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The Influence Of Independent Commissioners, Leverage, And Internal Control On Earnings Quality With Firm Size As A Moderating Variable

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Abstract:
Earnings quality measures how well reported earnings reflect a firm's true condition and performance, providing an accurate and reliable picture for decision-making. This study aims to analyze the influence of independent commissioners, leverage, and internal control on earnings quality, with firm size as a moderating variable. The population in this study was non-cyclical consumer sector companies listed on the Indonesia Stock Exchange (IDX) during the 2022-2024 period. Using a purposive sampling method, a sample of 67 companies was obtained. The results show that independent commissioners and internal control have no significant effect on earnings quality, indicating that companies do not implement the independent commissioner function optimally or merely symbolically, and do not implement internal control effectively despite having a sound control system. Meanwhile, leverage has a significant positive effect on earnings quality, indicating that leverage functions as an effective external discipline mechanism. Oversight from creditors has been shown to limit opportunistic management behavior. In this study, firm size only negatively moderated the effect of leverage on earnings quality, indicating that the supervisory role of creditors is more crucial in small companies than in larger companies, which may already have other forms of oversight.

Keywords: Firm Size, Earnings Quality, Independent Commissioners, Internal Control, Leverage.

BACKGROUND

Financial reports are the final output of a series of accounting processes systematically compiled to present relevant information to stakeholders. This is clarified in PSAK 201 concerning the Presentation of Financial Statements (2022), which states that financial reports are a structured presentation of an entity's financial position, performance, and cash flows, prepared to provide fair, relevant, and reliable information to users, such as investors, creditors, and other stakeholders, in decision-making. One of the uses of financial reports for users is to obtain an accurate picture of a firm's condition. Management uses financial reports as the primary tool for demonstrating the firm's operational performance (Purnamasari & Fachrurrozie, 2020). Profit information contained in financial reports can be used by companies to assess management performance and as a basis for projecting the firm's future profit capabilities and potential. Therefore, users of financial reports need to re-verify the quality of the firm's earnings presented through published financial reports to avoid errors in decision-making (Pertiwi et al., 2017). According to Purnamasari & Fachrurrozie (2020), a firm with high earnings quality indicates that its objectives have been achieved. Furthermore, the firm's

level of transparency in presenting its earnings reports also reflects the quality of its earnings. Earnings quality serves to assess a firm's condition, particularly its financial health. Therefore, it can be said that high-quality earnings are an indicator that the firm accurately reflects its economic situation. The importance of earnings information can encourage management to employ various methods in presenting financial reports to attract investors. In this case, management has more knowledge about the firm than shareholders. Therefore, there is a potential for management to manipulate financial reports. This practice represents management interference in the preparation of financial reports for personal gain or profit. Consequently, the firm's earnings quality will decline due to the practice of financial report manipulation.

The case of PT Tiga Pilar Sejahtera Tbk, or TPS Food, is a clear example of how earnings quality analysis can uncover large-scale earnings management and financial report manipulation. This low earnings quality indicates a discrepancy between reported earnings and the firm's actual economic condition, which in this case is evident in various fraudulent acts that attempt to portray the firm's financial performance as healthy and stable. Therefore, the figures in the financial report cannot be trusted because they are fabricated to conceal the firm's true condition. The case that occurred in 2017 began with the alleged practice of adulterating rice carried out by PT Indo Beras Unggul (IBU), a subsidiary of PT Tiga Pilar Sejahtera Tbk (TPS Food). The firm was suspected of repackaging subsidized rice into premium rice, which was then sold using PT Indo Beras Unggul's trademarks, namely Maknyuss and Ayam Jago. This practice caused a significant decline in the firm's stock value, reaching the lower auto-rejection limit. The previous management deliberately manipulated the 2017 financial report, which recorded a loss of Rp 565 billion, to make it look better, with the aim of improving the firm's image in the eyes of investors and increasing the share price amidst the crisis. In 2018, at the Extraordinary General Meeting of Shareholders (EGMS), the new management appointed Ernst & Young Indonesia (EY) to re-audit the previously published financial report, following suspicions about its accuracy. An investigation by Ernst & Young Indonesia (EY) revealed a Rp 4 trillion overstatement of accounts receivable, inventory, and fixed assets, resulting in low-quality profits based on unrealistic asset values. Furthermore, sales were overstated by Rp 662 billion and earnings before interest, tax, depreciation, and amortization (EBITDA) by Rp 329 billion, both of which did not reflect actual operational activity but were instead an attempt to improve the appearance of the financial statements after a subsidiary was caught up in a rice adulteration case. Based on this case, it can be concluded that the management of PT Tiga Pilar Sejahtera Tbk manipulated data to embellish the financial statements to present a stable image of the firm, even though this caused losses to stakeholders due to the economic conditions.

Febiani, in Putri & Fitriasari (2017), stated that independent commissioners are one of the internal mechanisms for creating good corporate governance in a firm. A large proportion of independent commissioners within the board structure will improve oversight and reduce the possibility of fraud by management, thus the firm is expected to grow and generate higher-quality profits (Raharjo & Daljono in Putri & Fitriasari, 2017). Pertiwi et al. (2017); Puspitawati et al. (2019), and Purnamasari & Fachrurrozie (2020) found an influence between independent commissioners and earnings quality. This contrasts with research by Arisanti (2019); Sulaeman (2020), and Yanto & Metalia (2021), which found that the presence of independent commissioners had no impact on earnings quality. Independent commissioners within a firm merely serve as a symbol of good corporate governance implementation, ensuring investors' confidence in the firm's provision of reliable information or financial reports, thus

creating a positive signal for investors. Sartono, in Marsela & Maryono (2017), states that leverage is a firm's ability to use assets and funding sources with fixed costs to increase potential profits for shareholders. Leverage can affect earnings quality; the higher a firm's leverage, the lower its earnings quality, due to the potential for earnings management practices by management to maintain investor confidence in the firm (Wati & Putra in Yanto & Metalia, 2021). Agustina & Mulyani (2019); Samosir (2018); and Yanto & Metalia (2021) all demonstrated that leverage has a positive and significant effect on earnings quality. However, research conducted by Marsela & Maryono (2017) and Widmasari et al. (2019) demonstrated that leverage has no effect on earnings quality. Neither low nor high leverage indicates a firm's earnings quality, when comparing the firm's operating profit to its net cash flow from operating activities. According to Suryali in Wirdana et al. (2018), to reduce the possibility of declining earnings quality in financial reports, owners can implement internal controls over the firm's operational activities. Internal controls serve as a tool to ensure the firm's financial and operational compliance. Good internal controls will prevent accounting fraud. The system of checks and balances provided by internal controls can help reduce fraud and identify problems and errors in the preparation of financial reports. The better a firm's internal controls, the lower its risk. These results align with research conducted by Chen et al. (2017) and Wirdana et al. (2018), which found that internal controls have a significant positive effect on earnings quality.

THEORETICAL FRAMEWORK

Agency Theory

According to Jensen & Meckling (1976), agency theory describes a contractual relationship between one or more individuals (principals) and another individual (agents). This agency relationship is an agreement in which the principal hires an agent to perform a service on their behalf, including the delegation of decision-making authority. Agency theory assumes that if both parties are utility maximizers, each party acts in their own self-interest. Shareholders (principals) expect the highest and fastest possible returns on their invested capital, while management (agents) seek to fulfill their interests by providing maximum compensation or incentives for their performance in managing the firm. Thus, organizations have two distinct goals, each of which strives to achieve its desired level of well-being.

Syahrial et al. (2023) explain that differences in information between shareholders (principals) and management (agents) can trigger conflict. Management (agents) has a better understanding of the firm's internal information compared to shareholders (principals), who only have information based on what management reports. According to Marsela & Maryono (2017), this imbalance in information control will trigger a condition known as information asymmetry. This information asymmetry between shareholders (principals) and management (agents) can provide opportunities for managers to engage in earnings management, resulting in unreliable information provided to shareholders (principals) regarding firm performance.

Earnings Quality

According to Dechow in Dombeu & Nomlala (2023), earnings quality is the ability of earnings to provide useful information to users of financial statements, particularly in assessing firm performance and predicting future performance. More specifically, earnings quality is defined in terms of the ability of earnings to provide useful information to stakeholders. This definition of earnings quality incorporates the primary objective of financial reporting, namely the presentation of financial information that is useful to stakeholders in decision-making. Earnings quality displays useful information features such as relevance, faithful representation,

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comparability, verifiability, timeliness, and understandability (IFRS Foundation in Dombeu & Nomlala (2023). Earnings quality can be estimated using several measurement models, as follows:

Discretionary Accruals

According to Haqi, earnings quality can be determined through direct measurement of discretionary accruals using the ratio of operating cash to profit. Earnings quality is reflected in the close relationship between profit and operating cash flow. The closer the relationship between profit and operating cash flow, the higher the quality of the resulting earnings (Hidayah et al., 2023). Based on previous papers, there are two methods for measuring discretionary accruals:

Modified Jones Model (Dechow et al.)

The Modified Jones Model is used by Kusumaningtyas et al., (2015), Samosir (2018), Widmasari et al., (2019), and Yanto & Metalia (2021) on the basis that this model has the advantage of being the most effective method in detecting earnings management when compared to other models, in addition, this model is also considered to provide the most robust results. This model can be formulated as follows:

Calculating the total accruals (TAC) value

$$TAC_{it} = NI_{it} - CFO_{it}$$

The total accruals (TAC) value is estimated using the following OLS regression equation:

$$TAC_{it}/TA_{it-1} = \beta_1(1/TA_{it-1}) + \beta_2(\Delta REV_{it}/TA_{it-1}) + \beta_3(PPE_{it}/TA_{it-1}) + \varepsilon_{it}$$

Using the regression coefficients above (b), the non-discretionary accruals (NDA) value can be calculated using the formula:

$$NDA_it = \beta_1(1/TA_{it-1}) + \beta_2((\Delta REV_{it} - \Delta REC_{it})/TA_{it-1}) + \beta_3(PPE_{it}/TA_{it-1})$$

Furthermore, discretionary accruals (DA) can be calculated as follows:

$$DA_{it}=(TAC_{it}/TA_{it-1})-NDA_{it}$$

DA_{it} = Discretionary Accruals (DA) of firm i in period t
NDA_{it} = Non-Discretionary (NDA) of firm i in period t
TAC_{it} = Total accruals of firm i in period t
NI_{it} = Net profit of firm i in period t
CFO_{it} = Cash flow from operating activities of firm i in period t
TA_{it-1} = Total assets of firm i in period t-1
ΔREV_{it} = Change in revenue in period t
PPE_{it} = Property, Plant, and Equipment/Fixed assets of firm i in period t
ΔREC_{it} = Change in receivables of firm i in period t
e_{it} = Error of firm i in period t

Kothari et al. Model

In the research of Pertiwi et al., (2017) and Wirdana et al., (2018), the discretionary accrual model of Kothari et al. was used to assess Another advantage of profit quality is that the ROA element is considered to provide better predictive ability than the Modified Jones model. The equation in this model is as follows:

Calculate total accruals using the equation:

$$TAC_{it}=NI_{it}-CFO_{it}$$

Calculate accruals using the equation:

$$(TAC_{it})/(TA_{it-1})= a_1(1/TA_{it-1})- a_2(\Delta REV/TA_{it-1})- a_3(PPE/TA_{it-1})- a_4(ROA)+\varepsilon$$

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Calculate non-discretionary accruals (NDA) using the equation:

$$NDA_{it} = a_0(1/TA_{it-1}) - a_1(\Delta REV_{it}/TA_{it-1}) - a_2(PPE_{it}/TA_{it-1}) - a_3(ROA_{it})$$

Calculate discretionary accruals using the equation:

$$DA_{it} = (TAC/TA_{it-1}) - NDA_{it}$$

Description:
DA_{it} = Discretionary Accruals of firm i in year t
NDA_{it} = Non-Discretionary Accruals of firm i in year t
NI_{it} = Net profit of firm i in period t
CFO_{it} = Cash flow from operating activities of firm i in period t
TAC_{it} = Total accruals of firm i in year t
TA_{it-1} = Total assets of firm i in year t-1
ΔREV_{it} = Change in revenue of firm i from period t-1 to t
PPE_{it} = Property, Plant, and Equipment/Fixed assets of firm i in period t
ROA_{it} = Return on assets of firm i at the end of year t
a = Fitted coefficient obtained from the regression results on total accrual calculation

Earnings Response Coefficients (ERC)

Earnings Response Coefficients (ERC) are believed to provide a clear picture of earnings quality by observing market reactions to earnings information published by companies. Earnings Response Coefficients (ERC) are largely determined by the strength of the response reflected in the information contained in earnings (Suaryana in Arisanti, 2019). According to Scott, a strong market reaction to earnings information, reflected in high Earnings Response Coefficients (ERC), indicates high earnings quality (Marsela & Maryono, 2017). In previous research conducted by Marsela & Maryono (2017), the following formula was used to determine the ERC value:

$$CAR_{it} = \alpha + \beta\ (UE_{it}) + e$$

Description:
CAR_{it} = Cumulative Abnormal Return of firm i in period t
UE_{it} = Unexpected Earnings of firm i in period t
α = Constant
β = ERC coefficient (the desired value)
e = Error term

Quality Income Ratio (QIR)

According to Libby et al., the Quality of Income Ratio (QIR) can be used as a measure of earnings quality to assess cash-generated income. This ratio reflects that net income from operating activities is the most reliable source of cash, due to the continuous and recurring nature of operating activities in each period (Bayudono & Meliana, 2018). The following is the formula for calculating earnings quality using QIR used by previous research by Purnamasari & Fachrurrozie (2020):

$$QIR = \text{Cash flow from operating activities} / \text{Net profit}$$

Independent Commissioner

Good Corporate Governance (GCG) acts as a mechanism that aligns the differing interests of principals and agents, thereby providing added value for stakeholders and shareholders. Good Corporate Governance (GCG) is essential for increasing firm value and preventing earnings

manipulation. With good Corporate Governance (GCG), investors will have greater confidence in the firm's financial reports. Furthermore, strict oversight of financial reporting will ensure more accurate and reliable earnings information, thus improving the firm's earnings quality (Hidayatul et al., 2022). To achieve this, Good Corporate Governance (GCG) principles such as transparency, accountability, responsibility, independence, and fairness and equality are essential to achieve corporate sustainability while still considering the interests of stakeholders (KNKG, 2006). According to Farida & Kusumumaningtyas (2017), the board of commissioners is a crucial part of a firm's Good Corporate Governance (GCG) structure, playing a strategic role in maintaining the credibility of the financial reporting process. By overseeing management performance, the board of commissioners is expected to reduce or minimize earnings management practices.

Companies in Indonesia adopt a two-board system, consisting of an independent board of commissioners (BoC) and a board of directors (BoD), both of which are responsible for maintaining and safeguarding the firm's long-term sustainability (Sulaeman, 2020). Based on Financial Services Authority Regulation No. 33/PJOK.04/2014 concerning the Board of Directors and Board of Commissioners of Issuers or Public Companies, an independent commissioner is a member of the board of commissioners from outside the firm and has met the qualifications established for the position of independent commissioner. The regulation stipulates that independent commissioners must constitute at least 30% of the total number of board members.

From this explanation, it can be seen that It can be concluded that independent commissioners are a key element of Good Corporate Governance, serving to oversee management and prevent financial statement manipulation. In Indonesia, at least 30% of board members must be independent, as stipulated by the Financial Services Authority (OJK), with the aim of maintaining reporting transparency and increasing investor confidence in the firm. In research conducted by Pratama (2015), Pertiwi et al. (2017), Putri & Fitriasari (2017), Arisanti (2019), Puspitawati et al. (2019), Sulaeman (2020), Purnamasari & Fachrurrozie (2020), and Yanto & Metalia (2021), the number of independent commissioners is calculated using the following equation:

KI = (Number of independent commissioners / Number of board members) × 100%

Leverage

According to Gitman and Zutter in Marpaung (2019), a firm's debt reflects the amount of third-party funds used to generate profits. In general, the higher the proportion of debt to total assets, the greater the firm's financial leverage. Leverage refers to a firm's ability to effectively manage its assets and funds by combining debt to achieve the goal of improving the welfare of the firm's owners and investors (Yusmaniarti et al. in Ishak, 2024).

According to Wijaya & Saebani, conflicts often arise in a firm's financing structure between owners and management. Owners may reject plans to increase capital internally. Consequently, management must seek alternative financing by using external loans to meet the firm's operational needs. Leverage is an indicator used to analyze a firm's level of dependence on debt to finance operations and investments compared to its own capital, while also measuring the firm's capacity to meet its long-term obligations (Safitri & Amin, 2024).

Referring to the definition explained above, it can be concluded that leverage indicates the extent to which a firm utilizes debt to finance operations and investments to increase profits. Because owners sometimes reject additional internal capital, management chooses external financing through debt. Thus, leverage also reflects a firm's ability to meet its long-term obligations. Based on previous research conducted by Agustina & Mulyani (2019),

Kusumaningtyas et al. (2015), Samosir (2018), Widmasari et al. (2019), Marpaung (2019), Purnamasari & Fachrurrozie (2020), and Yanto & Metalia (2021), the ratio used to calculate leverage is:

Debt Assets Ratio (DAR) = Total Liabilities / Total Assets

Internal Control

Internal control is a crucial system that plays a role in overseeing and controlling all firm activities to improve performance effectiveness. This system must be structured and coordinated to ensure the preparation of accurate, precise, and reliable financial reports for management. Furthermore, internal control plays a role in safeguarding firm assets to prevent waste, misuse, and suboptimal operational performance. By implementing effective controls, companies can ensure compliance with applicable policies and improve overall efficiency (Nababan & Muktiadji, 2022).

According to Krismiaji, internal control is an organization's plans and methods used to protect or safeguard assets, produce accurate and reliable information, improve efficiency, and encourage compliance with management policies (Mufidah et al., 2020). According to Moeller, based on the COSO Integrated Framework, internal control is a process that companies can rely on to achieve their objectives and serves as a basis for evaluating the effectiveness of the firm's activities, finances, and business processes (Arisandi et al., 2022). COSO identifies five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. (Wirdana et al., 2018).

Based on the definition above, it can be concluded that internal control is a system designed to monitor and regulate all firm activities to ensure they run more effectively and efficiently. This system helps ensure accurate and reliable financial reporting and protects firm assets from fraud. loss or misuse. With good internal controls, companies can also comply with applicable regulations and improve overall operational quality. In this study, the measurement used to assess internal control is the Internal Control Disclosure Index (ICDI). Previous research used two assessment indicators. Pratama's (2015) study developed these criteria based on Bapepam Regulation No. X.K.6 concerning the Obligation to Submit Annual Reports for Issuers or Public Companies, while Wirdana et al. (2018) referred to the five components of the COSO Framework. However, both studies used the same formula to calculate internal control:

$$ICDIj=\Sigma xij/nj$$

Firm Size

According to the Regulation of the Minister of Trade of the Republic of Indonesia Number 36/M-DAG/PER/9/2007 concerning Surat Izin Usaha Perdagangan (SIUP), firm size is generally assessed based on the firm's capital and net assets, excluding land and buildings where the business is located. The regulation categorizes trading companies into three categories: small companies (SIUP Kecil) with capital and net assets of up to IDR 200,000,000 (two hundred million rupiah); medium companies (SIUP Menengah) with capital and net assets above IDR 200,000,000 (two hundred million rupiah); and large companies (SIUP Besar) with capital and net assets above IDR 500,000,000 (five hundred million rupiah).

Firm size reflects the scale of a business entity, which can impact its capital structure. The larger the total assets, the larger the firm (Nuridah et al., 2023). According to Prasetyorini in Rakhman et al. (2021), firm scale influences the firm's capacity to manage risks that may arise from various conditions. Large companies tend to have lower risk levels compared to small companies. This situation occurs because large companies have optimal control over market conditions, making them better prepared to face the challenges of economic competition.

From the explanation presented, it can be concluded that firm size is usually measured by capital and net worth, excluding land and buildings, with total assets as the primary indicator. The greater the total assets, the larger the firm's scale. This firm scale influences the firm's ability to manage risk; large companies tend to be better able to control risk than small companies due to their better resources and controls. According to Rakhman et al. (2021), by using the natural logarithm, asset values reaching hundreds of billions to trillions can be simplified without changing the proportion of the actual asset value. This is also reflected in the proxies used in previous research conducted by Marsela & Maryono (2017), Agustina & Mulyani (2019), Samosir (2018), and Widmasari et al. (2019). Therefore, in this study, the proxy used to measure firm size is:

$$\text{Firm Size} = \text{Ln}(\text{Total Assets})$$

METHOD

The unit of analysis is the unit being studied, which can be an individual, group, object, organization, or a social setting, such as the activities of an individual or group as the research subject (Sugiyono, 2017). The unit of analysis in this study is companies operating in the non-cyclical consumer sector listed on the Indonesia Stock Exchange during the period 2022-2024. Each firm is analyzed based on the research variables examined, namely independent commissioners, leverage, internal control, and firm size in relation to earnings quality.

According to Sugiyono (2017), a population is a generalized area consisting of objects or subjects possessing certain qualities and characteristics determined by the researcher to be studied and then conclusions drawn. The population used in this study is all companies listed on the Indonesia Stock Exchange in the non-cyclical consumer sector from 2022-2024, as it aligns with the phenomenon addressed by the researcher, namely PT Tiga Pilar Sejahtera. Furthermore, the consumer sector is non-cyclical because companies in this sector produce essential goods such as food, beverages, and household products that are always in demand. Therefore, firm performance in this sector is typically more stable and less affected by economic fluctuations. Therefore, this sector is suitable for examining how factors such as independent commissioners, leverage, and internal control affect corporate earnings quality. The 2022-2024 period was chosen because it marks the post-pandemic period when the Indonesian economy is stabilizing and many companies are recovering. Therefore, it is relevant to analyze the influence of independent commissioners, leverage, and internal control on earnings quality under relatively normal economic conditions, with firm size as a moderating variable.

This study used a purposive sampling technique to determine the sample. According to Sugiyono (2017), a sample is a representative portion of a population, and purposive sampling is a selection technique based on specific considerations and criteria to ensure the sample used is relevant to the research focus. Therefore, the researcher established a series of criteria to ensure the selected sample was relevant to the research objectives. The sample consists of a portion of non-cyclical consumer sector companies listed on the Indonesia Stock Exchange (IDX) for the 2022-2024 period and meeting the stated criteria. The criteria used to determine the sample used in this study are as follows:

1. Non-cyclical consumer sector companies listed on the Indonesia Stock Exchange (IDX) from 2022-2024.

2. Non-cyclical consumer sector companies listed on the Indonesia Stock Exchange (IDX) that consistently issued financial reports and annual reports from 2022-2024.
3. Non-cyclical consumer sector companies listed on the Indonesia Stock Exchange (IDX) that generated profits throughout the 2022-2024 period.

The data in this study utilizes secondary data, that is, data obtained indirectly through intermediaries. In collecting the data, the researcher employed documentation and literature study techniques. The research data used were annual reports of Consumer Non-Cyclicals Sector companies listed on the Indonesia Stock Exchange (IDX) for the years 2022-2024, obtained from the official website of the Indonesia Stock Exchange (IDX), www.idx.co.id. Furthermore, this study also examined journals, books, and previous research related to the problem addressed in this study to support the writing process.

RESULT

Model Panel Data Regression

A. Chow Test

The Chow Test is used to determine whether the more appropriate model is the common effects or fixed effects model by considering the probability values of the test results. If the Chi-square probability value is greater than 0.05, then the common effects model is selected. Conversely, if the Chi-square probability value is less than 0.05, then the fixed effects panel data regression model is used.

Table 4.1 Chow Test Results

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	1.566078	(52,102)	0.0274
Cross-section Chi-square	93.316017	52	0.0004

Source: Data processed by the researcher using Eviews 13 (2025)

Based on the results in Table 4.1, the Chow Test shows a Chi-square probability value of 0.0004, which is below the 0.05 threshold. This indicates that the fixed effects model (FEM) is more appropriate than the common effects model (CEM). Therefore, the next step is to conduct the Hausman Test to determine the most appropriate model between fixed effects and random effects.

B. Hausman Test

The Hausman Test is conducted after the Chow Test to select the most appropriate model between fixed effects and random effects. If the probability value is greater than 0.05, then the random effects model is selected. Conversely, if the probability value is less than 0.05, then the model used is a fixed effect.

Table 4.2 Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	1.047880	4	0.9025

Source: Data processed by the researcher using Eviews 13 (2025)

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Based on Table 4.2, the Hausman Test results indicate that the probability value is greater than 0.05 (0.9025 > 0.05). Therefore, the random effects model (REM) is superior to the fixed effects model. The test is then continued with the Lagrange Multiplier Test.

C. Lagrange Multiplier (LM) Test

The Lagrange Multiplier (LM) test is used to determine the most appropriate model between the random effects model and the common effects model. If the Breusch-Pagan cross-section probability value is greater than 0.05, then the common effects model is selected. Conversely, if the probability value is less than 0.05, then the random effects model is selected.

Table 4.3 Lagrange Multiplier Test Results

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	3.961551 (0.0466)	0.253486 (0.6146)	4.215037 (0.0401)

Source: Data processed by the researcher using Eviews 13 (2025)

Based on the LM test results in Table 4.3, the Breusch-Pagan probability value is below 0.05 (0.0466 < 0.05), indicating that the random effects model is superior to the common effects model. Taking these results, as well as the results of the previous Chow and Hausman tests, into account, it is concluded that **the random effects model (REM) is the best regression model for this study.**

Classical Assumption Test

A. Normality Test

The normality test was conducted to determine whether the data from the variables used were normally distributed. In this test, the researcher used the Jarque-Bera normality test. Data are considered normally distributed if the probability value is >0.05. Conversely, data are considered not normally distributed if the probability value is <0.05. After handling the outliers, the Jarque-Bera Normality Test was performed again. Based on Figure 4.2, the results show a probability value of 0.298643, which is now more than h is greater than 0.05. This result indicates that **the residual normality assumption has been met**, allowing the analysis to proceed to the next testing stage.

B. Multicollinearity Test

The multicollinearity test is conducted to determine whether there is a high level of correlation between the independent variables in the regression model. Multicollinearity in the regression model can be detected through the tolerance value and Variance Inflation Factor (VIF). A model is considered free from multicollinearity if its tolerance value is greater than 0.10 and its VIF value is less than 10. Conversely, a model is considered to have multicollinearity if its tolerance value is less than 0.10 and its VIF value exceeds 10.

Table 4.4 Multicollinearity Test Result

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.003047	126.1361	NA
KI	0.002149	16.90400	1.040010
L	0.000726	6.103744	1.161016
PI	0.001038	30.84848	1.093822
UP	9.55E-06	96.40704	1.100426

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Source: Data Processed by the researcher using Eviews 13 (2025).

Based on the test results in Table 4.4, it shows that all variables have a Centered VIF value <10. Therefore, it can be concluded that **the regression model in this study is free from multicollinearity problems.**

C. Autocorrelation Test

The autocorrelation test is conducted to detect a relationship or correlation between residual values in a specific period and residuals in the previous period in a regression model. An ideal regression model is one that does not contain autocorrelation problems. In this study, autocorrelation detection was performed using the Durbin-Watson (DW) test.

Decision making in the Durbin-Watson (DW) test is done by comparing the DW statistical value with the lower limit (dL) and upper limit (dU) in the Durbin-Watson table. The test criteria are as follows:

a. If $0 < DW < dL$, there is an indication of positive autocorrelation.
b. If $DW > 4 - dL$, there is an indication of negative autocorrelation.
c. If $dU < DW < 4 - dU$, then the model is free from autocorrelation (either positive or negative).
d. If $dL \leq DW \leq dU$ or $4 - dU \leq DW \leq 4 - dL$, then the test results are in the doubtful region and cannot be definitively concluded.

Table 4.5 Autocorrelation Test Result

Mean dependent var	0.000860
S.D. dependent var	0.047756
Sum squared resid	0.346762
Durbin-Watson stat	2.181279

Source: Data processed by the researcher using Eviews 13 (2025)

Based on the results in Table 4.5, the obtained Durbin-Watson (DW) value is 2.181279. This value is then compared to the critical value from the Durbin-Watson table at a 5% significance level, with a sample size (n) of 159 and 4 independent variables (k). This yields an upper limit value (dU) of 1.7925. The criterion for the absence of autocorrelation is met if the Durbin-Watson (DW) statistic falls between the upper limit (dU) and 4-dU. Based on the analysis, the DW value of 2.1813 lies within the required range, as it is greater than the dU value of 1.7925 and less than the 4-dU value of 2.2075 ($1.7925 < 2.1813 < 2.2075$). Therefore, it can be concluded that **the regression model in this study does not suffer from an autocorrelation problem** and fulfills the required classical assumption.

D. Heteroscedasticity Test

To detect the presence or absence of heteroscedasticity in the regression model, this study used the Glejser Test. This method works by regressing the independent variables against their absolute residual values. The decision-making criteria in this test are based on probability values. The model is concluded to be free of heteroscedasticity if the probability value obtained is >0.05, and conversely, heteroscedasticity is indicated if the probability value is >0.05.

Table 4.6 Heteroscedasticity Test Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.003297	0.008570	0.384733	0.7010
KI	0.010495	0.007193	1.459084	0.1466
L	-0.001958	0.004186	-0.467786	0.6406
PI	-0.002227	0.004974	-0.447666	0.6550
UP	3.36E-06	0.000481	0.006991	0.9944

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Source: Data processed by the researcher using Eviews 13 (2025)

Based on the Glejser Test results in Table 4.6, all variables have probability values greater than 0.05, so it can be concluded that **this regression model does not contain Heteroscedasticity problem.**

Moderated Regression Analysis (MRA) Test

In this study, a test was conducted to analyze the influence of independent variables on the dependent variable, while also evaluating the role of moderating variables in this relationship. This test was conducted using Moderate Regression Analysis (MRA).

Table 4.7 Moderated Regression Analysis (MRA) Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.599376	0.305233	-1.963666	0.0514
KI	1.024115	0.534442	1.916230	0.0572
L	0.642470	0.290056	2.214986	0.0283
PI	-0.008635	0.278998	-0.030951	0.9753
UP	0.042365	0.019293	2.195909	0.0296
KI_UP	-0.065592	0.033726	-1.944856	0.0537
L_UP	-0.043406	0.018470	-2.350071	0.0201
PI_UP	-0.002675	0.017538	-0.152546	0.8790

Effects Specification		
	S.D.	Rho
Cross-section random	0.020471	0.1621
Idiosyncratic random	0.046537	0.8379

Weighted Statistics			
R-squared	0.113947	Mean dependent var	0.000885
Adjusted R-squared	0.072872	S.D. dependent var	0.048228
S.E. of regression	0.046438	Sum squared resid	0.325628
F-statistic	2.774105	Durbin-Watson stat	2.235550
Prob(F-statistic)	0.009662		

Unweighted Statistics			
R-squared	0.134834	Mean dependent var	0.001113
Sum squared resid	0.383036	Durbin-Watson stat	1.900493

Source: Data processed by the researcher using Eviews 13 (2025)

Therefore, the panel data regression equation formed in this study is as follows:

$$KL_{it} = -0.5994 + 1.0241*KI_{it} + 0.6425*L_{it} - 0.0086*PI_{it} + 0.0424*UP_{it} - 0.0656*KI_{it}\,(UP_{it}) - 0.0434*L_{it}\,(UP_{it}) - 0.0027*PI_{it}\,(UP_{it}) + \varepsilon$$

The regression equation model can be described as follows:

1. The constant value of -0.5994 indicates that if all independent variables, independent commissioners, leverage, internal control, and firm size, are set to zero, then the predicted earnings quality value is -0.5994.
2. The regression coefficient value for independent commissioners of 1.0241 indicates that every one-unit increase in the proportion of independent commissioners will increase earnings quality by 1.0241, assuming other variables remain constant.

3. The regression coefficient value for leverage of 0.6425 indicates that every one-unit increase in leverage will increase earnings quality by 0.6425, assuming other variables remain constant.
4. The internal control regression coefficient of -0.0086 indicates that every one-unit increase in internal control will decrease earnings quality by 0.0086, assuming other variables remain constant.
5. The firm size regression coefficient of 0.0424 indicates that every one-unit increase in firm size will increase earnings quality by 0.0424, assuming other variables remain constant.
6. The firm size regression coefficient moderates the effect of independent commissioners on earnings quality by -0.0656, indicating that firm size tends to weaken the positive effect of independent commissioners on earnings quality.
7. The firm size regression coefficient moderates the effect of leverage on earnings quality by -0.0434, indicating that firm size tends to weaken the positive effect of leverage on earnings quality.
8. The firm size regression coefficient moderates the effect of internal control on earnings quality by -0.0027, indicating that firm size tends to strengthen the negative effect of internal control on earnings quality.

Hypothesis Testing

A. Coefficient of Determination (R2)

Based on the panel data regression results in Table 4.7, the Adjusted R-Square value is 0.072872, or 7.3%. This result indicates that factors such as independent commissioners, leverage, internal control, and firm size only explain 7.3% of earnings quality, with the remaining 92.7% explained by other variables outside the scope of this study.

B. F-Test

To assess the model's feasibility and determine whether all independent variables simultaneously have a significant effect on the dependent variable, simultaneous hypothesis testing was conducted using the F-Test. The test results, shown in Table 4.7, show a calculated F-value of 2.774105. This value is then compared with the F-table value of 2.43. Since the calculated F-value (2.774105) is greater than the F-table value (2.43), the regression model is deemed to be feasible.

The feasibility of this model is also confirmed by the significance probability value (F-statistic) of 0.009662. Referring to the criterion that a model is considered significant if its probability value is lower than 0.05, this result confirms the feasibility of the regression model. Since the value of 0.009662 < 0.05, it can be concluded that all independent variables simultaneously have a significant effect on the dependent variable, indicating that this model is valid for use in subsequent analyses.

C. T-Test

To test the effect of each independent variable on the dependent variable separately, a partial hypothesis test was conducted using the t-test. An effect is considered statistically significant if its value is less than the 5% significance level (0.05). Explanation of the partial test results based on Table 4.7, the following results are presented:

1. **Test Results of the Influence of Independent Commissioners on Earnings Quality (H1)**
   Independent Commissioners (IC) has a probability value of 0.0572 and a calculated t-value of 1.916. This indicates no relationship between the independent commissioner variable and earnings quality, with the resulting probability value greater than 0.05 (0.0572 > 0.05)

and the resulting t-value lower than the t-table (1.916 < 1.975). Based on the analysis, there is no evidence to suggest a significant influence of independent commissioners on earnings quality. **Therefore, hypothesis H1 in this study is rejected.**

2. **Test Results of the Influence of Leverage on Earnings Quality (H2)**
   Leverage (L) has a probability value of 0.0283 and a calculated t-value of 2.215. This indicates a relationship between leverage and earnings quality, with the resulting probability value being lower than 0.05 (0.0283 < 0.05) and the calculated t-value being greater than the t-table (2.215 > 1.975). The direction of the effect, as seen from the coefficient value of 0.642, can be concluded that leverage has a positive and significant effect on earnings quality. **Therefore, hypothesis H2 in this study is accepted.**
3. **Test Results of the Influence of Internal Control on Earnings Quality (H3)**
   Internal Control (PI) has a probability value of 0.9753 and a calculated t-value of -0.031. This indicates no relationship between internal control variables and earnings quality, with the resulting probability value being greater than 0.05 (0.9753 > 0.05) and the resulting t-value being lower than the t-table (0.031 < 1.975). Therefore, it can be concluded that internal control has no effect on earnings quality. **Therefore, hypothesis H3 in this study is rejected.**
4. **Test Results of the Role of Firm Size in the Influence of Independent Commissioners on Earnings Quality (H4)**
   The interaction variable between Independent Commissioners and Firm Size (KI_UP) has a probability value of 0.0537 and a calculated t-value of -1.945. This indicates no moderating relationship, with the resulting probability value greater than 0.05 (0.0537 > 0.05) and the resulting t-value lower than the t-table (1.945 < 1.975). These results indicate that firm size does not act as a significant moderating variable in the relationship between independent commissioners and earnings quality. **Therefore, the moderation hypothesis H4 in this study is rejected.**
5. **Test Results of the Role of Firm Size in the Influence Leverage on Earnings Quality (H5)**
   The interaction variable between Leverage and Firm Size (L_UP) has a probability value of 0.0201 and a calculated t-value of -2.350. This indicates a moderating relationship, with the resulting probability value being lower than 0.05 (0.0201 < 0.05) and the resulting t-value being greater than the t-table (2.350 > 1.975). The direction of the effect, as seen from the negative coefficient value (-0.043), can be concluded that firm size significantly reduces the positive impact of leverage on earnings quality. **Therefore, the moderation hypothesis H5 in this study is accepted.**
6. **Test Results of the Role of Firm Size in the Influence Internal Control on Earnings Quality (H6)**
   The interaction variable between Internal Control and Firm Size (PI_UP) has a probability value of 0.8790 and a calculated t-value of -0.153. This indicates no moderating relationship, with the resulting Prob value greater than 0.05 (0.8790 > 0.05) and the resulting t-value lower than the t-table (0.153 < 1.975). These results indicate that firm size does not act as a significant moderating variable in the relationship between internal control and earnings quality. **Therefore, the moderation hypothesis H6 in this study is rejected.**

DISCUSSION

The Influence of Independent Commissioners on Earnings Quality

Based on the findings, the first hypothesis (H1), which examines the influence of independent commissioners on quality, is rejected. The test results for the Independent Commissioner (IC)

variable yielded a significance value of 0.0572, exceeding the 0.05 threshold. Therefore, it can be statistically concluded that the proportion of independent commissioners does not have a significant impact on earnings quality. This phenomenon is clearly reflected in the sample data. For example, GarudaFood Putra Putri Jaya Tbk (2022), with a proportion of independent commissioners of 33.3%, has an earnings quality of 0.007. On the other hand, Unilever Tbk (2022) has a much higher proportion of independent commissioners, at 83.3%, but its earnings quality is actually lower at -0.1111. Comparing these two companies, a significant increase in the proportion of independent commissioners is Independent directors were not accompanied by an increase in earnings quality, a finding found across the entire study sample. This indicates that there is no clear and consistent pattern between the two variables. This finding can be further explained through an analysis of the sample data characteristics. Sixty-five of the 159 total observations (approximately 41%) show the proportion of independent commissioners at the same figure, at 33.3%. This percentage is not coincidental, but rather reflects compliance with the minimum regulations stipulated in Financial Services Authority (OJK) Regulation No. 33/POJK.04/2014 concerning the Board of Directors and Board of Commissioners of Issuers or Public Companies. When a structural position is filled merely as a formality, its ideal oversight function tends to be ineffective. In this scenario, independent commissioners may lack the power or willingness to critically challenge management's accounting policies. As a result, their role becomes more symbolic than impactful. Therefore, their presence is quantitatively incapable of having a measurable impact on earnings quality, which explains why the regression model failed to detect a significant relationship. This finding becomes particularly relevant when compared to agency theory, which serves as the theoretical foundation of this study. Agency theory positions independent boards of commissioners as a crucial oversight mechanism in governance to mitigate conflicts of interest between agents (management) and principals (shareholders). Theoretically, a higher proportion of independent commissioners leads to stronger oversight, which should lead to better earnings quality. However, the results of this study indicate that this theoretical prediction does not hold true in the context of the sample studied. The basic assumption underlying the theory, that independent commissioners are truly independent, competent, and empowered individuals to carry out their functions, was not met in the practical reality of this sample of non-cyclical consumer sector companies. Therefore, it can be concluded that the results of this study indicate a gap between theory and actual practice in companies. These results align with research conducted by Sulaeman (2020), Arisanti (2019), Yanto & Metalia (2021), and Aziza et al. (2022), which stated that independent commissioners have no effect on earnings quality.

The Influence of Leverage on Earnings Quality

Based on the findings, the second hypothesis (H2), which states that leverage affects earnings quality, is accepted. This finding is supported by a significance value of 0.0283 and a positive regression coefficient (0.642470). This positive coefficient indicates that increasing leverage levels are statistically associated with increased earnings quality. Of the 159 total samples, 78 samples (49%) had above-average leverage levels. Of this group of companies with high debt, a significant majority, 48 samples, or approximately 61.5%, also recorded above-average earnings quality. This pattern empirically confirms that companies with higher leverage tend to generate better earnings quality, a dominant phenomenon in this research data. This phenomenon is clearly illustrated through a comparative analysis between Cisarua Mountain Dairy Firm (CMRY) and Tunas Baru Lampung Firm (TBLA). CMRY, with a relatively low leverage of 15.50%, actually recorded lower earnings quality, with a discretionary accrual proxy of 0.0985. Conversely, TBLA exhibited a capital structure with a significantly higher

leverage level, reaching 71.13%, but accompanied by higher earnings quality, as indicated by a discretionary accrual figure approaching zero, at 0.0246. This comparison shows that TBLA, despite operating with greater leverage, was able to demonstrate significantly better earnings quality than CMRY. This suggests that low debt levels do not automatically correlate with better earnings quality. The positive relationship identified can be explained through several interrelated mechanisms, including: Credit monitoring is the primary driving factor. Credit monitoring refers to the active oversight process undertaken by creditors to ensure the security of their investments. This oversight is not merely a formality but is implemented through legally binding debt covenants. These covenants often limit risky managerial actions and require companies to maintain healthy financial ratios. The presence of this strict external oversight effectively narrows the scope for agents (management) to engage in opportunistic earnings management practices, thus encouraging the presentation of more reliable and high-quality financial reports. This mechanism is further strengthened from two perspectives. First, from the asset side, high leverage indicates that a significant portion of a firm's assets are financed by debt, which also serves as collateral. Consequently, creditors have a strong incentive to demand more accurate financial reporting to ensure the value of their collateral is maintained. Second, the presence of debt also serves as a natural disciplining tool by limiting free cash flow. Regular interest and principal payments reduce managers' cash availability, limiting their ability to allocate funds to inefficient or self-interested projects.

This study's findings demonstrate how the theory's predictions are realized in practice through credit monitoring, disciplinary mechanisms arising from reduced free cash flow, and pressure to maintain asset value, all of which exert pressure on managers to limit opportunistic behavior. Therefore, it can be concluded that leverage serves as an effective external governance instrument for aligning managers' interests with those of capital providers, particularly in companies operating in the non-cyclical consumer sector, the focus of this study. These findings support research by Agustina & Mulyani (2019) and Yanto & Metalia (2021), which demonstrated that leverage has a positive effect on earnings quality.

The Influence of Internal Control on Earnings Quality

Based on the findings, the third hypothesis (H3), which tested the effect of internal control on earnings quality (KL), was rejected. A statistical significance value of 0.9753 confirms the absence of a relationship between internal control variables and earnings quality in the sample of non-cyclical consumer sector companies listed on the Indonesia Stock Exchange during the 2022-2024 period.

This phenomenon is clearly reflected in the sample data. For example, Campina Ice Cream Industry Tbk (2024) had an internal control score of 93.75% and excellent earnings quality of 0.0050. However, Sumber Alfaria Trijaya Tbk (2024), with the exact same internal control score (93.75%), had a significantly worse earnings quality of -0.1384.

This discrepancy between high internal control scores and the absence of statistical significance indicates a gap between the internal control system on paper and the effectiveness of its implementation in practice. High scores likely reflect only the firm's formal compliance with the components stipulated in Financial Services Authority Circular Letter (SEOJK) No. 16/SEOJK.04/2021. However, the existence of a formal system does not guarantee its operational effectiveness. This phenomenon can be explained by examining the findings in the first hypothesis (H1), which concerns the role of the independent board of commissioners, which tends to be a formality. Given that the board of commissioners is primarily responsible for overseeing the internal control system, a weak oversight function (finding H1) directly leads to the system being supervised (finding H3) being ineffective, even if formally compliant. This

weak oversight creates an environment where management can ignore or weaken the existing internal control system. Theoretically, the theory Agency theory considers internal control as a mechanism for principals (shareholders) to ensure that agents (management) present reliable financial information. However, the results of this study indicate that this ideal mechanism does not function in the context of the sample studied. Agency theory assumes that the reported control system is actually implemented effectively. This assumption is contradicted by the research findings, where formal compliance with regulations does not produce a tangible impact, a condition made possible by the weak oversight function of the independent board of commissioners. This finding contradicts research by Chen et al. (2017), Pratama (2015), and Wirdana et al. (2018), which revealed that internal control has a significant positive effect on earnings quality.

The Role of Firm Size in Influencing of Independent Commissioners on Earnings Quality

Based on the moderation findings, the fourth hypothesis (H4), which states that firm size can moderate the influence of independent commissioners on earnings quality, is rejected. Testing the interaction between Independent Commissioners and Firm Size (KI_UP) yielded a significance value of 0.0572, which suggests that firm size is not statistically proven to moderate the effect. Although H.M. Sampoerna Tbk, as a large firm, has a stronger proportion of independent board members, its earnings quality is significantly lower than that of a small firm like Formosa Ingredient Factory Tbk. These sample data findings indicate that larger companies with a stronger independent board do not directly improve earnings quality, supporting the rejection of the moderation hypothesis. This finding further explains the rejection of H4. When the 159 study samples were grouped into three categories based on asset size: small (53 samples), medium (53 samples), and large (53 samples), a consistent pattern emerged. The average proportion of independent commissioners was nearly identical across the three groups: 41.5% in small companies, 42.8% in medium companies, and 42.4% in large companies.

These findings contradict the agency theory framework. The theory argues that larger companies, which face higher agency costs and greater public scrutiny, should be encouraged to implement stricter oversight to encourage improved earnings quality. However, empirical data from the non-cyclical consumer sector demonstrates that this theoretical assumption is not met in practice. The sample data clearly show that neither the monitoring structure (proportion of KI) nor its effectiveness increases with firm size. Because the mechanism predicted by the theory did not materialize in this sample, the moderation hypothesis is logically rejected.

These research findings are consistent with a previous study by Solikhah et al. (2022), but inconsistent with Kent et al. (2016) stated that in large companies, profit quality also increases, accompanied by a high percentage of independent commissioners.

The Role of Firm Size in Influencing Leverage on Earnings Quality

Based on the moderation findings, the fifth hypothesis (H5), which states that firm size can moderate the effect of leverage on earnings quality, is accepted. The significance value for the interaction variable (L_UP) is 0.0201, with a negative regression coefficient (-0.043406). This finding indicates that firm size plays a significant role as a moderator, weakening the positive effect of leverage on earnings quality in a sample of non-cyclical consumer sector companies listed on the Indonesia Stock Exchange during the 2022-2024 period. In other words, in larger companies, the effectiveness of leverage as a mechanism for improving earnings quality is reduced.

A cluster analysis was conducted by dividing the 159 samples by firm size into three groups: small (53 samples), medium (53 samples), and large (53 samples). In the small firm group, the positive effect of leverage is clearly evident. A comparison between Formosa Ingredient Factory Tbk (BOBA) in 2024, which had low leverage (13.18%) and earnings quality of -0.0253, and Gozco Plantations Tbk (GZCO), which exhibited higher leverage (46.92%) and earnings quality of 0.0014, illustrates how increasing debt is accompanied by an increase in earnings quality. However, this pattern weakens in larger companies. Comparing Astra Agro Lestari Tbk (AALI) in 2023 with its low leverage (21.77%) and earnings quality of -0.0418 with Sumber Alfaria Trijaya Tbk (AMRT), which had high leverage (54.14%) but whose earnings quality actually declined to -0.1053, clearly illustrates this weakening effect.
This phenomenon can be explained in depth by observing how a firm's oversight mechanisms and strengths change with its scale. In small companies, creditors are often the sole dominant external supervisor, making credit monitoring mechanisms highly effective. Conversely, in large companies, the effectiveness of these mechanisms is diminished by the diversification of supervision and significant bargaining power. Large companies are already under intense scrutiny from capital market analysts and the media, so the additional impact of creditor supervision is dwarfed by the totality of existing supervision. Furthermore, larger companies have the ability to renegotiate debt covenants if they experience difficulties, thus reducing the stringency of debt discipline itself. This research finding is inconsistent with the results of a previous study by Aprilianti et al. (2024).

The Role of Firm Size in Influencing of Internal Control on Earnings Quality

Based on the moderation findings, the sixth hypothesis (H6), which states that firm size can moderate the effect of internal control on earnings quality, is rejected. The test results indicate a significance value for the interaction variable between Internal Control and Firm Size (PI_UP) of 0.8790. This can be seen through sample data of non-cyclical consumer sector companies listed on the Indonesia Stock Exchange during the 2022-2024 period. In a small firm, Campina Ice Cream Tbk (2024), with an internal control score of 93.75%, recorded very good earnings quality (0.0050), while a large firm, Sumber Alfaria Trijaya Tbk, with an identical internal control score (93.75%), actually showed very poor earnings quality (-0.1384). The fact that two companies with very different scales but the same internal control score have earnings quality in opposite directions proves that the interaction between these two variables is not yielded a consistent effect, confirming that firm size failed to strengthen or weaken the relationship. This finding contradicts the agency theory framework, which assumes that internal control has a greater impact on large companies. This rejection occurs because the basic assumption of the theory, that firm scale drives stronger controls and that these controls are effective, does not align with the reality of the data. Because firm scale does not drive a stronger internal control system, and the existing system does not significantly impact earnings quality, the theoretical framework is unable to predict the results found in this study sample.
The findings of this study are inconsistent with those of Partogian & Dewayanto (2018). Conversely, these findings are consistent with the results of a study conducted by Saminem et al. (2024), which stated that firm size does not play a moderating role in the relationship between internal control and earnings quality.

CONCLUSION

Based on the data analysis and discussion in this study, it can be concluded that:

1. Independent commissioners do not have a significant effect on earnings quality. This phenomenon occurs due to the practice of tokenism, namely the appointment of

independent commissioners solely to meet the minimum requirements of the Financial Services Authority (OJK). As a result, their oversight function is ineffective and their role becomes merely a formality.

2. Leverage has a positive and significant effect on earnings quality. This is because increased debt will trigger stricter oversight from creditors (credit monitoring). Furthermore, debt also reduces the availability of free cash, thereby reducing the opportunity for managers to misuse firm funds and ultimately improving earnings quality.
3. Internal control does not have a significant effect on earnings quality. Although companies report high internal control scores, this only reflects formal compliance with regulations, not effective implementation on the ground.
4. Firm size does not moderate the effect of independent commissioners on earnings quality. This occurs because there is no significant underlying effect to moderate, indicating that formal compliance practices related to the appointment of independent commissioners are widespread across companies of all sizes.
5. Firm size weakens the positive effect of leverage on earnings quality. The effectiveness of creditor oversight has been shown to be more dominant in small companies, while its influence is reduced in large companies due to the presence of other oversight mechanisms and greater corporate bargaining power.
6. Firm size does not moderate the effect of internal control on earnings quality. Since the fundamental effect of internal control on earnings quality has been shown to be absent, it follows logically that there is no relationship that can be strengthened or weakened by firm size.

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