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Research Paper

ROLE OF RISK MANAGEMENT IN INDEPENDENT COMMISSIONERS AND AUDIT COMMITTEES ON FINANCIAL PERFORMANCE

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ABSTRACT

Purpose - Financial performance of a company is an important thing to consider due to its direct correlation with the company's survivability. It is important to understand what affects a company's financial performance. This research aimed to determine the influence of the independent commissioner and audit committee variables on financial performance as moderated by risk management.

Research Method - This study used 22 companies of LQ-45 that listed in the Indonesia Stock Exchange from 2017 to 2021 using a purposive sampling method. Model used in this research was analyzed using multiple linear regression.

Findings – The results indicate that independent commissioners have no significant effect on financial performance, while audit committee has a positive significant effect on the financial performance. Independent commissioners and audit committee simultaneously have a positive and significant effect on the financial. While risk management was not found to moderate the effect of independent commissioners on financial performance, though it may strengthen the relationship between audit committee and financial performance.

Implication – The presence of independent commissioners and audit committee in a company is important because independent commissioners act as an external party entitled to monitor the actions taken by the company, while audit committee affects reliable and accountable financial statements. Every company certainly has risks that must be taken and make adjustments according to the level of risk. Furthermore, having risk management in the companies enable the audit committees to assess the risk more accurate.

Keywords: Financial Performance, Independent Commissioners, Audit Committee, Risk Management

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INTRODUCTION

To gain investor confidence, hard work is needed especially in the part of realizing good performance for the company. Good performance represents the perception of investors of the level of success of a company in managing company resources which is reflected in the stock price. In general, a company is not only required to be as profitable as possible, but also expected to be able to realize welfare to shareholders and improve the financial performance of companies.

Every company, especially those that have gone public, have a company assessment that comes from investors on the level of success of a company in managing company resources which is reflected in the companies’ stock price in the market. When a company has big ambitions to grow bigger, it is required to improve its performance in maintaining the company's viability in the long term and to retain its investors, because investors are paramount in building the company, especially when it comes to capital (Purwanti, 2020).

In achieving good financial performance, a company should focus not only on maximizing profits, but also taking into account internal and external stakeholders' interests. In taking into account internal and external stakeholders' interests and improving the financial performance of company, the good corporate governance (GCG) must be implemented in the company.

Corporate governance not only regulates and but also controls the operation of a company in which it can provide and also increase the company’s value for shareholders (Effendi, 2017). It is a set of relationships that occur between the company's management, directors, commissioners and shareholders and other stakeholders.

The existence of a good corporate governance in a company will support the operational activities of a company. In addition, the mechanism for implementing Corporate Governance must be the company's main concern for the smooth running of activities within the company. A good corporate governance mechanism is when it is concerned with the prosperity of the company and the prosperity of its shareholders. Thus, its implementation is also expected to make a positive contribution to the company as a whole (Zuhdi, 2020). In order to minimize the agency problem and to have minority shareholder protections, implementation of good corporate governance in certain areas are important (Susanti, 2021).

Corporate governance studies the relationship of directors, managers, employees, shareholders, customers, creditors and suppliers to a company and also their interrelationships. It can also be seen as a structure, system or process that utilizes corporate organs in an effort to provide added value to the company on an ongoing basis in the long term (Azizah, 2021).

Poor or inadequate corporate governance can be the main cause of financial scandals. Cases of fraud, embezzlement, swindling and also corruption that occurred and were carried out by irresponsible individuals themselves are not uncommon in Indonesian banking. If good corporate governance is implemented in a company, it can affect the performance and value of the company's finances itself. Therefore, its implementation can result in improved financial performance and reduce risks of self-enriching management actions. A company with good corporate governance is more efficient and competitive.

The financial performance of a company is of great important because it has a direct relationship with the sustainability of the company. It is important to identify what has an influence on the financial performance of a company (Yopie, 2021).

One of the financial elements that is the value of Return on Assets (ROA) can be used as a measurement of this financial performance. This ROA will reflect business profits and the company's efficiency in utilizing the total assets of the company itself. This ratio will represent the profitability ratio which measures the ability of a company to earn profits by using the total assets in the company. If the value of ROA getting higher, the company will be

more efficient in using its assets which in turn will result in profits for the company. According to Hilmudin (2019), financial performance can be influenced by several factors, including independent commissioners and audit committees.

Risk management is a process that structured and systematic in identifying, mapping and developing the alternative risk management, measuring, observing, and control the risk management. The risk management has to be implemented in hope to identify the maximum losses that may be suffered in the future and the need for additional capital when the impact of losses causes the capital to drop below the required minimum. Risk management can be used as a benchmark for investors in investing in the company. It is one of the factors that can measure the effect of independent commissioners and audit committees toward a company's financial performance. In increasing company's transparency, improving the risk management system of a company is one of the best ways for companies to improve their reputation and handle risk exposures (Serly, 2021).

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Financial Performance

The term of performance is generally used for the actions of a company in a certain period by using certain standards. And the Financial performance of a company is an analysis that carried out by a company to see the extent how a company implement proper and correct financial rules. The financial performance of a company is said to be good when applicable rules are implemented properly and correctly (Fahmi, 2018).

Financial performance may be defined as company's achievements during the specified period related to financial management. With achievements, a company can indicate its performance (Oktalia, 2020). Financial performance can also mean a level of success of the company so that it can reap the results of good financial management (Fajri, 2018). It is used as a benchmark to determine the level of success of the company from a financial perspective that is applied by investors and stakeholders to be considered, both in terms of evaluation or to formulate policies relating to the correction and improvement of a company's financial performance (Anita, 2021).

A company's performance is also said to be the company's achievements in work completed in accordance with certain standards in one period. The financial performance of a company is the amount of value that can be obtained by the company through its operations to earn a profit. The size of the profit earned by the company can determine whether or not the financial performance of a company is good (Tinamo, 2021).

Thus, it indicates that financial performance is a form of achievement achieved by a company in financial management which also describes the performance condition of a company.

Hypothesis Development

The Independent Commissioners Effect on Financial Performance

As part of the board of commissioners, the independent commissioners should independent and have no business relationship with the directors and other board members, including the shareholders, because it can affect the independent commissioners to act independently of their tasks for the company (Rudi Zulfikat, 2019). Independent commissioners should make sure if the company has properly and correctly in implementing the financial rules (Fahmi, 2018).

The studies by (Setiawati, 2021; Hanifa, 2017; Hilmudin, 2019; Fajri, 2018; Oktalia, 2020; Tinamo, 2021; Supriyanto, 2019; Rudi, 2019; Purwanti, 2020; Angelia & Suryaningsih, 2016) and several previous studies have demonstrated a positive relationship between independent commissioners and company's financial performance for involving in

determining the company’s policies. When the actions taken by the independent commissioners are effective, they will be a very effective determinant of financial performance. Thus, the following hypothesis is formulated:
H_1: Independent commissioners have a positive significant influence on financial performance

The Audit Committees Effect on Financial Performance

The board of commissioners involve in forming an audit committee which aims to assist the implementation of its duties and functions. It is also the party that carries out the supervision and control of fairness, transparency, accountability and responsibility which will lead to satisfactory financial statements (Effendi, 2017).

An audit committee is very influential on a company's financial performance. It is due to the audit committee that plays a role in the company as a controller of the financial statements of a company in order to avoid fraud from the management. The studies by (Fitriani, 2021; Hanifa, 2017; Hilmudin, 2019; Fuad, 2017; Fouad, 2017; Fitriani, 2021; Supriyanto, 2019; Yopie, 2021; Santi, 2021; Purwanti, 2020; Bandaly, *et al.*, 2018; Dewi, 2016) stated that an audit committee has a significant effect on the financial performance of a company. Thus, the following hypothesis is formulated:
H_2: Audit committees have a positive significant influence on financial performance

Risk Management Moderates the Relationship Between Independent Commissioners and Financial Performance

The independent commissioners have to act independently and solely in the interests of the company (Rudi Zulfikat, 2019). While risk management is a process carried out to identify, measure, monitor and control emerging risks so that appropriate steps can be taken to mitigate them to the point where they are at an acceptable level, so that the company has a portfolio composition with balanced risk and return (Hanafi, 2016).

The studies by (Herawati, 2020; Oktalia, 2020; Tinamo, 2021; Rudi, 2019; and Fahmi 2018; Kartal *et al.,* 2018; Li *et al.,* 2018) showed that risk management reinforce the independent commissioners and financial performance relationship. This is because the supervision that carried out by the independent commissioners can exert proper control on managers so as not to commit acts that are detrimental to the company. Thus, the following hypothesis is formulated:
H_3: Risk management moderates the relationship of independent commissioners and financial performance.

Risk Management Moderates the Relationship Between Audit Committees and Financial Performance.

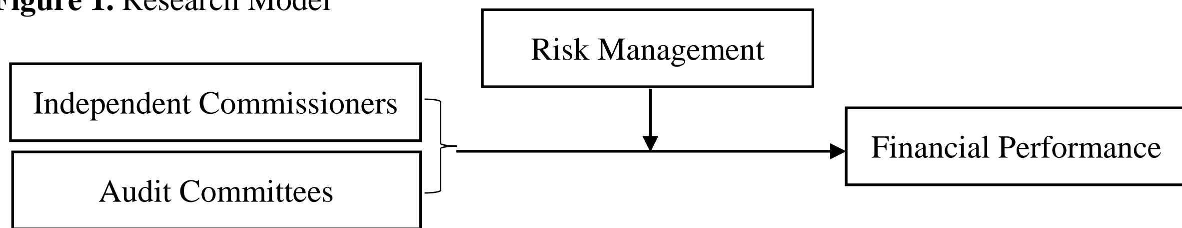
An audit committee carries out the supervision and control of fairness, transparency, accountability and responsibility which will lead to satisfactory financial statements (Effendi, 2017). And risk management is a process carried out to identify, monitor, measure, and control emerging risks so that appropriate steps can be taken to mitigate them to the point where they are at an acceptable level, so that the company has a portfolio composition with balanced risk and return (Hanafi, 2016).

An audit committee has an effect on risk management because it plays a role in the company as a controller of the financial statements of a company in order to avoid fraud from the management. The studies by (Herawati, 2020; Effendi, 2017; Fahmi, 2018; Hanifa, 2017; Hilmudin, 2019) found that an audit committee has a significant influence on the financial performance of a company moderated by risk management. Thus, the following hypothesis is formulated:

H4: Risk management moderates the relationship of audit committees and financial performance.

Research Model

Figure 1. Research Model



Source: Processed Research Data (2022)

RESEARCH METHODOLOGY

This study used a quantitative method, where it focused on numbers, starting from the data collection process to the presentation of research results. This study also used a causal or causative approach, which means that the study was also carried out to determine the relationship between the independent and dependent variables (Sugiyono, 2018). Purposive sampling was used in this study, meaning that participants were selected based on certain criteria. The population of this research consisted of 22 companies of LQ-45 that listed on the Indonesia Stock Exchange from 2017 to 2021 based on the criteria that the companies must continue to be on the LQ45 list for five consecutive years.

Research Variables

The operationalization of the variables used in this study is shown in table 1, which includes the dependent variable (financial performance), independent variables (audit committees and independent commissioners), and moderating variable (risk management).

Table 1. Research Variable Operationalization

No	Variable	Measurement	Source
1	Financial Performance	$\text{ROA} = = \frac{\text{Profit Before Interest and Tax}}{\text{Total assets}}$	(Sujarweni, 2016)
2	Independent Commissioners	number of independent commissioners	(Hanifa, 2017).
3	Audit Committees	number of audit committees	(Zamzami, 2018)
4	Risk Management	Risk management is measured by the number of risk management disclosures	(Hanafi, 2016)

Source: Various sources (2022)

Data Collection Technique

In the study process, data will be collected through documentation, by analyzing and studying secondary data, namely the annual report data contained in the Indonesia Stock Exchange, especially the LQ-45 company used as the research sample.

RESULTS AND DISCUSSION

Descriptive Statistics

Descriptive statistics analysis will provide an overview and description of the research data. The description of the data will be assessed through the standard deviation values, maximum and minimum, and mean that obtained for the research variables. The variables used in this study were independent variables which included independent commissioners and

audit committees, the dependent variable which was financial performance and the moderating variable which was risk management.

Table 2. Descriptive Statistics

Variable		N	Min	Max	Std. Deviation	Average
Independent Commissioners (X1)		110	1.000	8.000	1.933	3.450
Audit Committees (X2)		110	3.000	7.000	1.320	4.000
Financial Performance (Y)		110	0.001	1.000	0.186	0.127
Risk Management (Mo)		110	3.000	5.000	0.523	4.680

Source: Processed Research Data (2022)

As it can be seen from the table 2 above, there are three variables that have average value higher than the standard deviation. This means there are significant distance between the highest and lowest values and there are outlier amongst the data set.

Moderated Regression Analysis

This analysis aimed to determine whether the moderating variable strengthened or weakened the independent variable and the dependent variable relationship.

Table 3. Multiple Linear Regression

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.293	0.566		-2.284	0.024
	Independent Commissioners	-0.006	0.137	-0.062	-0.044	0.965
	Audit Committees	0.377	0.200	2.662	1.889	0.062
	Risk Management (Mo)	0.315	0.119	0.882	2.647	0.009
	Independent Commissioners with Risk Management	0.005	0.029	0.250	0.170	0.866
	Audit Committees with Risk Management	-0.086	0.042	-3.168	-2.053	0.043

Source: Processed Research Data (2022)

Based on the Moderated Regression Analysis (MRA) in the table above, we specify the following equation:

$$\text{Financial Performance (Y)} = 1.293 - 0.006\ KI + 0.377\ KA + 0.315\ MR + 0.05\ X1*Z - 0.086\ X2*Z$$

The followings are the explanation of the regression equation:

a. The constant value was 1.293. It means that if the audit committee and independent commissioner variables were 0, then the financial performance value was 1.293.

b. The linear regression coefficient on the independent commissioner was -0.006 and shows a negative sign. That is, the more independent commissioners, the lower the financial performance of a company.

c. The regression coefficient on the audit committee was 0.377 and shows a positive sign. That is, the greater the value of audit committees, the higher the financial

performance of a company. This figure means that if the audit committee of a company increases by 1, an increase in financial performance of 0.377 will occur, assuming that the other independent variables are held constant.

d. The regression coefficient of the interaction variable between independent commissioners and risk management was 0.005 and shows a positive sign. That is, the higher the interaction that occurs between independent commissioners and risk management, the higher the financial performance of a company. This figure explains that when there is an increase in the interaction variable between independent commissioners and risk management by 1 unit, there will be an increase of 0.005 of the financial performance.

e. The regression coefficient of the interaction variable between audit committees and risk management was -0.086 and shows a negative sign. This means that the lower the interaction between audit committees and risk management, the higher the company's financial performance. This figure indicates that when there is a decrease in the interaction variable between audit committees and risk management by 1 unit, there will be a decrease in financial performance of -0.086.

Hypothesis Testing Results

Coefficient of Determination

The aim of the coefficient of determination is to test the extent of the independent variables in explaining the dependent variable in the regression model. Results of testing the coefficient of determination are as follow:

Table 4. Coefficient of Determination

Model	R^2	Percentage
1	0,297	29,7%

Source: Processed Research Data (2022)

Based on the results of the table above, the coefficient of determination was obtained, and it is known that the influence of the independent variables (audit committees and independent commissioners) on dependent variable (financial performance) was 0.297 or 29.7%. That is, 29.7% of the variation in financial performance variables can be explained by independent variables, namely audit committees and independent commissioners simultaneously. While the rest, 100% - 29.7% = 70.3%, is explained by other variables not studied by the researcher and not included in the regression model.

T Test

This test aimed to determine the relationship between independent variables and dependent variable by assuming that the other independent variables are constant. Results of the t-test are as follow:

Table 5. T Test

Variable	Coefficient	Prob.	Result	Hypothesis
Constant	-2.284	0,024		
Ind. Commissioners	-0.440	0,965	Non-Significant	Rejected
Audit Committees	1.889	0,002	Significant	Accepted
Risk Management	2.647	0,009	Significant	Accepted
X1.Z	0.170	0,866	Non-Significant	Rejected
X2.Z	2.053	0,043	Significant	Accepted

Source: Processed Research Data (2022)

As it can be seen in Table 8:

a. The effect of independent commissioners on the company's financial performance had a significance level of 0.965 > 0.05, thus, it can be concluded that the H1 is rejected where partially, independent commissioners have no significant effect on the financial performance (Y).

b. The effect of the audit committee on the financial performance had a significance level of 0.002 < 0.05. Thus, it can be concluded that H2 is accepted where partially, audit committees have a significant effect on the financial performance (Y).

c. The effect of risk management on the financial performance had a significance level of 0.009 < 0.05. Thus, H3 is accepted where partially, risk management has a significant influence on the company's financial performance (Y).

d. The effect of independent commissioners on the financial performance moderated by risk management. In the moderating variable, namely the moderating interaction of independent commissioners and the financial performance (X1.Z), the t value was 0.170 with a significance level of 0.866 > 0.05. That is, the risk management variable does not affect the relationship between independent commissioners and the financial performance, so in this case H4 is rejected.

e. The effect of audit committees on the financial performance with risk management as a moderating variable. The moderating interaction of audit committees with the financial performance (X2.Z), the level of significance was 0.043 <0.05. That is, the risk management variable affects the relationship between audit committees and the company's financial performance, so in this case H5 is accepted.

F Test

To determine the simultaneous effect of all independent variables in the model on dependent variable, it used the F test. Following are the results of the F-test:

Table 6. F Test

Model	Prob.	Result
1	0,026	Significant

Source: Processed Research Data (2022)

The test results above show the significance value was 0.026, where the value was less than 0.05. It can be concluded that independent commissioners and audit committee simultaneously have an influence on the financial performance moderated by risk management.

Discussion

This study aimed to determine the effect of audit committees and independent commissioners on the financial performance with risk management as moderating variable of companies of LQ-45 that listed on the Indonesia Stock Exchange from 2017 to 2021.

The Effect of Independent Commissioners on Financial Performance

The results of this study explain that partially, independent commissioners have no significant effect on financial performance with a significance level of 0.965 (0.965 > 0.05). The results are contrary to previous research by (Setiawati, 2021), in which the study explained that independent commissioners have a positive and independent effect on the financial performance of a company. However, this study is in line with research from (Saragih, 2019) which suggested that independent commissioners have no effect on financial performance.

An independent commissioner is someone who serves as a representative of independent shareholders (minority shareholders). This appointed party is not solely on duty as a trustee but in accordance with the background, knowledge, experience as well as professional justice to carry out duties for the benefit of the company (Rudi, 2017). However, in this study it is found that the presence of independent commissioners has no influence on improving financial performance. This is due to the independent commissioners have not been optimal in carrying out their duties and functions. This indicates that although the commissioners have their independency, it does not always enhance performance of a company. As companies only comply with the requirements of the government and are not really free to monitor the management activities. It indicates that independent commissioners are obligated only to the owners. The results of this study are also not in line with previous research, namely the studies by (Setiawati, 2021; Hanifa, 2017; Hilmudin, 2019; Fajri, 2018; Oktalia, 2020; Tinamo, 2021; Supriyanto, 2019; Rudi, 2019; Purwanti, 2020; Angelia & Suryaningsih, 2016) concluding that board of independent commissioners have a significant effect on financial performance.

The Effect of Audit Committee on Financial Performance

In this study, audit committees have a partial and significant effect on financial performance. Based on the significance level of 0.002 (0.002 < 0.05), it can be concluded that audit committees partially and significantly influence financial performance.

This is because audit committees are the party that monitors, controls fairness, accountability, transparency, and responsibility that makes financial reports of higher quality which in turn increases financial performance (Fouad Mohammed Alshrife, 2017). This indicates the audit committees have been optimal in carrying out their duties and functions that enhance firm performance. The results are in line with the previous studies by (Fitriani, 2021; Hanifa, 2017; Hilmudin, 2019; Fuad, 2017; Fouad, 2017; Supriyanto, 2019; Yopie, 2021; Santi, 2021; Purwanti, 2020; Bandaly, *et al.*, 2018; Dewi, 2016) suggesting that audit committees have a significant influence on financial performance.

Risk Management Moderates the Relationship between Independent Commissioners and Financial Performance

The results of the study revealed that risk management as a moderating variable has no significant effect on the independent commissioners and financial performance relationship, with a significance level of 0.866 > 0.05. The interaction of independent commissioners with risk management shows that risk management does not moderate the relationship between independent commissioners and the financial performance.

Independent commissioners should independent and have no business relationship with the directors and other board members, including the shareholders, because it can affect the independent commissioners to act independently of their tasks for the company (Rudi Zulfikat, 2019). However, independent commissioners have no effect on financial performance which is an analysis carried out by a company to see the extent to which a company has proper and correctly in implementing the financial rules (Fahmi, 2018).

Risk management also does not weaken or strengthen the independent commissioners and financial performance relationship because risk management is a process carried out to identify, measure, monitor and control emerging risks so that appropriate steps can be taken to mitigate them to the point where they are at an acceptable level, so that the company has a portfolio composition with balanced risk and return (Hanafi, 2016). This study is in line with the studies by (Herawati, 2020; Oktalia, 2020; Tinamo, 2021; Rudi, 2019. Fahmi 2018; Kartal *et al.,* 2018; Li *et al.,* 2018) stating that risk management cannot moderate the relationship between board of independent commissioners and financial performance.

Risk Management Moderates the Relationship between Audit Committees and Financial Performance

Based on the results of the study, risk management as a moderating variable has a significant effect on the relationship between audit committees and financial performance, with a significance level of 0.043 < 0.05. The interaction of the audit committee with risk management reveals that risk management can moderate the relationship between the audit committee and financial performance. Thus, it is concluded that H5 is accepted.

From the results of the hypothesis testing, it was found that the interaction that occurs between audit committees and risk management has a significance of 0.043, which means that risk management can strengthen the relationship between audit committees and financial performance. This is because when the risk management is implemented in the companies, audit committees have access to system that helps them to prepare the financial reports and make sure the accuracy of the financial reports, and financial performance will improve. Having risk management in the companies can help the audit committees to assess the risk more accurately.

This study is in line with the studies by (Herawati, 2020; Effendi, 2017; Fahmi, 2018; Hanifa, 2017; Hilmudin, 2019) stating that risk management can moderate the relationship between audit committees and financial performance.

CONCLUSION AND SUGGESTION

According to the findings of this study, independent commissioners have no significant effect on financial performance of the LQ-45 companies listed on the Indonesia Stock Exchange in 2017-2021 with a sig value comparison of (0.965 > 0.05). Audit committees have a positive and significant effect on the financial performance of the companies of LQ-45 that listed on the Indonesia Stock Exchange in 2017-2021 with a sig value comparison of (0.002 < 0.05). Independent commissioners and audit committees simultaneously have a positive and significant influence on the financial performance with a sig value comparison of (0.026 < 0.05). Risk management does not moderate the relationship between independent commissioners and financial performance with a sig value comparison of (0.866 > 0.05). Risk management strengthens the relationship between audit committees and financial performance with a sig value comparison of (0.043 > 0.05).

This study, however, has some limitations. For starters, this study only uses five periods, namely 2017 to 2021, so it does not reflect the condition of the companies in the long term. This study is conducted on LQ-45 companies, while there are numerous other companies listed on the IDX. The independent variables used in this study are limited to 2 variables, while there are still many other variables or factors that affect financial performance.

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