied is multiple regression analysis, classical assumption test and path test. The results of the analysis explain that the Independent Board of Commissioners partially has a negative impact on financial performance, the audit committee affects financial performance, and for firm size partially affects financial performance negatively. Regarding the results of the path test, it is found that firm size strengthens the relationship of the board of commissioners to financial performance. Finally, weakens the relationship between audit committees on financial performance.

**Keywords:** *Board of Commissioners, Audit Committee, Firm size, Financial Performance.*

### **1. Introduction**

The implementation of good corporate governance can increase or build trust among the general public and the international community. Even its existence is an absolute requirement for the banking world to develop healthily. In addition, the implementation of GCG can provide protection as effectively as possible for customers and creditors so that they have confidence that a good return on their investment can be obtained.

The implementation of good GCG can have a positive impact on banking companies and indirectly increase the financial performance of banks themselves (Hery, 2010). Furthermore, Hery (2010: 11) provides an explanation that GCG is a regulation that regulates the relationship between shareholders, company managers, creditors, government, employees and other internal and external stakeholders who have their rights and obligations. The implementation of GCG in banking companies is a concept for improving management performance in the supervision or monitoring of management performance as well as ensuring management accountability for customers and creditors based on regulations.

The ineffectiveness of the implementation of GCG originated in the low regulatory framework system, lack of supervision on the board of commissioners and auditors, and poor banking practices. This has an impact on the loss of public trust in the bank. Therefore it is necessary to monitor the implementation of GCG which is based on the principles of transparency, accountability, independence, responsibility, and fairness.

The financial performance of a bank can be said to be a reflection of the success made by the bank in its operational activities. The financial performance of banks will be the main and also very important factor in evaluating the overall performance of the banking system itself, whether it is asset or debt or liquidity assessment. The complete performance appraisal of a bank can be analyzed in its financial statements. According to the report, the soundness level of a bank can be assessed, as well as ensuring the success of a bank in carrying out its operational activities. And it helps business people in assessing bank performance (Aamir Abbas, et al. 2018). One of the financial performance ratios is Return On Assets (ROA). In accordance with BI Circular number 15/45 / DPNP / 2013, ROA is the ratio between net income and the average number of assets in a period. ROA describes the capability of bank management in earning a profit on the management of assets owned by the banking issuer itself.

Firm size is a value that reflects the size of the issuer and there are many proxies that are commonly used through firm size, total assets, total sales, and market capitalization. The smaller the size of the company, the more difficult it is for banks to carry out their business because investors and consumers believe that high issuers are preferred through higher total assets than small companies (Puspitasari 2010).

Widyati's research (2013), entitled the influence of corporate governance, leverage on banking financial performance, the results obtained: (1) the Independent Board of Commissioners affects financial performance, (2) the Board of Directors does not significantly affect financial performance, (3) the Audit Committee has a positive influence and significant on financial performance, and (4) Leverage has a positive and insignificant impact on financial performance. Based on this explanation, there are still differences in results between independent variables that can affect financial performance. The problem that occurs is also the role of the board of commissioners or the audit committee in which an issuer cannot yet become a benchmark that can affect financial performance.

The novelty and uniqueness of this research is the addition of moderating variables, with different company scopes. Besides that, moderation analysis also makes this research novelty. Based on the description above, a research problem is formulated, namely: 1). Does the Board of Commissioners affect the financial performance of banks listed on the IDX 2016-2019, 2). Does the Audit Committee affect the financial performance of banks listed on the IDX 2016-2019, 3). Can firm size strengthen the influence of the board of commissioners on financial performance in banks listed on the IDX 2016-2019, 4). Does strengthen the effect of the audit committee on financial performance.

The results of the research in this article show that the objective is to test and analyze the existence of the board of commissioners and audit committee on Banking Financial Performance in 2016-2019 with firm size as a moderating variable. Based on this description, the research hypothesis is:

### **H1: The Board of Commissioners has an influence on financial performance**

Independent commissioners have the main responsibility in encouraging the implementation of the principles of good banking management through empowerment of the board of commissioners so that they can carry out their supervisory duties and provide advice to the directors effectively and will provide added value to the banking system.

The existence of the Independent Board of Commissioners is very important in banking because it can minimize unhealthy and non-transparent banking management actions (Santoso, 2015). In addition, according to law No.40 of 2007, the Independent Board of Commissioners has the role of supervising the operation of banks in accordance with the principles of GCG. The existence of an independent board of commissioners provides hope for increasing supervision for the creation of a business environment related to good banking governance (GCG).

## **H2: The Audit Committee Affects Financial Performance**

Santoso (2014) research entitled, "The effect of good corporate governance, capital adequacy ratio, net interest margin on banking financial performance for the period 2010-2013", reveals the results: (1) the Independent Board of Commissioners has not affected the financial performance of banks; (2) The Board of Directors has a positive impact on the financial performance of banks; (3) The Audit Committee has a positive and significant impact on banking financial performance; (4) CAR has a positive but insignificant impact on banking financial performance, (5) NIM has a positive and significant impact on financial performance; (6) The independent Board of Commissioners, board of directors, audit committee, CAR, NIM simultaneously have a significant impact on the financial performance of banks.

The audit committee also has a role in bridging the relationship between internal and external auditors so that banking financial reporting can be in accordance with the applicable regulations. With the existence of the audit committee, hopes to be able to provide relevant financial reports and free from manipulation by any party so that it can be used as evaluation material for management. The audit committee is also expected to create a transparent business environment and improve banking financial performance.

## **H3: Firm size Affects Financial Performance**

Calisir et al. (2010) have given positive results on the performance of companies in the information and communication technology sector in Turkey. This means that the size of the company can have a positive effect on company performance. Large companies that have large resources will carry out more disclosure and can spend information on internal purposes. Such information can also be used as material in the purpose of disclosing information for both external parties such as investors and creditors, so there is no need to add a large amount of expense to disclose more widely. In real terms, large issuers have lower information production costs than small companies. A large, well-respected issuer can easily enter the capital market. This convenience can relate to the capital market with greater flexibility and greater confidence in investors due to greater operational performance. Large issuers are able to attract higher investor interest than small issuers because they provide better investment placement flexibility.

## **H4: Firm size moderates the relationship of the Board of Commissioners to Financial Performance**

The presence of an adequate and adequate composition of the board of commissioners can make the company continue to grow with good financial performance. The existence of a good financial performance can increase the size of the company, because investors will be very interested in an issuer that has a good financial performance and a good firm size. The existence of this measure shows that the size of the company can strengthen the relationship between the board of directors and financial performance. The existence of an adequate board of directors and making company management is good enough, so the performance and size of the company will continue to increase. Independent commissioners with good and independent competence can supervise the performance of the board of directors in implementing banking policies and strategies, in addition, independent commissioners are also tasked with supervising management to reduce deviant manager behavior so that this good management performance will have an impact on increased performance.

## **H5: Firm size Moderates the relationship between the Audit Committee and Financial Performance**

The position of the Audit Committee at the issuer will be a sure guarantee that the issuer's performance will be better. Thus, according to him, the Audit Committee is not a factor or consideration in appreciating firm size. Triwinasis (2013) found that the results of the Audit

Committee had a positive and significant impact on financial performance. The Audit Committee has a role in overseeing the audit process as well as the ongoing SPI. The existence of the Audit Committee can provide an increase in the financial performance of banks due to reduced management actions and increased investor confidence in banks. The audit committee has a role to ease the board of commissioners in supervising the activities of the issuer, especially in overseeing the internal control of the issuer. With this explanation, the size of the company will be able to strengthen the relationship of the audit committee on financial performance, with a good composition of the audit committee that can improve performance and increase the size of the company.

## **2. Literature Review**

### **Financial Performance**

One of the assessments of a financial performance, can judge it by looking at financial reporting. In this financial information, an investor can see and analyze these financial ratios through their profitability. The assessment uses ROA. What is meant by ROA is a ratio that reflects the efficiency of a bank in generating profits with the benefits of having assets in the issuer.

### **Independent Board of Commissioners**

An independent board of commissioners is a member of the board of commissioners who has no relationship with the board of directors, other members of the board of commissioners, control shareholders, and is free from other relationships which clearly affect the ability to act independently or act not only for the company's interests. The independent board of commissioners has a role as a counterweight to the decision of the board of commissioners themselves.

### **Audit Committee**

According to Effendy (2011), the Audit Committee is a committee that performs work professionally and independently, which is formed on the board of commissioners, with its main role helping and strengthening the function of the board of commissioners (or the supervisory board) in carrying out the oversight function of the financial reporting process. , risk management, conducting audits and implementing corporate governance.

### **Firm size**

According to Rahayu, (2014), firm size is a classification of an issuer in various systems and methods, namely through the classification of its total assets, total income, and total workforce. This means that the higher the number of assets and sales, the higher the size of a company is obtained.

## **3. Methodology**

The results of the research in this article obtained a goal, namely to test and analyze the existence of a board of commissioners and audit committee on Banking Financial Performance in 2016-2019 with firm size as a moderating variable. The data analysis technique uses path analysis. The dependent variable is financial performance (Y), the independent variable in the study, namely the independent board of commissioners (X1) and the audit committee (X2), and firm size (X3) as moderation. The research used a sample of 44 listed banking issuers (BEI) data. Researchers took 28 companies as research samples. The sampling technique is purposive judgment sampling, which is sampling with subjective objectives with the use of certain considerations adjusted to the research objectives.

## Operational Definition Variables

### 1. Financial Performance

Rohman (2013: 18) return on assets is a measurement of the issuer's ability to generate profits by using the total assets owned by the issuer. ROA is a ratio of net income to total assets. The ROA calculation formula is obtained:

$$\text{ROA} = \frac{\text{Net Income}}{\text{Total asset}}$$

### 2. Independent Commissioner Board

The proportion of the board of independent commissioners can be seen and measured through the indicator of the total membership of independent commissioners from inside or outside the bank in the overall membership of the board of commissioners (Effendy, 2016):

$$\text{Independent commissioner board} = \sum \text{independent commissioner}$$

### 3. Audit Committee

The audit committee is a committee that has responsibilities and duties, namely to supervise financial information, which is interpreted by information as financial reports, in addition to oversight other duties are external auditing and oversight of the SPI of an issuer. The formula to be used is to calculate the total members of the audit committee, the following formula is obtained (Effendy, 2016):

$$\text{Audit Committee} = \sum \text{Member of the Audit Committee}$$

### 4. Firm size

The formula for measuring the size of the company in the following study uses the total assets owned by the issuer; this total asset is used as a factor or indicator to measure the size of the company. The reason for choosing this formula is because total assets have a long-term nature, the following formula is obtained (Effendy, 2016):

$$\text{Size} = \text{Ln (total assets)}$$

## 4. Results and Discussion

### Classical Assumption Test Results

The results of the classical assumption of variables x1, x2, z to y are obtained for the first test, namely the normality test, the asym value is obtained. Significantly with the Kolmogorov Smirnov 27.5 method, namely > 5%, the data is normally distributed. Furthermore, multicollinearity testing, obtained VIF values: (x1) 1.319, (x2) 1.315 and (z) 1.109, with this evidence the VIF value <5% is free from multicollinearity symptoms. Then related to heteroskedasticity testing through the Spearman rank test, the sig value was obtained. (x1) 0.533, (x2) 0.862, and (z) 0.056, the heteroskedasticity free data is due to the sig value > 5%. Finally, auto correlation obtained a DW value of 2.030, so there is no auto correlation.

### Path Analysis Results

**Table 1. Summary of Path Analysis Results**

Path	Path Coefficient	Sig value	Conclusion
DK ==> ROA	-0.345	0.001	H1 accepted

Path	Path Coefficient	Sig value	Conclusion
KA ==> ROA	0.253	0.012	H2 accepted
SIZE ==> ROA	-0.355	0.000	H3 accepted
X1 x Z==> ROA	-0.342	0.002	H4 accepted
X2 x Z==> ROA	-0.755	0.131	H5 rejected

### **H1: The Board of Commissioners has an influence on financial performance**

The board of commissioners affects financial performance, but the results have a negative effect. Based on this explanation, in accordance with Triwinasis' research (2013), it explains the composition of the independent board and financial performance, that the composition of the independent board of commissioners affects but has a negative effect on the financial performance of the issuer. In addition, he also found that the board of commissioners in an issuer has an effect on the increase in financial performance but it cannot be used as a definite guarantee nor is it used as a benchmark for company performance.

Independent commissioners who are competent and independent can oversee the performance of the board of directors in carrying out banking footing and strategies, in addition to that independent commissioners also have the task of supervising management in reducing deviant manager behavior so that this good management performance can later have an impact on improving banking financial performance. .

Independent commissioners have a strategic role as management oversight in an issuer. Independent commissioners can exercise managerial control to minimize actions that can harm the issuer. Independent commissioner as a party not affiliated with the issuer. The role of independent commissioners in supervising and evaluating managers' decisions according to their skills, expertise, insight, and objectivity in reducing agency costs and prioritizing shareholder interests. This provides evidence that the supervision carried out by independent commissioners has more influence on manager behavior in the way that banking financial performance improves. This result is the same as Widyati's (2013) study explaining that the board of commissioners has a negative effect on financial performance.

### **H2: The Audit Committee Affects Financial Performance**

Audit committee board influences financial performance. this is known through a significant level of 0.012 and a negative effect. This indicates that the audit committee partially affects the financial performance of banks. Research is in line with Widyati (2013), the Audit Committee has a positive and significant impact on financial performance. Triwinasis (2013) found that the results of the Audit Committee had a positive and significant impact on financial performance. The Audit Committee has a role in overseeing the audit process and the continuity of the SPI. The existence of an Audit Committee can increase the financial performance of banks, all because of reduced management's unhealthy behavior and an increase in investors' trust in banking issuers. The audit committee has a role to assist the board of commissioners in supervising the activities of the issuer, particularly in the supervision of the issuer's SPI. Ahmad Minan Santoso (2015) and Rohman (2013); explained that the audit committee affects the financial performance of banks. This is also in line with research on good corporate governance that affects the financial performance of banks. The existence of the audit committee is a form of easing the duties of the independent board of commissioners who have a supervisory role in the banking system of SPI in accordance with the statement regarding the audit committee and its duties by the Indonesian Audit Committee Association (IKAI). In addition,

the audit committee can provide improved banking financial performance due to the lack of unhealthy management behavior and increased investor confidence.

### **H3: Firm size Affects Financial Performance**

Firm size affects financial performance; it gets a significant level of 0.000. This indicates that firm size has an effect but has a negative effect on financial performance. The results show that firm size does not affect the financial performance of the issuer, supported by Warendah, (2013), the firm size has no significant effect on the financial performance of banks. This means that the height of an issuer is not directly proportional to the issuer's financial performance when the market capitalization is large and the value of money is also large, followed by large profits, this is due to the high costs incurred so that the size of the company does not have an influence on company performance. This means that the bigger the company, the greater the funds spent either on its own capital or debt in developing and maintaining the issuer. This study is the same as the results of Okajaya Kusuma Warendah, (2013), where the results of this study show that firm size has no significant effect on banking financial performance. There are results that are not the same as Fachrudin (2011) which gives the results that firm size does not affect company performance. This explains that the size of the company has not become a benchmark that an issuer will have a good performance.

### **H4: Firm size moderates the relationship of the Board of Commissioners to Financial Performance**

The presence of an adequate and adequate composition of the board of commissioners can make the company continue to develop with good financial performance. The existence of a good financial performance can increase the size of the issuer, because investors will be more interested in an issuer that has a good financial performance and a good firm size. The existence of this measure shows that the size of the company can strengthen the relationship between the board of directors and financial performance. The existence of an adequate board of directors and makes the company management quite good, the performance and size of the company will continue to increase, in addition to monitoring the performance of the board of directors in implementing banking policies and strategies, independent commissioners are also in charge of supervising management to reduce deviant manager behavior so that management performance This good will have an impact on the increase in banking financial performance.

### **H5: Firm size Moderates the relationship between the Audit Committee and Financial Performance**

The position of the Audit Committee at the issuer will be a sure guarantee that the issuer's performance will be better. Thus, according to him the Audit Committee is not a factor or consideration in appreciating firm size. Triwinasis (2013), found that the results of the Audit Committee affect financial performance. The Audit Committee has a role in overseeing the audit process and the progress of the SPI. The existence of an Audit Committee will improve the bank's financial performance because it will minimize the management's bad actions and increase investors' trust in the banking sector. The audit committee has a role to ease the board of commissioners in supervising the activities of the issuer, especially in the supervision of the issuer's SPI. With this explanation, the size of the company will be able to strengthen the relationship of the audit committee on financial performance, with a good composition of the audit committee that can improve performance and increase the size of the company.

## **5. Conclusion**

For all the explanations and the results of data analysis with path testing, the first conclusion is that the board of commissioner's affects but the effect is negative, meaning that the board of commissioners in an issuer will affect and increase financial performance but cannot be used as a definite guarantee or not used as a benchmark for company performance. The second is that the audit committee affects financial performance, another meaning that the existence of an audit committee can provide an increase in banking financial performance by minimizing unhealthy actions in an issuer and increasing investor confidence. Then the size of the company affects financial performance but the effect is negative, meaning that the size of the issuer is not comparable to the financial performance of the issuer when the market capitalization is high and the value of the company is high with large profits, this is due to the high costs incurred, meaning that the firm size has not affect the company's performance. strengthens the relationship of the board of commissioners to financial performance and finally weakens the relationship of the audit committee on financial performance.

Suggestions are given; companies should pay more attention to good corporate governance so that the same and interrelated roles are applied for the purpose of improving financial performance in an issuer. It is better if the next researchers conduct research for different sectors, add to the total sample, and different analysis methods. In addition, researchers change or add other measurement variables so that they can strengthen the results of further researchers, especially those interested in researching influence growth opportunity and leverage with firm value and are advised to use other intervening variables such as dividend policy. The limitation of this research is that it only uses the banking sector for the 2016-2019 periods.

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