Financial Distress In Indonesia: Viewed From Governance Structure

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Abstract. This study aims to determine the effect of managerial ownership, institutional ownership, the proportion of independent commissioners, the size of the audit committee, the independence of the audit committee, and the number of audit committee meetings on financial distress. There were 51 samples from 17 state-owned companies listed on the Indonesia Stock Exchange in the 2015-2017 period. The data used are secondary data with data analysis techniques using multiple linear regression. The results showed that managerial ownership, audit committee size, and audit committee independence did not affect financial distress. While Institutional ownership, the proportion of independent commissioners, the number of audit committee meetings, and audit committee competencies affect financial distress.

Keywords. Audit Committee, Financial distress, Good Corporate Governance, Independent Commissioners.

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INTRODUCTION

In some cases, bankruptcy is an analysis of financial statements' poor performance, but some companies are experiencing a decline but show excellent short-term performance (Kordestani et al., 2011). According to Kordestani et al., (2011), there are several stages before bankruptcy occurs, and financial distress is the final stage before the company goes bankrupt.

There are external and internal factors that cause financial distress. External factors such as macroeconomic factors have a significant impact on financial difficulties, one of which is fluctuations in inflation, interest rates, Gross National Products, credit availability, employee wage levels, international business competition, and so on (Liou, D. K. dan Smith, M., 2007). While the company's internal factors, according to Lizal, L. (2002) that causes companies to experience financial distress are Neoclassical models, Financial models, Corporate Governance models.

In the 1997-1998 financial crisis in Asia, many studies mentioned that poor corporate governance is a crucial factor causing companies to experience financial difficulties (Lu, Y. C. & S. L. Chang., 2009). With good corporate governance, the company will avoid financial distress.

The structure of company ownership, which is one of the elements in implementing corporate governance, generally is managerial ownership and institutional ownership. Managerial ownership can control management in taking action or decision making because management has a dual role in addition to managing the company as well as a shareholder in the company, to improve company performance. It is also hoped that managerial ownership will help reduce conflicts of interest between management and shareholders. Research by Jumianti R, et al. (2016) and Fatonah, A. (2016) show that managerial ownership positively affects financial distress. With the purchase of shares by management, management will be more careful in acting, because management also acts as a shareholder of the company and has the same interests as the principal.

However, research of Mayangsari, LP. (2015) produces different things, managerial ownership does not affect the likelihood of financial distress, because whatever percentage of ownership by managerial does not affect the possibility of the company experiencing financial pressure. Ownership by the directors is considered to worsen the condition of the company because if the directors become owners of the company, there will be the possibility of expropriation.

Institutional ownership is an institution both inside and outside the country that has shares or ownership of the company. Several studies have shown that institutional ownership can help companies avoid financial distress. Because when other institutions have shares in a company, they will put control and monitor the way the company so as to encourage management to try to maintain the maximum image of the company's performance in the eyes of institutional shareholders (stakeholders). In line with research (Jumianti et al., 2016) the greater the institutional ownership, the more efficient use of company assets, so that the possibility of companies experiencing financial distress will be smaller.

In Indonesia several state-owned companies that have gone public have substantial institutional ownership, one of which is PT Perusahaan Gas Negara, which is 82% owned by a foreign entity, which is of concern to the public is when all profits of state-owned companies run into foreign pockets. But the government ensures that they will continue to control the running of the company, even more so with the dual color shares that give authority to the holders (government) to fully control the company.

Bodoastuti, T. (2009) and Hanifa, OE. & Purwanto, A. (2018) show that institutional ownership has no significant effect on financial distress. The higher percentage of institutional ownership indicates that ownership of the company is only in one institution. Centered ownership can lead to a lack of transparency in the use of funds in the company as well as an appropriate balance between current interests, for example, between shareholders and company management and between controlling shareholders and minority shareholders.

A company listed on the Exchange must have an independent commissioner who does not hold company ownership and must be free from business interests that can influence his actions and act independently. The number of independent directors is 30% of the total company commissioners following the 2004 BEJ regulations. According to Fatonah (2016), the higher the proportion of independent commissioners, the smaller the possibility of financial distress, because the function of the independent board of commissioners can help management overcome managerial problems that the company faces. Different from the results

Bodroastuti (2009) states that in Indonesia, the role of Independent Commissioners is not working correctly, so that the proportion of independent commissioners does not affect the likelihood of financial distress.

The audit committee is tasked with protecting the interests of shareholders, providing advice and recommendations in the company's financial and operational aspects. Following Bapepam-LK regulation no 1.5 regarding "Establishment and Guidelines for the Implementation of Audit Committee Work" the audit members must have a minimum of three people, at least one independent commissioner who concurrently serves as chairman of the audit committee, and two other independent parties from outside the company, one of whom must have an educational background in accounting or finance.

The presence of an audit committee can help a company avoid financial distress through functional corporate governance mechanisms. To be able to achieve the objectives of forming an audit committee, the audit committee must have proper criteria, namely the size of the audit committee, the independence of the audit committee members, the frequency of audit committee meetings, and financial experts owned by the audit committee (Rahmat, M.M. dan T.M. Iskandar, 2008).

Fatonah (2016) states that the audit committee has a positive effect on financial distress. Gunawijaya (2015) states that a company with a high audit committee size will reduce the likelihood of financial distress. With the audit committee at the company, the supervisory function on the company's financial structure will be better and help improve the company's financial performance. However, it is different from Mayangsari (2015) which states that the audit committee has a negative effect on financial distress.

More and more members of the audit committee sometimes make it difficult to agree on decisions in carrying out their performance. While the audit committee with a small number of members, the lack of diversity of skills and knowledge causes ineffective.

The existence of inconsistencies from the results of previous studies, this study aims to determine the effect of the structure of good corporate governance on financial distress. The difference between this research and previous research is that the researcher focuses on the influence of the audit committee criteria, which is one of the oversight functions of the good structure corporate governance towards the occurrence of financial distress in listed SOEs in the 2015-2017 period and divides it into several additional variables.

The issues raised in this study are whether Managerial Ownership, Institutional Ownership, the proportion of Independent Commissioners, the size of the Audit Committee, the Independence of Audit Committee Members, the Frequency of Audit Committee Meetings, and the Competence of Audit Committees affect financial distress.

Agency Theory

An agency relationship is a principal contract, i.e., the owner of the company or investor who appoints the agent as management to manage the company on behalf of the principal who delegates some authority to the agent related to decision making (Jensen and Meckling, 1976). Agency theory can solve the problems that arise when there is incomplete information when entering into contracts carried out by principals and agents (Gudono, 2012, p.147); in this case, the principal is the company (shareholders or company leaders). The agent is the manager of the company (management and subordinates). According to Widyantari, A.P. (2011), both parties will maximize their respective utilities in the contract; therefore, the possibility that agents do not always act according to the principal's needs will always occur.

Financial Distress

Financial distress is a stage of a very significant decline in financial conditions as a stage before the company experiences liquidation or bankruptcy (Platt, H.D. and M.B. Platt, 2002). The company cannot meet the payment schedule or when cash flow predicts that soon the company will not pay its obligations (Brigham, E.F. and Davis, P.R., 2003) or dividends when due (Emery, Douglas R., Jhon D. Finnetery dan Jhon D. Stowe., 2004).

Financial distress occurs when net profit (net profit) in a negative company, and has suffered losses for three consecutive periods (Kordestani et al., 2011). Showing low and minus earnings per share (EPS) in a number of years (Elloumi, F. and Gueyie, J., 2001). Besides the value of assets that are the same as the value of debt can also reflect the occurrence of financial distress in a company (Anggraeni, D., 2015).

Financial distress is a condition in which a company cannot achieve its objectives, due to a decline in the value of the company and a deterioration in the company's financial condition which results in the company being unable to fulfill its obligations, and allowing the company to not be able to operate in the future because it does not have adequate operating costs.

Managerial Ownership and Financial Distress

Managerial ownership is ownership of shares by company managers or company managers to equalize interests with other shareholders (Radifan, R. and ENA Yuyetta, 2015). Managerial ownership can reduce agency problems in one company. Managerial ownership makes management have a dual function, in addition to managing the company but also as the owner of the company (Christiawan, Y.J. and Tarigan, J., 2007). Management has the right to vote and advise at the GMS so that it can influence the decisions of the company. Therefore, managers will be more careful in making decisions and acting because in carrying out the management of its functions will also consider its role as a shareholder which will have an impact on improving its performance in order to bring the company into a better direction so that the company can provide added value (value-added) for shareholders. Managerial ownership will help the company manage the company well to prevent problems that arise, such as the possibility of financial distress.

The research results by Fadilah, F.N. and Syafarudin M., (2013) and Fatonah (2016) say that the proportion of managerial ownership influences financial distress, when managerial ownership is high, the possibility of companies experiencing financial distress will be lower. Aritonang, A.P., (2013) states that high managerial ownership will help companies reduce the risk of financial difficulties because the common interests of the principals and agents to minimize the occurrence of agency conflicts.

H1: Managerial ownership affects Financial Distress.

Institutional Ownership and Financial Distress

Aritonang, A.P., (2013) states that if other institutions have company ownership, the management cannot hide the company's condition or failure, which will trigger financial distress, so the company will try its best to avoid that condition. Siallagan, H. & Machfoedz Mas'ud (2006) said that economic shareholding has a tremendous incentive to control and monitor functions. When other institutions or organizations outside the company have company ownership, it can add incentive control to the company. management will focus on performance

Furthermore, it lost the opportunity to commit fraud and would use assets as best as possible to maintain the company's trust and right image in investors' eyes. Then managerial ownership is one of the factors that influence company performance. So that management will not lose investors and capital funds for company needs. Helena, S. and Saifi, M., (2018) also found a positive influence between managerial ownership and financial distress. Institutions will force management and directors to work optimally in order to increase the company's profitability. Radifan, R. and ENA Yuyetta (2015) stated that the high percentage of institutional ownership in companies would be comparable to the company's monitoring function because other institutions could control management through the monitoring function and avoid companies from financial distress. Institutional ownership as one part of the structure of good corporate governance will increase management's motivation to improve performance so that they can reach more investors and develop their companies and also so that they do not lose investors and lose capital to enable companies to experience financial distress (Fatonah, A.N.,2015).

Nevertheless, Lee, C.I., et al (1992:61) revealed that institutional investors are temporary owners (transfer owners). They usually speculate on the performance of management. When performance decreases, stock prices fall, and the company's value often decreases, institutional investors withdraw their shares, and leave the company. Usually, institutional ownership has a sizable percentage in the company's capital structure. When institutional investors withdraw their shares, it will again affect the company's capital structure. If the smaller the percentage of institutional ownership, the withdrawal of shares by investors will not affect the performance of management, and the tendency for financial distress will decrease.

H2 : Institutional ownership influences financial distress

Independent Commissioners and Financial Distress

The independent board of commissioners has no affiliation or particular interests to the company (Situmorang, RB., 2015) will maximize its independence in carrying out its duties as supervisors of the directors of its performance led by the director (Hadi, 2014). Then the higher the proportion of independent commissioners in the company will improve the quality and performance of the company because of the existence of independent commissioners who can work objectively and independently without intervention from other parties. They do not have any interest in the running of the business in the company. They can improve company performance by producing excellent and objective recommendations and suggestions for the strategies the company will undertake so that the company will avoid financial distress.

Then it can be said that its independence of management will affect supervision that occurs effectively in one company (Beasley M.S. & Salterio S.E., 2001). The existence of a board of commissioners will create a pleasant oversight environment and maximum performance so that it will minimize the possibility of financial difficulties (Dalton, D.R., et al., 1999).

Aritonang, A.P. (2013) states that a high number of boards of commissioners will improve the quality of the controlling function objectively without favoring the directors or management. Independent commissioners are independent individuals who come from outside the company. Li, J., Pike, R., & Haniffa, R (2008) state that there is a significant influence on financial distress. The higher the proportion of independent directors, the possibility of financial distress will decrease. The independence of the independent commissioners will enable effectiveness in making decisions appropriately and quickly and improve the company's quality. With good company quality, all aspects of the company will work well, so that financial distress will not occur in the company (Jumianti, R. et al., 2015)

H3 : The proportion of Independent Commissioners influences Financial Distress.

Size of the Audit Committee and Financial Distress

The existence of an audit committee in a company can provide a source of greater control over management and publish quality reports (Al-Najjar B., 2011). With the right number of audit committees will enable audit committee meetings to exchange ideas and information in order to produce recommendations or suggestions that can help the company to increase its value and performance to avoid financial distress. Beasley M.S. & Salterio S.E. (2001) state that the right size of the audit committee can enable them to use their own experiences and assist the committee in the monitoring function.

Gunawijaya (2015) said that the number of audit committees could influence the likelihood of financial distress. The background and competence of each member of the different audit committees will enable them to complement each other in carrying out their duties. The audit committee will assist the board of commissioners in carrying out their duties to maximize the oversight function, and the possibility of financial distress can be overcome (Fatonah, 2016). Pembayun, A.G. and Januarti, I. (2012) succeeded in proving that the large size of the audit committee improved the quality of the company's internal controls, to reduce the possibility of financial distress.

H4 : The size of the Audit Committee influences Financial Distress

Independence of the Audit Committee and Financial Distress

In its implementation, the audit committee must consist of at least one person from an independent commissioner. An independent commissioner can protect the interests of the holders share by ensuring management issues quality financial statements (Sharma, V.D. & Iselin E.R, 2006). The existence of an independent commissioner who is part of the audit committee will contribute to providing suggestions for the creation of a plan company strategy that can affect company performance.

` The Audit Committee's independence on the occurrence of financial distress. When the proportion of independent directors in a company is minimal, the audit committee's performance in conducting oversight of the financial statements will be less than optimal, which will cause financial distress.

Research by Defond and Francis (2006) shows that independence high audit committees can better monitor management and make objective decisions. Besides, Carcello and Neal (2000) found that there was a negative relationship between the independence of the audit committee and financial distress. In other words, they found that the higher the independent commissioners on the audit committee, the less likely the auditor would issue a report on the occurrence of financial distress at the company.

H5 : The independence of the Audit Committee influences Financial Distress.

Number of Audit Committee and Financial Distress Meetings

The frequency of audit committee meetings has an essential role in the effectiveness of the audit committee in exercising quality control (Goodwin-Stewart and Kent, 2006). The audit committee works to improve audit quality by using a better monitoring system. To carry out the audit committee's effectiveness in carrying out its duties and obligations, the audit committee needs to hold regular meetings or meetings. According to FCGI (2002), the audit committee needs to hold meetings 3 to 4 times a year. The frequent audit committee meetings conducted will affect the audit committee's effectiveness in carrying out its duties in the form of supervision and monitoring, which oversees the preparation and reporting of financial statements (Collier and Gregory, 1999; Rahmat et al., 2008).

Thus the existence of these meetings can be maximize the performance of the audit committee, because the meeting will be a means of communication between the audit committee in delivering information, knowledge, and findings that they have in order to achieve the objectives of the audit committee which is to provide advice and recommendations while overseeing the company's running following company rules and regulations -invitation.

Nuresa, A., & Hadiprajitno, B. (2013) research shows an influence between the number of audit committee meetings with financial distress. The number of audit committee meetings more often can change management behavior patterns. The frequency of frequent and structured audit committee meetings will continuously result in internal control by the audit committee and do not provide a loophole for agents to make mistakes. The audit committee can immediately see and detect quickly and handle any agent errors so that the audit committee can protect the principal's interests. This activity can overcome agency problems and prevent the company from financial distress.

Another study conducted by Zain, M. M., Subramaniam, N., & Stewart, J. (2006) found that audit committee meetings can increase the effectiveness of the internal auditor's function, because the internal auditor is responsible for launching findings or problems to the audit committee, and then will discuss the overall control assessment so that actions taken a right can be taken. (Salloum, C., Azzi, G., & Gebrayel, E., 2014).

H6 : The number of Audit Committee Meetings affects Financial Distress

Competence of the Audit Committee and Financial Distress

An essential factor of audit committee effectiveness is expertise in auditing, accounting, and internal control (Salloum, C., Azzi, G., & Gebrayel, E., 2014). The presence of a certified member (CPA) on the audit committee is negatively related to financial distress. FCGI (2002) says that the audit committee must have at least one member whose background is in accounting or financial education. This competency will help the audit committee carry out its role and function, namely assessing the reports made by the Internal Supervisory Unit (SPI) or external auditors, especially in the financial statements, and ensuring they meet existing standards and regulations.

Based on the internal audit perspective, the presence of financial experts in the audit committee will reduce errors or weaknesses of the internal audit (Hoitash, U., Hoitash, R., & Bedard, J. C., 2009). The possibility of internal auditor fraud or deviation will have an impact on the company's financial condition. The audit committee needs insight, knowledge, and experience to find these things, so the audit committee's competence will be an essential feature in the implementation of an active oversight function so that a competent audit committee can minimize the occurrence problems with the company's financial condition or financial distress.

The same thing in the research of Nuresa, A., & Hadiprajitno, B. (2013) shows that the audit committee's existence as controlling policies related to finance. High audit committee competency can minimize the efforts of agents to manipulate financial data or corporate financial procedures, to avoid principals from the effects of agency fraud while overcoming agency problems that arise and avoid companies from occurring financial distress.

Rahmat, M.M., dan T.M. Iskandar. (2009) also stated that audit committee members' backgrounds in the form of accounting and financial education would reduce the possibility of financial distress in a company. The existence of financial experts in the audit committee can increase the effectiveness in fulfilling its responsibilities incorporate financial supervision (Salloum, C., Azzi, G., & Gebrayel, E., 2014)

H7 : The competence of the Audit Committee influences Financial Distress

RESEARCH METHODOLOGY

Population and Research Samples

This research uses descriptive research design through a quantitative approach. Population in the research of BUMN companies registered in the IDX period 2015-2017. The sampling technique uses a non-probability sampling method with a purposive sampling approach. The sample comes from the annual report data of 19 BUMN companies in 2015-2017 or with three years of research, so the number of samples in this study was 57 samples.

Research Variable

Financial distress as dependent variable.

Researchers use Earning Per Share (EPS) as a tool to identify financial distress in the company. EPS can reflect the company's condition from various aspects, both the company's performance, the value of stakeholder dividends, and the value of earnings per share. In this study, EPS is measured by dividing net earnings / net income by outsanding shares / number of shares outstanding during the period.

$$Earning\ Per\ Share = \frac{Net\ Earnings}{Outsanding\ shares}\ x\ 100\%$$

Elloumi dan Guiye (2001)

Independen Variable

Managerial ownership in this variable is measured by looking at share ownership owned by management. By dividing the percentage of management share ownership, namely the board of directors and the commissioners' board with the total number of shares outstanding in the company.

Institutional ownership in this variable by looking at how large the number of shares owned by other institutions. By dividing the percentage of share ownership by entities outside the company or ownership of shares by other institutions by the company's total number of shares outstanding.

Determine the proportion of independent directors by dividing the percentage of the number of independent directors in the company by the entire board of commissioners in the company.

In this study, the Audit Committee Size uses the number of audit committee members in the company.

We measure the audit committee's independence by comparing the number of independent commissioners who are members of the audit committee with the number of audit committee members in a company in a certain period.

Measure the variable number of audit committee meetings by counting the number of audit committee meetings in one year (Gunawijaya, 2015).

Measuring the audit committee competency variable by dividing the amount Audit committee members with accounting or financial education background with the number of audit committee members in a company.

Technical Data Analysis

This study uses multiple regression analysis techniques with the OLS method after fulfilling the classical assumption test. The regression equation formula used is:

$$Y' = a + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \beta 5X5 + \beta 6X6 + \beta 7X7$$

Information :

Y = Level of Financial Distress

X1 = Managerial Ownership, measured by the proportion of share ownership by the manager

X2 = Institutional ownership, measured by the proportion of share ownership by institutional

X3= proportion of independent commissioners from the total number of boards

X4 = The audit committee's size, measured by counting the number of members of the audit committee

$X5$ =Audit committee independence, measured by counting the number of independent commissioners who are members of the audit committee

$X6$ = number of audit committee meetings, measured by counting the number of audit committee meetings in one year

X7 = Audit committee competence, measured by counting the number of audit committee members against accounting and financial education

a = Y value if X = 0 (constant)

β = regression coefficient

Hypothesis testing using the significance level (α) = 0.05 or 5% with degrees of freedom (df) = (α / 2; n - 1 - k), and determine the area of acceptance or rejection of the hypothesis by determining the probability level as follows:

a. Significance <5%, then the hypothesis is accepted
b. Significance> 5%, then the hypothesis is rejected.

RESULTS AND DISCUSSION

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The results of multiple linear regression analysis on the SPSS program through the coefficients table, as follows:

Table 1. Test Results t

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std.Error	Beta		
1. Constant	10,665	11,079		,963	,341
MO	,908	5,972	,021	,152	,880
IO	7,748	7,080	,168	2,094	,044
PIC	-20,564	14,777	-,225	-2,392	,021
ACS	2,957	4,204	,102	,703	,485
ACI	17,663	12,662	,230	3,395	,170
NACM	2,087	,851	,346	2,451	,018
ACC	-23,552	9,748	-,321	-2,413	,020

From table 1, the following equation is obtained:

Y= 10,665 + 0,908 X1 + 7,748X2 – 20,564X3 + 2,957X4 + 17,663X5 + 2,087X6 – 23,552X7

Effect of Managerial Ownership on Financial Distress

The results of the Hypothesis test states that managerial ownership does not affect the level of financial distress. Statistical data processing results show that managerial ownership does not affect the level of financial distress with a significance value of 0.880> 0.05, thereby accepting Ho and rejecting Ha.

According to Jensen and Meckling (1976), in practice, managers who play a dual role as the owner of the company, in managing the company will be more careful in acting, because every management action will affect the company's performance and the company's stock price. Then the company's management will act not only as a manager of the company but also as a shareholder of the company. This position can affect the company's financial performance, which is the responsibility of management, and managerial ownership can minimize agency problems.

In this study, by rejecting Ha and the insignificance of the results of the study, it shows that managerial ownership does not affect the possibility of financial distress in a company, or the level of managerial ownership cannot prevent the company from experiencing financial difficulties. Not all companies, especially SOEs, have managerial ownership, this shows that there are still companies that do not provide incentive policies to managers through managerial ownership. Ownership by the directors may worsen the condition of the company because if the directors become owners of the company, there will be the possibility of expropriation, or an attempt to enrich or maximize personal utility by using their authority as a company policymaker.

Bodroastuti (2009) and Mayangsari (2015) stated, with the high share ownership by the directors, the directors have interests in the company's business, so that it will be easier for directors to reach/fulfill their utilities. The Board of Directors is a company manager who can formulate company policies, such as company operating policies (employee salaries, bonuses or compensation, and pension funds), sales control policies, and freezing out policies (selling shares to other parties). Directors and commissioners who determine these policies can abuse their authority to fulfill their interests as company owners.

The Effect Of Institutional Ownership On Financial Distress

The results of the Hypothesis testing show that institutional ownership affects the level of financial distress with a significance value of 0.044 <0.05. The results showed that institutional ownership size significantly influenced the condition of financial distress, thereby rejecting Ho and accepting Ha.

Jumiati et al. (2015) states with ownership institutional, the utilization of company assets will be more efficient so that the possibility of companies experiencing financial distress will be slighter. Aritonang (2015), in his research, stated that if the company has ownership of institutional investors, it allows the company's management can not hide losses or fail, and trigger financial distress. The intervention of other institutions outside the company with company shares or institutional ownership can be possible improved supervision of the company. The company does not only work for the interests of parties within the company, but some outsiders have rights and interests.

However, what should be a concern is that too much institutional ownership is not suitable for the company. Institutional investors are temporary owners (transfer owner). They usually speculate on the performance performed management. When performance decreases, stock prices fall, and the company's value decreases, often institutional investors withdraw their shares and leave the company.

Usually, institutional ownership has a sizable percentage in the company's capital structure. When institutional investors withdraw their shares, it will again affect the company's capital structure. If the smaller the percentage of institutional ownership, the withdrawal of shares by investors will not affect the performance of management, and the tendency for financial distress will decrease.

If an institution owns too many shares, and there is terrible news about the company, there can be a sell-off by the institution, which will cause the stock price to plummet, especially if the company goes public. They are vulnerable to takeovers by other companies if the company's stock price falls substantially. This research is in line with the research of Aritonang (2013) which states that institutional ownershipaffect financial distress.

Influence of the Proportion of Independent Commissioners on Financial Distress

The statistical data processing results show that the proportion of independent directors influences the level of financial distress with a significance value of 0.021> 0.05. Shows that the proportion of independent commissioners significantly influences the level of financial distress, thus rejecting Ho and accepting Ha.

The independent board of commissioners has no affiliation or interest-particular interests of the company (Situmorang, 2015). The independent board of commissioners will maximize their independence in carrying out their duties as supervisors of the performance of the Directors (Hadi, 2014). Adequate supervision of a company depends on its independence of management (Beasley M.S. & Salterio S.E., 2001). The existence of a board of commissioners will create a pleasant supervision environment and maximum performance to automatically minimize the possibility of financial difficulties (Dalton D.R. Daily C.M. Johnson J.L. & Ellstrand A.E., 1999).

This study's results indicate that the more significant the proportion of independent commissioners of a company on the board of commissioners enables being able to conduct tighter and objective supervision of management behavior and can also produce recommendations that will produce strategic plans to improve company performance.

Thus, it can avoid financial distress to the company because as according to the General Guidelines of GCG in Indonesia, the independent board of commissioners has a supervisory and advisory board function covering prevention, improvement, and temporary dismissal. Management can run the company well because the independent board of commissioners has substantial control over the decisions to be taken by management at the company. Besides, minority shareholders propose and elect independent commissioners, not only by controlling shareholders, so that there will be protection for minority shareholders. The existence of independent management of the company in protecting minority shareholders/shareholders, so that making policies or decisions does not tend the majority shareholders only. This research is in line with Fathonah (2016) research and Aritonang (2013), which shows that the proportion of independent commissioners has a significant influence on finance.

Effect of Audit Committee Size on Financial Distress

Hypothesis testing results indicate that the size of the audit committee does not have a positive effect on the level of financial distress, with a significance value of 0.485> 0.05. Thus accepting Ho and rejecting Ha. The existence of an audit committee in a company can provide a source of greater control over management and also publish quality reports (Al-Najjar, 2011). Having an appropriate and appropriate number of audit committees will allow audit committee meetings to exchange ideas and information to produce recommendations or suggestions that can help the company to increase its value and performance to avoid financial distress (Beasley M.S. & Salterio S.E., 2001)

Based on Bapepam Circular No. SE-3 / PM / 2000 and Financial Institution Number: Kep-643 / BL / 2012 No.2 that the number of audit committee members in Indonesian public companies consists of at least three members, the company's independent commissioner as chairman and with two independent external people. The existing sample shows that there are companies that have an audit committee under the provisions, and some are above the provisions of up to seven members. The results showed that the size of the audit committee was less able to support the effectiveness of the performance of the audit committee. The audit committee is not competent if the size is too small or too large. This argument is supported by Anggraini's (2010) research, which shows that audit committees with large members tend to lose focus and are less participatory compared to smaller sizes. More and more audit committee members sometimes make it difficult to agree on decisions in performing their performance.

However, on the other hand, the audit committee, with a small number of members, lacked a diversity of skills and knowledge and thus became ineffective. This study is in line with Hanifah, O. E., & Purwanto, A. (2013) and Radifan, R., & Yuyetta, E. N. A. (2015) research that the size of the audit committee does not affect financial distress, which states that an increasing number of audit committee members complicate the decision of the agreement in its performance.

The Influence of the Audit Committee Independence on Financial Distress

Hypothesis testing results show that the independence of the audit committee does not affect the level of financial distress with a significance value of 0.170> 0.05. A large proportion of independent directors can increase control over management (Xie, B., Davidson III, W. N., & DaDalt, P. J., 2003). That is why measuring the independence of the audit committee is based on the number of independent commissioners on the audit committee. The audit committee must be able to maintain the mandate given by the board of commissioners in order to provide better information reliability, the presence of an independent commissioner on the audit committee can help increase the capacity of the commissioners effectively in providing suggestions, controlling, and disciplining management (Ntim, C. G., 2013).

Ha's refusal in this study shows that the independence of the audit committee does not affect the possibility of financial distress in a company. The reason underlying the research results is that the independence of the audit committee is not able to avoid the possibility of the company experiencing financial distress. The number of independent commissioners in state-owned companies listed on the IDX is still minimal, which has an impact on the independence of the audit committee because the size of the independence of the audit committee sees the number of independent commissioners who are also members of the audit committee. These results are consistent with previous research conducted by Rahmat, M.M., dan T.M. Iskandar (2008), which indicates there is no significant relationship between the proportion of non-executive directors on the audit committee on financial distress.

The lack of independence of the audit committee members resulted in the expected function, not working. The independence of the audit committee is doubtful in terms of providing supervision and internal control over the agent. The process of appointing audit committee members is still unclear and open, so the level of independence of the audit committee is still questionable. It is possible if members of the audit committee have a family relationship or business relationship with the agent.

So that the audit committee supervision will not be optimal for the agent, this can take place continuously and can cause losses to the principal; if not immediately addressed will cause financial problems in the company.

As Salim (2005) said, the formation of an audit committee is limited to meeting formal requirements. The resources of independent audit committee members who meet the qualifications are still limited. This study is in line with research conducted by Nuresha and Hadiprajitno (2013), Salloum (2014), and Gunawijaya (2015) that the independence of the audit committee does not influence financial distress. A large number of audit committee members and a large number of independent members on the audit committee cannot guarantee that the company will avoid financial distress.

Effect of Frequency of Audit Meetings on Financial Distress

Hypothesis testing results indicate that the number of audit committee meetings affect the level of financial distress with a significance value of 0.018 <0.05.

Rahmat et al. (2008) stated that the frequent audit committee meetings would affect the effectiveness of the audit committee in carrying out their duties in the form of supervision and monitoring the preparation and reporting of financial statements. Thus the existence of these meetings can maximize the performance of the audit committee. The meeting will be a means of communication between audit committees in conveying the information, knowledge, and findings they have obtained. The audit committee's purpose is to provide advice and recommendations while overseeing the company's course to comply with company regulations and legislation.

In this study, the more frequent meeting frequency can be held because the audit committee discusses problems or difficulties that arise in the company. The number of meetings of audit committee members can have a role in changing management behavior patterns. Demonstrating the skills performed by the audit committee in the process of problem-solving, as evidenced by frequent meetings to provide solutions and suggestions for solving problems faced by management (Gunawijaya, 2015). Audit committee meetings that tend to be small, even though they have met the regulations, are still less able to lead the company in a better direction.

Effect of Audit Committee Competence on Financial Distress

Many statistical test results show that audit committee competence harms the level of financial distress with a significance value of 0.020 <0.05. Thus reject Ho and accept Ha. Nuresa and Adiprajipto (2013) said that the audit committee's existence as controlling policies related to finance, then with the high competency of the audit committee could minimize the agent's efforts to manipulate financial data or corporate financial procedures, thus avoiding the principal of the impact of agency fraud as well as overcoming agency problems that arise and avoiding companies from financial distress.

This study shows that the competence of the audit committee has a significant influence on financial distress. The accounting and financial education background of the audit committee members is beneficial for the company in overcoming problems related to the company's financial condition. People who understand and understand problems and have an adequate educational foundation will find a solution and overcome them. Seen from the perspective of an internal audit, financial experts in the audit committee will reduce errors or weaknesses of the internal audit (Hotaish and Bedard, 2009). The audit committee understands very well about the internal audit report. Bapepam Circular No. SE-03 / PM / 2000 and Institutions Finance Number: Kep-643 / BL / 2012 states that companies must have at least one member whose background is accounting and finance.

The results of this study are in line with Nuresha and Hadiprajitno (2013) states that the audit committee competency variable has a significant influence on financial distress.

CONCLUSION

The conclusions from the results of this study are:

1. Managerial ownership, the size of the audit committee, and the independence of the audit committee do not affect the condition of financial distress in the company.
2. Institutional ownership, Proportion of independent commissioners, Number of audit committee meetings, and audit committee competencies affect the condition of financial distress in the company.

Suggestions or recommendations that can be given in this study are for the institutions and shareholders to pay more attention to the proportion of share ownership and also monitoring procedures in the company, to ensure that someday a sell-off on company shares will not be too influential on performance management. Stock sell-offs that can cause a fall in stock prices can occur if the company's performance, value and image deteriorate. Therefore, the company must ensure that it remains controlled and stable by implementing good corporate governance so that the company can avoid financial distress.
For future researchers, to use a longer observation period so that it will provide a picture that is more relevant to the actual conditions.

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