
DETERMINANTS OF ACCOUNTING CONSERVATISM IN POLITICALLY CONNECTED FIRMS¹

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Received 11 January 2020; accepted 10 July 2020; published 30 September 2020

Abstract. This study aims to examine the effect of corporate attributes and corporate governance mechanisms on accounting conservatism in politically connected firms. This study uses 806 company-year observations consisting of large companies registered for 13 years from 2005-2017. Moderation regression analysis panel data is used for the analysis. Using two conservatism measurements, namely accrual and book-market, the results of the study show that the two models are inconsistent in producing tests for the influence of company attributes but are consistent in producing tests of corporate governance mechanisms. Firm size, profitability, audit committee, independent board, and audit litigation are the determinants of accounting conservatism in large companies. Independent Commissioners and audit committees as an internal mechanism of corporate governance negatively affects the application of accounting conservatism. The results of this study are also consistent with testing the interaction of political connections that strengthen the audit committee's negative influence on the level of corporate conservatism. These results provide empirical evidence that the existence of an independent commissioner or audit committee weakens the influence of corporate governance mechanisms on the application of accounting conservatism in politically connected companies. Looking at the educational background and work experience and free from political elements, so that the existence of the board of commissioners and the audit committee are no longer considered a rubber stamp for the policies that have been made by management. This study is the first to investigate the moderation of political connections on corporate attributes and GCG mechanisms towards comprehensive accounting conservatism.

Keywords: Accounting Conservatism; Firm Attributes; Corporate Governance; Political Connections

Reference to this paper should be made as follows: Wati, L.N., Pirzada, K., Ramdany; Momon, 2020. Determinants of Accounting Conservatism in Politically Connected Firms. *Journal of Security and Sustainability Issues*, 10(1): 189-201.
[http://doi.org/10.9770/jssi.2020.10.1\(14\)](http://doi.org/10.9770/jssi.2020.10.1(14))

JEL Classifications: G34, M41

1. Introduction

Accounting conservatism is a controversial topic under constant scrutiny in accounting research. Conservatism is an accounting principle that contributes to low earnings and asset numbers and the increase in costs and debt. One of the factors that determines the level of conservatism in a company's financial reporting is the commitment of management and internal company personnel in providing transparent and accurate information to investors. This is a part of the implementation of Good Corporate Governance.

¹ This research was supported by the project, which has received funding from the Directorate of General for Strengthening Research and Development, the Ministry of Research and Technology Republic Indonesia. Great thanks to DP2M DIKTI of Ministry of Research and Technology Republic Indonesia with the research grant contract number, i.e. 5/AKM/PNT/2019. Thank you to Sekolah Tinggi Ilmu Ekonomi (STIE) Muhammadiyah Jakarta Indonesia for the support and assistance in this research.

The political closeness within a company makes it difficult for companies to be open in providing information to outsiders so that politically connected companies tend to have non-transparent financial reporting, which allows them to engage in rent-seeking activities. The political connection also raises the issue of corporate governance in the disclosure of information which has an impact on the poor quality of financial reports and high information asymmetry (Chaney et. al., 2011; Piotroski et. al., 2015; Mohammed et. al., 2017). However, political connections can also provide various benefits such as easy access to funding, government procurement contracts, subsidies and taxes (Rudyanto, & Pirzada, 2020), trade licensing, access to company IPOs as well as improved performance and value (Goldman et. al, 2008; Boubakri et. al., 2012; Tian & Cheung, 2013; Mobarak & Purbasari; 2005; Wati et. al., 2016b; Wati, 2017; Wati et. al., 2019).

Chaney et. al. (2011) argue that because government bureaucrats protect companies, politically connected companies are less concerned with the quality of accounting information and pay less attention to accurately describing revenue. They also found that politically connected company managers lack incentives to respond to market pressures to improve the quality of financial reporting. Wati et al. (2020) supported Chaney et. al. (2011), that political connections negatively affect on the the quality of accounting information. Baloria (2015) argues that politically connected companies adopt less conservative accounting because lenders are less concerned about the default risk for these politically favored companies (Husaini, Pirzada, & Saiful, 2020). This is owing to the fact that political connections help connected firms smooth their income by using political favors when earnings are low (Chen, Ding, & Kim, 2010). LaFond and Watts (2008) explain that companies with weak corporate governance characteristics will encourage more aggressive accounting practices that lead to lower conservatism.

There are many factors underlying the concept of conservatism in the preparation of financial statements. These factors can be influenced by internal parties and external parties. Positive accounting theory explains that internal parties can influence the bonus program hypothesis, while external parties can influence the debt agreement hypothesis and the political cost hypothesis, among others through leverage, firm size, profitability, capital intensity, opportunity growth. However, the results of prior research on this topic remains inclusive. One of the factors that determines the level of conservatism in a company's financial reporting is the commitment of management and internal company to providing transparent and accurate information to investors. This is a part of the implementation of good corporate governance. The purpose of this study is to examine the factors that determine the level of accounting conservatism in large companies in Indonesia. This study fills the gap in previous literature (Ahmed & Duellman, 2007; Chi et. al., 2009; Sultana, 2015; Mohammed et. al., 2017; Wati, 2017; Xia & Zhu, 2009; El-Bannany, 2017; Chi et. al., 2019) by including political connections as a moderating variable that can strengthen or weaken the influence of company characteristics and corporate governance mechanisms on the level of accounting conservatism, thus making this study different from previous research.

2. Literature Review

Positive Accounting Theory is a theory that explains why accounting policies become a problem for companies and parties with an interest in financial statements, and for predicting accounting policies that companies want to choose under certain conditions (Watts & Zimmerman, 1986). Watts and Zimmerman (1986) argue that there are three hypotheses in positive accounting theory, namely the Bonus Plan Hypothesis, the Debt Covenant Hypothesis, and the Political Cost Hypothesis.

Politically connected firms have poor GCG mechanisms and greater agency problems because they have easy access to resources when experiencing financial difficulties and are dependent on government assistance (Chen et. al, 2010), thereby reducing the practice of accounting conservatism in their financial reporting. Positive accounting theory and agency theory underlie this research. More specifically, positive accounting theory states that accepted accounting procedures are highly influenced by the costs and benefit restrictions (Watts & Zimmerman, 1986, 1990). In other words, firms will deem those accounting principles that lead to accounting conservatism as acceptable. Similarly, agency theory also states that the purpose of accounting firm is to facilitate contracting thereby reducing agency costs (Hunt III & Hogler, 1990). This supports the notion that firms tailor their accounting procedures to their own unique circumstances to reduce cost and increase performance.

2.1. Effect of Company Attributes on Accounting Conservatism

The Debt / Equity Hypothesis of positive accounting theory states that the greater the leverage ratio, the greater the tendency for companies to use procedures that transfer reported earnings from the coming period to the current period (Watts & Zimmerman, 1986). The greater the leverage ratio owned by the company shows that the company's ability to pay off long-term obligations is low. This results in managers being more likely to use accounting procedures that increase profits in the current period or tend to be not conservative. Ahmed and Duellman (2007) state that the higher the leverage ratio, the conflict between shareholders and bonds will also increase which can affect contractual demand for conservative accounting. This is supported by Xia and Zhu (2009) who document that leverage positively determines the level of conservatism in China. In other words, a higher degree of leverage leads to higher conservative reporting. However, Yulianti and Yanto (2017) and Rahayu and Gunawan (2018) document that leverage has a positive effect on accounting conservatism. Meanwhile, Agustina (2015) shows different results where leverage does not significantly influence accounting conservatism. Small companies are more conservative than large companies and companies with low debt levels are more conservative than companies with high debt levels. From this explanation the following hypotheses can be formulated:

H1: Leverage has a positive effect on accounting conservatism.

According to Watts and Zimmerman (1986), managers tend to reduce the value of earnings reports to reduce political costs. This is because the government uses accounting-based information in the process of transferring company assets to the public interest. According to Belkaoui and Karpik (1989), political costs are often proxied by the size of the company. Large companies are faced with high political costs, so large companies tend to employ accounting methods that can reduce the value of earnings statements to reduce the magnitude of political costs. The greater the size of the company the greater the political costs will be and the more taxation by the government there will be. Watts and Zimmerman (1978) hypothesize that political costs will increase along with the size of the company. So the larger the size of the company, the greater the political costs to be paid. This results in managers aiming to reduce profits during this period so that political costs can also be reduced or more conservative. The larger the size of the company encourages companies to apply accounting conservatism by presenting lower profit figures due to political costs that may arise in the future at the government's demands. The results of this study are consistent with the studies of Agustina et. al. (2015), Xia and Zhu (2009) and El-Bannany (2017). To illustrate, Xia and Zhu (2009) state that high degree of leverage positively affects accounting conservatism, thus leading to conservative reporting. In addition, firm size, profitability, capital intensity, and growth opportunity are also indicators of political costs. The results of Ahmed et. al. (2002), Rahayu and Gunawan (2018) and Agustina (2015) state that profitability, capital intensity, and growth opportunity have a positive effect on the application of accounting conservatism. From the explanation above, the hypothesis can be formulated as follows:

H2: Firm size, profitability, capital intensity, and growth opportunity all have a positive effect on accounting conservatism.

2.2 Effect of Corporate Governance Mechanisms on Accounting Conservatism

Chi et. al. (2009) state that the implementation of weak corporate governance will cause high demand from shareholders to implement conservative accounting. An independent commissioner is a party that is not affiliated with a controlling shareholder, members of the board of directors and other board of commissioners, and the company itself in both business and family relations. One of the main functions of an independent commissioner is to carry out a monitoring function that is independent of the company's management performance. In carrying out its functions, an independent commissioner will need accurate and quality information. Another aspect of corporate governance related to the board of commissioners is the existence of an audit committee within the company. The audit committee must assist the board of commissioners to ensure that financial statements are fairly presented by generally accepted accounting principles. Ahmed and Duellman, (2007) show a

relationship between the characteristics of the board with the level of accounting conservatism. Ahmed and Henry (2012) find that voluntary audit committee formation, increasing board independence and decreasing board size are positively associated with unconditional accounting conservatism and negatively related to the degree of conditional conservatism. Nasr and Ntim (2018) produced a study in which the independence of the board had a positive effect on accounting conservatism Pirzada, et. al., (2016). This result is supported by Mohammed et. al. (2017), where the independence of the board was found to have a positive effect on accounting conservatism. Furthermore, Ahmed and Henry (2012) also assert that motivations to adopt perceived best practices of corporate governance by firms leads to unconditional accounting conservatism. Krishnan and Visvanathan (2008) prove that the existence of an audit committee has a positive effect on the level of conservatism of financial statements. Based on these explanations, the following hypothesis is proposed:

H3: Independent commissioners and audit committees have a positive effect on accounting conservatism.

Large audit service companies affiliated with the big 4 accounting firms tend to perform better audit services than small audit service companies. Auditors from non-Big 4 accounting firms are more likely to face litigation risk than auditors from Big 4 accounting firms Firmanti, et. al., (2019). Auditors from Big 4 accounting firms are generally more accurate than auditors from non-Big 4 accounting firms (Solikhah, Firmansyah, & Pirzada, 2017). A large audit services company will suffer a huge loss if the audit quality provided does not meet the quality standards with the poor reputation of the audit services company. Khan et. al. (2018) state that the quality of external auditors has a positive effect on accounting conservatism. However, this result is different from Nasr and Ntim's research (2018) which shows that the type of external auditor negatively influences accounting conservatism. Based on this explanation, the following hypothesis is proposed:

H4: Audits by Big-4 firms have a positive effect on accounting conservatism.

Political Connections have moderating effects on the association between Corporate Attributes and Corporate Governance Mechanisms and Accounting Conservatism

Indonesia provides an ideal setting to investigate the relationship between corporate governance mechanisms, political connections, and conservative financial reporting because previous research has examined the valuation effect of political connections. Wati et. al. (2016a, 2016b), Wati (2017) and Wati et. al. (2019) show that corporate governance mechanisms with a proxy for the effectiveness of the board of commissioners and ownership structures that are majority controlled by families and the government provide benefits to the performance of politically connected companies Pirzada, et. al., (2017). The existence of the board of commissioners whose background is active and inactive officials and their activities in politically connected companies are quite effective and have an impact on the value of the company, both short and long term (Arniati, Puspita, & Pirzada, 2019). However, the political closeness within a company makes it difficult for companies to be open in providing information to outsiders so that politically connected companies tend to raise corporate governance issues in the disclosure and disclosure of information which impacts on the poor quality of financial statements and high information asymmetry (Chaney et. al., 2011; Zhao et. al., 2012; Piotroski et. al., 2015; Mohammed et. al., 2017).

Baloria (2015) estimates that politically-owned companies adopt less conservative accounting because lenders are less concerned with the risk of default for these politically favored companies. The results provide consistent evidence of lower contract requests for conditional conservatism among politically owned companies. Mohammed et. al. (2017) reveals that a better corporate governance structure in terms of board independence has a positive effect on accounting conservatism. However, political connections have a negative moderate effect on the positive relationship between accounting conservatism and board independence. Politically connected firms are less conservative and less motivated to report losses in a timely manner and tend to report large profits because their companies are protected by the government (Joni; Ahmed 2019). The hypothesis is built based on the theory supported by previous research:

H5: Political connections weaken the influence of company attributes (leverage, firm size, profitability, capital intensity, and growth opportunity) on accounting conservatism.

H6: Political connections weaken the influence of corporate governance mechanisms (independent commissioners, audit committees and audit litigation) on accounting conservatism.

3. Research Methods

The sample in this study is large companies that have unrelated business fields as many as 62 companies from 2005-2017 (806 company-year). The dependent variable in this study is the level of corporate accounting conservatism. To measure accounting conservatism, two measures are used, namely accruals (Givoly & Hayn, 2000) and market value with the company's book-to-market ratio proxy (Beaver & Ryan, 2000). Contemporary accounting conservatism measures such as presented by Khan and Watts (2009) were ignored. This was owing to the fact that these measures are based on the proxy of market leverage and firm size which are independent variables in our model. Inclusion of such variables as proxies of accounting conservatism could have led to the problem of endogeneity.

The accrual value and the market value resulting from the level of conservatism are multiplied by -1 to ensure that a positive value indicates higher conservatism. Book-to-market values are multiplied by a negative value of one so that the positive value reflects a higher level of conservatism (Juniarti, Raharjo, Monica, 2018). The independent variables used are leverage (ratio of debt to total equity), firm size (log of total assets), profitability (ratio of net profit to total assets), capital intensity (ratio of total assets to net profit), growth opportunities (ratio of Δ total sales to total sales), and independent board of commissioners, audit committee size, and audit litigation. This study uses a control variable for sensitivity testing, which is the firm age and the firm growth of the company's assets. Firm age has a significant impact on the sales growth which in turn determines the book value of the firm (Coad, Segarra, & Teruel, 2016). Thus, it was important to control these variables to isolate their effect on the dependent variables in the model. See Table 1.

Table 1. Description of variables

Variables	Description
Dependent:	
Accrual	TACit / TA-1; TAC = NIit – CFOit (Givoly & Hayn, 2000)
Market Book Value	Market Value to Book of Equity (Beaver & Ryan, 2000)
Independent:	
Leverage	Ratio of debt to total equity (Xia & Zhu, 2009; Yulianto & Yanto, 2017)
Firm size	Log of total assets (Agustina et al., 2015; El-Bannany, 2017; Wati et. al., 2019)
Capital intensity	Ratio of total assets to net profit (Rahayu & Gunawan, 2018; Agustina, 2015)
Profitability	Ratio of net profit to total assets (Ahmed et. al., 2002; Wati et. al., 2019)
Growth Opportunity	Ratio of Δ total sales to total sales ((Rahayu & Gunawan, 2018; Agustina, 2015)
Audit_Size	The number of Audit Committee (Ahmed & Henry, 2012)
Independent Board	The number of Independent board to Board of Commissioner (Lara et. al., 2016; Mohammed et. al., 2017; Nasr & Ntim, 2018; Wati et. al., 2019)
Firm age	Number of years since incorporation (Wati et. al., 2019)
Firm Growth	Ratio of Δ total asset to total asset (Wati et. al., 2019)
Moderating:	
Political Connection	Dummy Variable: 1 = political connected 0 = non-political connected (Facio, 2006; Wati et al, 2019)

Source: Compiled by authors

To test the hypotheses of the study, we used the following regression model:

$$\text{Accrual} = \alpha + \beta_1 \text{DERit} + \beta_2 \text{Sizeit} + \beta_3 \text{ROAi} + \beta_4 \text{Opportit} + \beta_5 \text{Intensit} + \beta_6 \text{Indepit} + \beta_7 \text{Auditit} + \beta_8 \text{Litigacyit} + \beta_9 \text{Salesit} + \beta_{10} \text{Ageit} + \varepsilon_1 \dots\dots\dots (1)$$

$$\text{BMV} = \alpha + \beta_1 \text{DERit} + \beta_2 \text{Sizeit} + \beta_3 \text{ROAi} + \beta_4 \text{Opportit} + \beta_5 \text{Intensit} + \beta_6 \text{Indepit} + \beta_7 \text{Auditit} + \beta_8 \text{Litigacyit} + \beta_9 \text{Salesit} + \beta_{10} \text{Ageit} + \varepsilon_2 \dots\dots\dots (2)$$

$$\text{Accrual} = \alpha + \beta_1 \text{PC*DERit} + \beta_2 \text{PC*Sizeit} + \beta_3 \text{PC*ROAi} + \beta_4 \text{PC*Opportit} + \beta_5 \text{PC*Intensit} + \beta_6 \text{PC*Indepit} + \beta_7 \text{PC*Auditit} + \beta_8 \text{PC*Litigacyit} + \beta_9 \text{PC*Salesit} + \beta_{10} \text{PC*Ageit} + \varepsilon_3 \dots (3)$$

$$\text{BMV} = \alpha + \beta_1 \text{PC*DERit} + \beta_2 \text{PC*Sizeit} + \beta_3 \text{PC*ROAi} + \beta_4 \text{PC*Opportit} + \beta_5 \text{PC*Intensit} + \beta_6 \text{PC*Indepit} + \beta_7 \text{PC*Auditit} + \beta_8 \text{PC*Litigacyit} + \beta_9 \text{PC*Salesit} + \beta_{10} \text{PC*Ageit} + \varepsilon_4 \dots (4)$$

4. Results and Discussion

From Table 2 below, it can be seen that the minimum value of conservatism which is proxied by Accrual is -20.85, which indicates that the company lacks the practice of accounting conservatism in the presentation of the company’s financial statements. The maximum value of 17.24 indicates that the company applies conservatism practices in the presentation of financial statements. The average value of -0.012 with a larger standard deviation of 1.749 shows that there is a relatively large variation or difference in the conservatism variable which proves that the practice of conservatism by the company varies greatly between one company with another company. The conservatism variable proxied by BEMV has the same trend as the accrual, where the standard deviation value has a value of 2,168 greater than the average value of -1.3725. This also shows that conservatism practices by companies vary greatly from one company to another.

Political connections have an average value of 0.6675, meaning that the majority of the sample in this study are politically connected firms. An explanation of the description of other variables can be seen in Table 2 below:

Table 2. Descriptive statistics of the variables from 2005-2017

Variable	Min	Max	Mean	St. Deviation
Accrual	-20.8456	17.2439	-0.0123	1.7497
BEMV	-34.1072	0.3803	-1.3725	2.1684
Leverage	-31.4404	15.0516	13.007	0.736
Firm Size	10.9251	15.0516	13.007	0.736
Profitability	-0.3076	1.2357	0.0684	0.1079
Growth Opportunity	-0.9587	215.1413	0.5166	7.6411
Capital Intensity	0.3186	608.9223	5.0705	23.3031
Audit Size	2	9	3.428	0.9036
Independent Board	0.1429	0.8333	0.4359	0.1199
Audit Litigation	0	1	0.629	0.4833
Political Connection	0	1	0.6675	0.4714
Firm Age	2	64	17.6998	7.8109
Firm Growth	-0.3664	9.6646	0.6368	1.2543

Source: Data processed, 2019

4.1 Effect of Company Attributes and Corporate Governance Mechanisms on Accounting Conservatism

Based on the results of testing the accrual model, the factors that influence accounting conservatism are profitability, audit quality and audit litigation. Negative profitability indicates that the greater the profit of the company, the company tends to use accounting principles that are less conservative (more aggressive) by using accrual media. The results of this study are consistent with the findings of Yuliarti and Yanto (2017) who show that profitability has a negative effect on accounting conservatism in Indonesia. However, conservatism with market measurements results in profitability and firm size has a positive effect on the level of accounting conservatism. These results indicate that the greater the total assets and profits of the company, the more likely it is to use conservative accounting principles. The results of this study support the theory of the Political Cost Hypothesis, wherein companies tend to reduce profits to reduce the political costs incurred by the company. This will result in managers choosing accounting procedures and methods that report lower or conservative earnings. The results of this study are consistent with research by Agustina et. al., (2015), Xia and Zhu (2009), El-Bannany (2017), and Rahayu and Gunawan (2018). The results of this study are also consistent with those made by Ahmed et. al. (2002) that more profitable companies tend to use conservative accounting principles. See Table 3.

Table 3. Regression analysis of Model 1 and 2

Variable	Predict	Accrual	Robust Model	Book Market	Robust Model
Constant		-0.0036	0.0412	-4.2386***	-4.2095***
Leverage	β+	0.0031	0.0039	0.0016	0.011
Firm Size	β+	0.0098	0.0043	0.2562***	0.2407***
Profitability	β+	-0.3135***	-0.2809***	3.0484***	2.9509***
Growth Opportunity	β+	0.0002	0.0004-0.0001	0.0069	0.0076
Capital Intensity	β+	-0.0001	-0.0257*	0.0001	0.0001
Audit Size	β+	-0.0322**	-0.017	-0.0282	-0.0163
Independent Board	β+	-0.0131	0.0232**	-0.3183*	-0.3895**
Audit Litigation	β+	0.0273***		0.2393***	0.258***
Firm Age	β+	0.0001		-0.0102***	
Firm Growth	β+/-	-0.0032		0.0544***	
R2	β+/-	0.0567	0.0407	0.4294	0.3662
Adjusted R2		0.0448	0.0312	0.4223	0.3598
Fstat		4.7726***	4.2208***	59.8344***	57.5643***

Source: Data IDX processed, 2019
***Significance at 1%, **5%, and * 10%

Based on the results of testing the market-based model, an audit committee has no significant effect on accounting conservatism, but the independent commissioner has a significant negative effect. While based on the measurement of accruals, the audit committee has a significant negative effect. The results of testing corporate governance mechanisms for accounting conservatism in large companies provide evidence that the existence of an independent board of commissioners and audit committee as the company's internal control mechanism is not optimal in carrying out its monitoring functions on management. The large proportion of independent directors and audit committees in companies is unable to encourage the use of accounting conservatism. These results support the research of Mohammed et. al. (2017) and Wati (2017) where the presence of independent commissioners on the conglomerates fails in representing the interests of other stakeholders other than the interests of the majority of shareholders. The existence of the board of commissioners and the audit committee is considered as a rubber stamp for the company for the policies that have been made by management.

The results of testing the effect of audit litigation on accounting conservatism have a significant positive effect both using the accrual model and the market model. This research shows that the role of Big 4 accounting firms in auditing companies can encourage the use of the principle of higher conservatism in the company's financial reporting process. The results of this study are consistent with Khan et. al. (2018) and Rahayu and Gunawan (2018). Based on the test results, leverage, capital intensity, and growth opportunity based on the results of accrual models and market models are not determinants of the level of corporate accounting conservatism. These

results support previous research by Murwaningsari and Rachmawati (2017) and Agustina (2015) where the high intensity of capital and opportunity growth does not affect the level of accounting conservatism.

4.2 Political Connections have moderating Effects on the association between Corporate Attributes and Corporate Governance Mechanisms and Accounting Conservatism

Our study is closely related to the research Mohammed et. al. (2017), who investigate the impact of the relationship between accounting conservatism, corporate governance and political connections, which we develop to examine the effect of corporate attributes and corporate governance mechanisms on accounting conservatism in politically connected firms. See Table 4.

Table 4. Regression Analysis of Model 3 & 4 (Political Connections)

Variable	Predict	Accrual Model	Robust Model	BMV Model	Robust Model
Constant		0.0176*	0.0169*	-0.7697***	-0.7705***
PC*Leverage		0.0041	0.0104*	0.0328**	0.052***
PC*Firm Size	β+	0.0126**	0.0014***	-0.0311*	-0.0437***
PC*Profitability	β+	-0.2465***	-0.2907***	3.2673***	3.1556***
PC* Opportunity	β+	0.0016	0.0004	-0.5604***	-0.515***
PC* Intensity	β+	-0.0001	-0.0001	-0.0004	-0.0004
PC*Audit_Size	β+	-0.0536**	-0.070***	-0.0084	-0.0197
PC*Independen	β+	0.0041	0.0595	-0.0699	-0.0465
PC*Litig Audit	β+	0.030***	0.0246**	0.3862***	0.4465***
PC*Firm Age	β+	0.0004		-0.009*	
PC*Firm Growth	β+/-	-0.0047		0.0641***	
R2	β+/-	0.0594	0.0527	0.2723	0.2398
Adjusted R2		0.0476	0.0432	0.2631	0.2322
Fstat		5.0156***	5.5382***	29.7459***	31.4258***

Source: Data IDX processed, 2019
 ***Significance at 1%, **5%, and * 10%

Based on the results of testing the accrual and market models, political connections can moderate the influence of leverage, firm size, profitability, audit committee and audit litigation on accounting conservatism. Political connections can strengthen the influence of corporate leverage on accounting conservatism using both the accrual and market models. This empirical evidence shows that the higher the company's debt, the higher the conservatism of accounting in politically connected companies. The results of this study support previous studies conducted in Indonesia which document that leverage positively influences accounting conservatism (Yuliarti & Yanto, 2017; Rahayu & Gunawan, 2018).

The results of testing the interaction of political connections on the effect of firm size with the level of corporate conservatism based on the accrual model have a significant positive effect. These results indicate that the higher the size of a politically connected company, the company will tend to use accounting principles that can reduce earnings reports to reduce political costs (conservatism). These results support the political cost theory where political costs will increase along with firm size. Hence, the larger the size of a company, the greater the political costs to be paid. This results in managers reducing profits during this period so that political costs can also be reduced or more conservative. The results of this study support the research of Agustina et. al., (2015), Xia and Zhu (2009) and El-Bannany (2017). However, based on testing the market model, firm size has a negative effect on accounting conservatism.

Company profitability has a significant negative effect on the level of corporate conservatism using accruals. These results indicate that the greater the company's profits connected to politics, the company tends to use accounting principles that are less conservative (more aggressive). The results of this study support the findings of Baloria (2015) who explains that companies owned by politicians tend to adopt less conservative accounting because lenders are less concerned with the risk of default for these politically favored companies. But based on testing the market model of corporate profitability has a positive effect on accounting conservatism in politically connected companies Sasongko, et. al., (2019). Testing the interaction of political connections on

opportunity growth towards conservatism has a significant negative effect. These results indicate that the higher the growth opportunities of companies, politically connected companies will use less conservative accounting principles.

The results of testing the audit committee and the independent commissioners, which are corporate governance mechanisms, produced mixed results from the two conservatism measurement models. Based on the accrual model, political connections strengthen the negative influence of the audit committee on the level of corporate conservatism, while according to the market model the interaction of political connections on the audit committee and the independent board of commissioners on conservatism is not significant. The results show that the existence of an independent board of commissioners and the audit committee as a corporate governance mechanism of the company was not able to carry out its control functions properly in politically connected companies. These results support the findings of Mohammed et. al. (2017) which reveals that the structure of corporate governance in terms of boards and audit committees negatively affects the conservatism of politically connected companies. The results of this study also support the findings of Wati (2017) which shows that the existence of the board of commissioners with active and inactive background and their activities in politically connected companies is quite effective and has an impact on the company's value both short and long term.

This finding indicates that the existence of officials as an independent commissioner or chief commissioner in the company one of the benefits is to become a bridge for companies to obtain the benefits of political connections including various facilities. They ignore the GCG where the board of commissioners as a monitoring function for management is used as a place to seek political rents. The results of this study provide empirical evidence that the existence of an independent commissioner or audit committee in the company weakens the influence of corporate governance mechanisms on accounting conservatism in politically connected companies. The increasing number of independent commissioners and audit committees will reduce their ability to control management. These results are in line with Yermack (1996) and Wati (2017) who say that the ability of the board of commissioners to monitor will decrease with the increasing size of the board of commissioners because it will cause problems in coordination communication and decision making.

The results of testing the influence of audits litigation have a positive effect on corporate accounting conservatism based on accrual and market-based politics. That is, political connections strengthen the influence of audit litigation on the level of accounting conservatism. The results of this study indicate that the role of the Big 4 accounting firms in auditing politically connected companies can encourage the use of the principle of higher conservatism in the company's financial reporting process.

Firm age and firm growth do not significantly influence the level of firm conservatism based on accruals but have a significant negative effect on firm age and a positive effect on firm growth according to market measurements. The greater the growth of the company will encourage the use of the principle of higher corporate accounting conservatism in the company's financial reporting process. Robust model testing is done by dropping the control variables namely firm age and firm growth and produce a consistent model both on accrual and market-based.

5. Conclusion

Based on the results of hypothesis testing regarding the factors that determine accounting conservatism using accrual and market conservatism measurements are firm size, profitability, audit committee, independent board, and audit litigation. The results of this study support the Debt-equity Theory Hypothesis and the Political Cost Hypothesis on positive accounting theory.

Independent Commissioners and the audit committee as an internal mechanism of corporate governance do not have a positive effect on the application of accounting conservatism. These results indicate that the existence of an independent board of commissioners and the audit committee was not successful in encouraging companies to use the principle of higher accounting conservatism in the company's financial reporting process. The results

of this study are also consistent with testing in politically, companies where political connections strengthen the audit committee's negative influence on the level of corporate conservatism. The results of this study provide empirical evidence that the existence of independent commissioners or audit committees in the company is no more a place to seek political rent, their existence weakens the influence of corporate governance mechanisms on accounting conservatism in politically connected companies. The results of this test also support the findings of Wati (2017) and Mohammed et. al. (2018) which state that the presence of commissioners and audit committees on politically connected firms fails to represent the interests of other stakeholders other than the interests of the majority of shareholders.

The implication of this research is that regulators should make more stringent rules related to the requirements to become an independent commissioner and audit committee in the company by looking at the educational background and work experience of candidates for independent commissioners and audit committees who are free from political elements, so that the existence of the board of commissioners and audit committee is not again considered a rubber stamp for the company for the policies that have been made by management.

The limitation of this study is that by using two different proxies, this study found inconsistent evidence about the effect of company attributes on accounting conservatism but provided consistent findings regarding the effect of GCG mechanisms on accounting conservatism. Hence, it can be concluded that the influence of company attributes on the level of conservatism is strongly influenced by the size of the conservatism used. Future research may develop this research by using another measure of conservatism to be more comprehensive by separating the time of the study before the implementation of IFRS and after the adoption of IFRS.

Acknowledgements:

This research was supported by the project, which has received funding from the Directorate of General for Strengthening Research and Development, the Ministry of Research and Technology Republic Indonesia. Great thanks to DP2M DIKTI of Ministry of Research and Technology Republic Indonesia with the research grant contract number, i.e. 5/AKM/PNT/2019. Thank you to Sekolah Tinggi Ilmu Ekonomi (STIE) Muhammadiyah Jakarta Indonesia for the support and assistance in this research.

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