Analysis of the Influence of Audit Quality on Real Profit Management in Companies listed on the Indonesia Stock Exchange

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Abstract

Real earnings management has become a corporate practice in Indonesia and even in other countries in order to optimize maximum operational profit so that it can attract investors' power and advantages that are difficult for auditors to detect so that the reports submitted as factual. The sample test data for this study are companies that are published on the Indonesia Stock Exchange (IDX) with real earnings management as a measurement. This study aims to find out how the influence of the variables Audit Quality, Audit Tenure, Board of Directors, and Board of Directors Independence on Real earnings management. The sample data collected in the framework of the research is in the form of numerical or quantitative data in the amount of 2,015 company data for all business sectors for the period 2016 – 2020 which were published on the IDX. The test results in this study conclude that audit quality and audit tenure have no significant relationship to real earnings management. While the Board of Directors and the Board of Directors of Independence have a significant positive effect on real earnings management.

Keywords:
Audit Quality, Audit Tenure, Board of Directors, Independence Directors, Real Earning Management

INTRODUCTION

Presenting financial reports based on accounting standards is an absolute requirement for companies in preparing financial reports (Hendi & Sitorus, 2023). However, to date, there are quite a few cases or news related to companies that have changed information on the company's economic performance in order to be judged as a company with good performance (Tang & Fiorentina, 2021). For example, companies with poor governance are companies that carry out earnings management activities (Chandra & Junita, 2021). In fact, in increasingly tight

business competition, the strategies implemented in companies must be competitive and resilient (Edi & Susanti, 2021). Referring to IAPI, the correct guideline for a financial report that complies with Indonesian Financial Standards (SAK) is a report that has been audited by an auditor or audit expert. The purpose of a financial report audit is so that investors or shareholders are confident and can see directly that the report has been reported as is appropriate so that asset and share investors will be safe with their investment in the company (Christiani & Nugrahanti, 2014).

The importance of audit quality for a company is that the higher the level of reputation and trust of the auditor in auditing the client's financial statements, it means that the financial statements that have been disclosed are reasonable in accordance with the company's economic conditions.(Alhadab & Clacher, 2018). Therefore, Corporate Governance plays a supervisory and controlling role in company management as a form of responsibility towards stakeholders (Itan et al., 2023). As stated in the Indonesian Accountants Association (IAI), an auditor is considered qualified if the audit and quality control standards have been met and he has an independent, professional and objective attitude. There are 2 (two) types of audit quality, namely audited by Big Four and Non-Big Four Public Accounting Firms (KAP). The Big Four KAP firm creates auditors who have a higher level of reputation and good name, are superior, have a wide and international network and are trusted because of the increasingly high quality of human resource training compared to non-Big Four KAPs whose work networks are small or are still at the national stage so that they become company considerations when audited by the Non Big Four in assessing the findings and fairness of a financial report so that report users can make logical and appropriate decisions(Khanh & Khuong, 2018).

Audit quality is a very important factor for companies because auditors have a highly significant role in examining the results of financial reports, especially the company's pure profit. A company that has been declared fair by the auditor will provide useful value for the company because it can increase the attractiveness of investors to consider investing funds in the company.(Pujilestari & Herusetya, 2013).

Judging from the information at the end of this year, we often hear about the issue of the quality of financial information of public companies which has attracted a lot of attention from the public and the government, such as the most famous audit case, namely Enron. The latest case that was discovered in 2020 by the Financial Services Authority (OJK) was manipulation of financial reports in 2016 at PT Hanson International Tbk which was audited by one of the Big Four KAPs, Purwantono, Sungkoro, and Surja, where it was found that in the presentation of financial reports The public has a strategy to increase profits significantly by manipulating sales of ready-to-build plots. This explains that the company has violated the accounting code of ethics so that the auditor has been given administrative fines and IAI standards and has been sentenced to suspension for one year (News: Kompas, 15/01/2020)

RESEARCH METHODS

This research technique uses quantitative research which collects research data in the form of numbers and then the data is interpreted using statistical procedures. Statistics is the science of collecting, processing, presenting and analyzing sample data obtained to become information and determine decisions(Rudini, 2017).

Viewed from the problem side, this research is included in the comparative causal research category because in this research it is tested whether there is a causal relationship between the independent variable and the dependent variable. This research is also indicated as historical research because the data sample as the research object is entity data that has occurred in the past(Rudini, 2017).

The object used in the research is the annual financial reports of all public company sectors listed on the Indonesian Stock Exchange. This research uses empirical data from sample companies listed on the Indonesia Stock Exchange from 2016 - 2020.

This research uses panel regression analysis as a method for conducting data analysis with secondary quantitative data. The function of using this method is to test dependent and independent variables in panel data. The first stage of data analysis consists of descriptive statistical tests and outlier tests using the Statistical Package for the Social Sciences (SPSS) version 25/26 application or program, then using the Eviews 10 application or program to select the best or most appropriate model through the Chow test and Hausman test. The final stage of analysis also uses the Eviews 10 application, namely for hypothesis testing including the F test, t test and Goodness of Fit Model test.

The data used in the research is secondary data sourced from the annual financial reports of public companies listed on the Indonesia Stock Exchange for the last five years, namely 2016 to 2020. There are 727 companies listed on the Indonesia Stock Exchange, but those that meet the requirements for data selection as many as 403 companies. Research statistical testing uses the SPSS (Statistical Package for the Social Science) application. The purpose of Descriptive Statistical Analysis is to analyze and present large amounts of quantitative data so that the existing data can be easily understood. Descriptive statistical analysis functions to calculate the amount of data, the highest and lowest values (maximum and minimum), the average and standard deviation of all variables used.

RESULTS AND DISCUSSION

Testing for outlier data in this research was carried out in the SPSS version 25 application, showing that out of 2,015 data that met the test sample requirements for this research, there were 1,988 data. The remaining 27 company data have unreasonable values so that these unreasonable values can be removed. Outlier data is the SDR value of data that is outside the outlier testing limits, meaning that if it is lower than min 1.96 and if it is higher than 1.96 it can be excluded because the data cannot be used in further testing.

1. Chow Test Results

Effects Test	Prob.
Cross-section Chi-square Cfopit	0.0000
Cross-section Chi-square Discexpit	0.0000
Cross-section Chi-square Prodit	0.0000

Sumber : Data sekunder yang diolah (2022)

Based on the table above, a conclusion was obtained where the probability values tested using Cfopit, Discexpit, and Prodit measurements revealed results that

were less than 0.05, meaning that the FEM model was better applied. The next stage is Hausman testing. This is done to select the FEM or REM model.

2. Hausman Test Results

Test Summary	Prob.
Cross-section random Cfopit	0.0197
Cross-section random Discexpit	0.0000
Cross-section random Prodit	0.0005

Sumber : Data sekunder yang diolah (2022)

Based on the results in the table above, it can be concluded that the probability figures tested using Cfopit, Discexpit, and Prodit measurements reveal results that are less than 0.05, so the best model is selected, namely the FEM model panel regression.

3. F Test Results

Variabel Dependen	Prob(F-statistic)	Kesimpulan
Cfopit	0.000056	Signifikan
Discexpit	0.000000	Signifikan
Prodit	0.000001	Signifikan

Sumber : Data sekunder yang diolah (2022)

Looking at the results in the table above, it can be concluded that the significance value tested using the Cfopit, Disexpit, and Prodit measurements reveals results that are less than 0.05 that all independent variables taken in the research can have a significant effect on the dependent variable, namely earnings management. real.

4. t Test Results

Variabel	Cfopit			Discexpit			Prodit		
	Coefficient	Prob.	Hasil	Coefficient	Prob.	Hasil	Coefficient	Prob.	Hasil
Konstanta	0.048711	0.8927	Tidak Sig.	0.683857	0.0000	Sig. Positif	-0.203362	0.5736	Tidak Sig.
Kualitas Audit	-0.024962	0.9258	Tidak Sig.	0.005473	0.8705	Tidak Sig.	-0.051627	0.8471	Tidak Sig.
Masa Jabatan Audit	-0.184755	0.2267	Tidak Sig.	0.034827	0.0690	Tidak Sig.	-0.148836	0.3263	Tidak Sig.
Dewan Direksi	0.142708	0.0282	Sig. Positif	-0.063556	0.0875	Tidak Sig.	0.155409	0.0140	Sig. Positif
Direksi Independen	0.922253	0.0514	Tidak Sig.	-0.085055	0.1513	Tidak Sig.	0.997592	0.0548	Sig. Positif
Rasio Solvabilitas	0.097247	0.4739	Tidak Sig.	0.151736	0.0000	Sig. Positif	0.407954	0.0027	Sig. Positif
ROA	1.002.569	0.0008	Sig. Positif	0.739999	0.0002	Sig. Positif	1.197.261	0.0001	Sig. Positif

Sumber : Data Sekunder yang diolah (2022)

Looking at the results of the research, it states that the Audit Quality variable has no significant relationship to real earnings management because the Big Four audit firms have not been able to limit or control companies in implementing real earnings management. This is also due to the company's own initiative to organize financial reports so that they are good and useful for report users, while the reports are audited so that the company's reputation is good, which has been audited by Big Four firms so that audit quality and real profit management are not related.(Khanh & Khuong, 2018).

The results of the research test state that there is no significant relationship between the Audit Tenure variable and real earnings management because the company will move from accrual earnings management to real earnings management so that auditors will not easily detect the presence of unreasonable audit items.(Inaam et al., 2012).

The results of the research test state that there is a significant positive influence of the Board of Directors variable on real profit management because there are conditions where in increasing company profits the Board of Directors approves the practice of implementing real profit management (Soliman & Ragab, 2013).

The results of the research state that the Independent Directors variable has no significant effect because the Independent Directors cannot obtain detailed sources on the company's internal affairs so that the Independent Directors cannot strictly control real earnings management. (Talbi et al., 2015).

5.   Goodness of Fit Model Test Results

Weighted Statistics			
R-squared	0.019087	Mean dependent var	0.318645
Adjusted R-squared	-0.040725	S.D. dependent var	0.338055
S.E. of regression	0.344870	Sum squared resid	9.752689
F-statistic	0.319113	Durbin-Watson stat	1.739017
Prob(F-statistic)	0.900171		

Sumber : Data Sekunder yang diolah (2022)

Judging from the test results in the table above, the conclusion obtained is that the adjusted r-squared value is -0.04%, indicating that the independent and control variables can explain the dependent variable in this research test by 4%. Thus, 96% of the other independent variables can explain real earnings management. The higher the adjusted r-squared value, the higher the relationship between the independent variable and the dependent variable, and vice versa.

CONCLUSION

Researchers conducted research with the aim of analyzing whether or not there is significance to several independent variables, including Audit Quality, Audit Tenure, Board of Directors, and Director Independence on the dependent variable, namely real earnings management. As a benchmark in this real profit management research, there are three approaches, namely production costs, operational cash flow and discretionary costs. Referring to the results of the research tests that have been carried out, here are some final quotes reached by researchers that the variables Audit Quality and Audit Tenure have no significance in real profit management. The Board of Directors variable on real profit management has a significantly positive effect on the operational cash flow approach and production costs and has no significance on the discretionary cost approach. The variable Director Independence on Real Profit Management has a significant positive influence on the production cost approach and there is no significance on the operational cash flow and discretionary cost approaches.

THANK-YOU NOTE

Researchers received many suggestions, ideas, strong support and motivation from various parties directly and indirectly in preparing this article. Apart from that, many joys and sorrows are also experienced and can be experienced by various parties as well. For this reason, on this occasion the researcher would like to express his thanks to all parties who have assisted the author in preparing this thesis report.

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