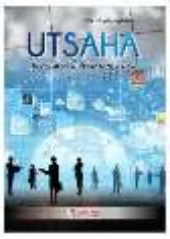

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The Influence of Audit Quality on Earning Management in Manufacturing Companies on the IDX for 2017 – 2019 periods

Karel Sava Kurniawan[1*]
Dr. Gregorius Rudy Antonio[2]
*karelsavakurniawan@gmail.com
[1,2] University of Surabaya

ABSTRACT

The focus of this study is to investigate and obtain the empirical evidence about the impact of audit quality on earning management. The measurement of audit quality is proxied into two parts, called the size of KAP and auditors of industry specialization, the size of auditors is formulated using a dummy variable where the company audited by Big-4 is given code 1 while the company audited by Non-Big-4 is given code 0. For industrial specialization auditors, they are formulated using a dummy variable where if the market share is more than equal to 20%, code 1 will be given and code 0 is given less than 20%. The object in this study is a company engaged in the manufacturing sector that has gone public and is listed on the Indonesia Stock Exchange. The sampling method used was a non-probability purposive judgmental sample and resulted in 104 companies that met the requirements for research. he data were analyzed based on the range of years from 2017, 2018 and 2019. The method of multiple linear regression analysis was used for data analysis and hypothesis development, giving rise to research results that: 1) KAP size does not have a negative effect on earning management, and (2) specialized auditors industry has no negative effect on earnings management.

Keywords: *Earning Management, Audit Quality, Auditor Size, Industry Specialization Auditors.*

INTRODUCTION

Earning management is divided into two forms. One of it is accrual earnings management as the selection of accounting policies and estimates in achieving profit expectations, and earning management as a manipulation activity to achieve targets (Challen, A. E., & Siregar, 2012)**.** Other study also stated that earning management applied by the company can be efficient for the company itself (increasing profit informative in communicating private information) and can be opportunistic (management reports earnings opportunistically to maximize their personal interests) (Wiryadi, A., & Sebrina, 2013). The belief that company management processes earnings in accounting is approved by financial statements users and supported by several studies stated that those company managers who use accrual policies are closely related to incentives in conducting the earnings-based bonus plans. In contrast, (DeAngelo, 1988) in his research says specifically that the reported profitability will increase significantly during the manager's campaign selection, the "real" profitability (such as operating cash flow) will not increase. The concept of earning management is caused by several factors that considered as influential, such as information asymmetry, current performance, future performance, leverage, company size, audit quality, and ownership structure (Wiryadi, A., & Sebrina, 2013). In this study, the authors want to conduct the research based on audit quality factors on earnings management.

In fact, a company's financial statements must be audited by an auditor before publishing it to the public because it requires an auditor's opinion as a guide for decision making The role of an auditor can be translated into five, called objective, reporting lines, profession and interaction with others for achieving the accountability. The quality of the audit conducted by a KAP with a good reputation will guarantee more about the accountability of the financial performance for the company that being audited Other researchers also states that high-quality auditing acts as a deterrent to effective earnings management, because management's reputation will be ruined and the company value will decrease when this wrong reporting is detected and revealed (Wiryadi, A., & Sebrina, 2013) supported by other researchers such as (DeAngelo, 1988) and (Christiani, I., & Nugrahanti, 2014). Audit quality can be measured using the KAP measure, which sees a KAP as being in the Big-4 or Non-Big-4 category and using an industry-specialized auditor. The author chose this research title because the author wanted to examine whether high audit quality can reduce the earning management by using a KAP proxy measure and auditor specialization. Reflecting to other studies, the audit quality does not have a significant effect on earnings management in manufacturing companies listed on the IDX for 2007 – 2010 period (Wiryadi, A., & Sebrina, 2013). Other research says that audit quality is able to reduce the earning management incentives (Amijaya, M. D., & Prastiwi, 2013).

LITERATURE REVIEW AND HYPOTHESIS

Earning Management

According to Scott, 2015 p.445, "earning management is the choice by a manager of accounting policies, or real actions, affecting earnings so as to achieve some specific reported earnings objective." Several studies say that earnings management is one of the factors that able to reduce the credibility of financial statements, adding the bias in financial statements and interfere the financial statements users who believe that the manipulate profit figures are the profits without manipulation (Wiryadi, A., & Sebrina, 2013). Other studies say that earnings management is a process where managers have the ability to use their discretion to mislead the stakeholders or influence their contractual results with owners.

Discretionary Accrual

In the research conducted by the author on earnings management using a proxy discretionary accrual (DA) approach, the total accruals are divided into 2, called Discretionary accruals are accrual components that can be regulated and manipulated according to managerial policies, but non-discretionary accruals are accrual components that cannot be regulated and manipulated in accordance with earnings management policies (Christiani, I., & Nugrahanti, 2014). In detecting the discretionary accruals, this study uses the Modified Jones Model which is a modification from the previous formula, called the Jones Model. Modified Jones Model is a formula that is used to detect the existence of earnings management in easy way and able to produce lower earnings management. The modified Jones model implies that all returns on credit sales in the current period is a result of earnings management. When the modification is successful, then the estimation of earning management is no longer biased.

Audit Quality

Auditing is a systematic process by ensuring that the information presented in the financial statements regarding the company's operational activities is truly objective, reliable and trustworthy (Wiryadi, A., & Sebrina, 2013). The factors that affect to audit quality are tenure, number of clients, size and clients' financial health, the presence of third parties who will review the audit reports, efficient independent auditors, level of audit fees, and the level of audit quality planning (Wiryadi, A., & Sebrina, 2013). According to research on audit quality from (DeAngelo, 1988) that audit quality is defined as the probability that an audit is able to detect and report the material errors in financial statements in accordance with accounting standards. Not only that, the researcher stated that the larger size of Public Accounting Firm (KAP) will have better audit quality compared to the small

Public Accounting Firm (KAP), the Big Four KAP have high capability and reputation compared to the Non- Big Four KAP (DeAngelo, 1988).

Industry Specialization Auditor

Industry specialization auditors are one of the proxies of audit quality. The auditor industry specialization is a dimension of audit quality since the information and knowledge obtained by the auditor is an element of the auditor's ability. KAP or auditors who focus on a particular industry will tend to have better ability in detecting the errors in client data in that industry than the auditors who are not focused on a particular industry (Christiani, I., & Nugrahanti, 2014). Then the presence of an industrial specialization auditor who audits a company in a particular industry will help in suppressing the earnings management according to research. The KAPs which have many clients in the same industry will have a deeper understanding of audit risks, but definitely it requires a special expertise. The researcher is also able to state that an investor will prefer and trust the results of audit reports by financial institutions that have a high audit quality. Using auditors who based on industry specialties will have higher quality audit according to (Pertiwi, N., Hasan, A., 2016)

Hypothesis

KAP size in Earning Management

In agency theory, it assumes that the agent has more information than the principal, because the principal cannot observe the activities of the agent continuously. In this asymmetry condition, it is necessary to have a third person, called an auditor as a party who considered in becoming the bridge for principal's (shareholders) interest and the manager (agent) in managing the company (Christiani, I., & Nugrahanti, 2014). This statement is supported by other studies such as (Wiryadi, A., & Sebrina, 2013). De Angelo (1981) stated in his research that the quality of audits implemented by public accounting firms can be seen from the size of the KAP that handling the audit, the large (Big-4) KAP can perform a quality audit compared to the small KAP (Non Big-4).

In a study conducted by (Challen, A. E., & Siregar, 2012) with the research object of companies listed on the IDX for 2006 – 2009 periods. The results of the research state that companies audited by large audit firms (KAP Big-4) able to find higher discretionary accruals than small audit firms (KAP Non Big-4) along with the control variables used are leverage and firm size. (DeAngelo, 1988) also states that the auditor size by Big-4 is able to produce better audit quality than Non Big-4 auditors, Non Big-4 auditors have a greater incentive to not disclose the material misstatements in order to retain client and good relationship. In Taiwan case, the Big-5 auditors are more closely related to companies that conducted very small

earnings management, then the high-quality auditors are able to reduce earning management actions by having variables control, such as company size, operating cash flow, market to book ratio. (growth), as well as leverage. Ahmad et al., 2016, stated that the research conducted in Indonesia regarding the size of the Big-4 KAP on manufacturing companies was able to produce lower earnings management than Non-Big-4 auditors by having control variables such as operating cash flow, leverage, and company size. Several other studies also state that the KAP measure is able to weaken the existence of earnings management actions.

The results from the research by (Christiani, I., & Nugrahanti, 2014) stated that the size of KAP has no significant effect on earnings management by using company data listed on the IDX for 2010-2011 periods through control variables using, such as company size, leverage, operating cash flow and growth prospects. The result from the control variables is not able to weaken the earnings management except the company size. This is supported by research conducted by (Luhgiatno, 2010) which states that KAP Big-4 has no significant effect on earnings management. (Wiryadi, A., & Sebrina, 2013) also stated in their research that companies listed on Indonesia Stock Exchange, especially the manufacturing sector industry for 2007 to 2010 periods did not have a significant effect on profit management.

From the description above, it can be concluded that the author's objective is to find out whether the size of the KAP, especially the Big-4 auditor is able to weaken management actions for becomes a gap, then the hypothesis can be formulated:

H_1: The size of KAP has a significant negative effect on earning management.

Industry Specialization Auditor on Earning Management

An industrial specialization auditor will naturally influence into a positive position on an audit handled by an auditor according to his experience and expertise, then the auditor is able to identify and reveal a problem or error as an industrial specialization auditor. Industry specialist auditors are able to suppress the management actions in conducting earnings management when a company implements an IPO. With the grouping of auditors with industry specialization based on auditing frequency, the more often an auditor audits similar companies, the auditor can be categorized as industry specialization.

In a study conducted by Krishnan, it stated that research on industrial specialization auditors which has expertise in providing good quality earnings and those who are not included in the specialized auditors get a higher level of discretionary accruals compared to industrial specialization auditors, then they able to suppress earning management behavior. This statement is supported with another research conducted by Ahmad which states that Indonesian manufacturing companies whose companies are audited by auditors belonging to industrial specialties are able to reduce earnings management actions compared to those that

are not included in industry specialization auditors.

However, other researchers suggest otherwise, such as research from Luhgiatno which states that KAP that is included in industry specialists does not significantly affect in earnings management practices for companies that implementing IPOs in Indonesia (Luhgiatno, 2010) It is supported by another study by Sunarto which states that audit quality using a proxy auditor with industry specialization has no significant effect on earnings management using control variables, such as growth and company size (Sunarto, H., & Sundarta, 2015). The industry specialist auditors did not perform better than auditors who were not industry specialists in dealing with earnings management.

From the description above, it can be concluded that the aim of the researcher is to prove whether manufacturing companies listed on the Indonesia Stock Exchange audited by specialized auditors are able to reduce earning management actions, the hypothesis can be formulated:

H2: Industry specialization auditors have a significant negative effect on earning management.

RESEARCH METHODOLOGY

Unit Analysis

The data used to test the hypothesis in this research is secondary data from Go Public companies in the manufacturing sector which listed on the Indonesia Stock Exchange (IDX) for 2017 – 2019 periods.

Variables and Operational Definitions

Dependent Variable

In this research, the authors analyzed audit quality on earnings management by Discretionary Accrual (DA) measurements. DA measurement is used to measure earnings management as dependent variable in this research. Discretionary Accrual (DA) can be calculated through Modified Jones Model. The calculation model is as follows:

$$Tait = Nit\text{-}CFOit$$

The total accrual value estimated by the OLS regression equation is as follows:

$$Tait/Ait\text{-}1 = \alpha 1\ (1/Ait\text{-}1) + \beta 1\ (\Delta Revi\ /Ait\text{-}1) + \beta 2(PPEt/Ait\text{-}1) + e$$

From the regression equation above, Non-Discretionary Accrual can be calculated by formula:

$$NDAit = \alpha 1\ (1/Ait\text{-}1) + \beta 1(\Delta Revit/Ait\text{-}1 - \Delta Recit/Ait\text{-}1) + \beta 2(PPEt/Ait\text{-}1)$$

Then, Discretionary Accruals can be calculated as following below:

$$DAit = (Tait/Ait\text{-}1) – NDAit$$

Description:
DAit : Discretionary Accruals company in t period
NDAit : Non-Discretionary Accruals company in t period
TAit : The total of Accruals company in t period
Nit : Company's net profit (loss) in t period
CFOit : Flow or cash flow from the company's activities in t period
Ait-1 : Company's total assets of the in t-period
ΔRevit : Company's sales difference in t period
ΔRecit : Changes in company's receivables in t period
PPEt : Value of the company's fixed assets in t period
e : Error

Independent Variables

KAP Measure

The audit quality can be proxized into KAP measures, then it can be categorized into Big 4 and Non-Big4 KAPs. It is measured by using a dummy variable, called the variable that will categorize Big-4 KAP by giving 1 as the code, and 0 code for Non Big-4 KAP.

Industry Specialization Auditor

The audit quality can be proxied to become industry specialization auditor for being able to classify an audit quality from an audit who are included in the industry specialization or who are not. The companies which audited by KAP which are capable of being included in industry specialization when the market share is bigger or equal to 20% from the total of market share. The industry of market share is defined as the proportion of industry revenue which audited by an relative auditor from total industry revenue or income for all firms in audited industry. The calculation model is as follows:

$$MS_{ik} = \frac{\sum_{j=1}^{J_i} \sqrt{SALE_{ijk}}}{\sum_{i=1}^{I_k} \sum_{j=1}^{J_i} \sqrt{SALE_{ijk}}}$$

Description:
SALEijk = Total sales of clients of firm j in industry k audited by auditor
i=1, 2,…, I = KAP or auditor
j=1, 2,…, J = Companies audited by auditors/clients
k=1, 2,…, K = Industrial sector

From the formula and definition above, it can be measured using dummy variable where the auditor with industrial specialization >=20% will be worth 1, and auditors who are not included in the industry specialization is <20%, will be worth 0.

Control Variables

Firm Size

The first control variable is firm size (FSIZE). The company size will be calculated by log (in) of Total Assets as in line with the research by (Becker et al., 1998).

$$FSIZE = \text{Ln}\ (Total\ Assets)$$

Leverage

The second of control variable is leverage (LEVER). Leverage will be calculated by debt total divided by the total of assets (Becker et al., 1998).

$$\text{LEVER} = \frac{\text{Debt total}}{\text{Assets total}}$$

Growth Prospect

Assets total The third of control variable is growth prospect (GROWTH). This variable will be calculated through the comparison of MVE and BVE (Gerayli et al., 2011).

$$Growth\ Prospect = \frac{Market\ Value\ Equity}{Book\ Value\ Equity}$$

$$Market\ Value\ Equity = Total\ Outstanding\ Share\ x\ \text{stock price}$$

Regression Equation Model

The authors uses multiple linear regression analysis as hypothesis testing since there are more than one independent variables used in this research (Hadi, 2014). This research can be formulated as follows:

$$DA = b0 + b1BIG + b2SPEC + b3FSIZE + b4LEVER + b5GROWTH + e \quad (3.6)$$

Description:

DA	: Discretionary Accruals
b	: Independent variable regression coefficient
BIG	: KAP size by dummy variable (1 for Big-4, 0 for Non Big-4)
SPEC	: Dummy variable Auditor industry specialization (1 for market share >= 20%, 0 for market share <20%)
SIZE	: Company size (ln Total Assets)
LEVER	: Leverage (total debt to total assets)
GROWTH	: Comparison between MVE and *BVE*

e : Error

RESULT AND DISCUSSION

Descriptive statistics

The results of the descriptive statistical analysis in this research will discuss about earning management variables which are proxied using Discretionary Accrual (DA), KAP size, auditor specialization and several control variables.

Table 1. The Result of Descriptive Statistic

Descriptive Statistics					
Variables	**N**	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
DA	312	-0.3623	0.2783	-0.0525	0.0738
BIG	312	0	1	0.32	0.469
SPEC	312	0	1	0.42	0.494
FSIZE	312	25.2156	33.4945	28.4133	1.5796
LEVER	312	0.0904	1.9475	0.4454	0.2344
GROWTH	312	-0.5480	70.5669	2.5634	5.8255
Valid N (listwise)	312				

Source: Processed data

Table 2. Statistical Result based on Dummy Variables of KAP Size

BIG					
		Frequency	Percent	Valid Percent	CumulativePercen
Valid	0	211	67.6	67.6	67.6
	1	101	32.4	32.4	100.0
	Total	312	100.0	100.0	

Source: Processed data

Table 3. Statistical Result based on Dummy Variables of Industry Specialization Auditor

SPEC					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	181	58.0	58.0	58.0
	1	131	42.0	42.0	100.0
	Total	312	100.0	100.0	

Source: Processed data

Based on the results of descriptive statistics in table 1 above, the DA variable is dependent variable that represents earnings management which has the highest or maximum value of 0.2783. The highest value is owned by a manufacturing company, PT Buyung Poetra Sembada Tbk (HOKI) in 2017. For the lowest or minimum value of DA variable, it has the value of -0.3623. The lowest value is owned by manufacturing company, Alakasa Industrindo Tbk (ALKA) in 2019. The DACC variable has an average (mean) for all data that has been processed in 2017, 2018, and 2019 of -0.0525 and has a standard deviation value of 0.0738.

The audit quality variable which is proxied through KAP measure is one of the independent variables in this research. The KAP size variable is calculated by dummy variable by giving a (1) value when the company is audited by a Big-4 auditor and will be given a (0) value when the company is audited by a Non-Big-4 auditor. In table 2 above, the data used for the KAP size variable is included in the manufacturing sector companies for the 2017, 2018 and 2019 periods. During the observation period, there were several companies that changed the auditor company from Big-4 KAP to Non-Big-4 KAP, then there is a difference in the number of companies audited by KAP Big-4 and Non-Big-4 in every year. The companies which involved in the manufacturing sector for the period 2017, 2018 and 2019 audited by KAP Big-4 were 101 companies or 32.4% of the total sample. In addition, there were also manufacturing sector companies during the 2017, 2018 and 2019 periods which were audited by Non Big-4 KAP as many as 211 companies or 67.6% of the total sample.

The audit quality variable is also proxied by using industry specialization auditors which also part of the independent variables in this research. The industry specialization auditor variable is calculated using dummy variable by assigning one (1) value when the market share is more than equal to 20% and given a zero (0) value when the market share is less than 20%. In table 3 above, the data used for the variables included in the companies which involved in the manufacturing sector for the period 2017, 2018 & 2019. During the observation period, there were 131 companies that used industrial specialization auditors or 42% of the total sample and there were 181 companies that did not using industry specialization auditors.

Also, there are control variables, such as firm size, leverage and growth prospects in this research. This variable is expected to be able to control the course of research, especially on the independent variable of audit quality which is proxied using the KAP measure and industry specialization auditors. In table 1, the Firm Size or company size (FSIZE) has the highest or maximum value of 33.4945. The highest value is owned by Astra International Tbk (ASII) in 2019. For the lowest or minimum value of 25,2156 which owned by Primarindo Asia Infrastructure Tbk (BIMA) in 2017. This firm size variable has an average value (mean) of 28,4133 and has a standard deviation value of 1.5796. In table 1, Leverage (LEVER) has the highest or maximum value of 1.9475 which owned by Primarindo Asia Infrastructure Tbk (BIMA) in 2017. The lowest or minimum value of 0.0904 owned by Emdeki Utama Tbk in 2018. This leverage variable has an average value (mean) of 0.4454 and has a standard deviation value of 0.2344. In table 1, the Growth Prospect (GROWTH) has the highest or maximum value of 70.5669, owned by Prima Cakrawal Abadi Tbk in 2018. The lowest or minimum value of -0.5480 owned by Inti Keramik Alam Industri Tbk (IKAI). This growth prospect variable has an average value (mean) of 2.5634 and has a standard deviation value of 5.8255.

Classic assumption test

Normality test

The results of normality test showed that all calculated variables were normally distributed, a significant value (Sig.) of 0.200 > 0.05 but has been determined using the Box Plot method. The Box Plot method is a data testing method by selecting data since some of the data in the observation period has extreme values or is far from the data range. This method can be referred as outlier method because it selects and deletes data which has a significant effect that cause the abnormality in the the data. Researchers using this method by selected as many as 9 company data during the period 2017, 2018 & 2019 for producing a normally distributed residual value which was previously not normally distributed.

Multicollinearity Test

The results of the multicollinearity test showed that the calculated variables did not have a relationship between its independent variables. There is no multicollinearity in the audit quality variable that is proxied by KAP measure with industrial specialization auditor along with other control variables, because it can be seen from the tolerance value of all variables is more than 0.1 and the VIF value of all variables is less than 10. It can be concluded that there is no or free from multicollinearity between the independent variables and dependent variables used in the research.

Heteroscedasticity Test

The heteroscedasticity test in this research uses the white test. The

heteroscedasticity test results show the value of R2 has a value of 0.017 after multiplication between the residual variables and the value of n in this research is 312. Then the calculated c2 is the result of the multiplication between R2 and n, then it can produce a value equal to 5,304 and table c2 is equal to 11,070 so that 5,304 < 11,070 which indicates that it is free from heteroscedasticity problems.

Autocorrelation Test

According to the results of the autocorrelation test in table 4.8 above, it shows that the autocorrelation value using the Durbin-Watson method is 1.861. When using the Durbin-Watson table, the dL value of 1.78105 and dU of 1.84657 can be obtained. Then, it can be proven that the autocorrelation regression model uses dU < DW < (4-dU) and it can prove that there is no autocorrelation (1.84657 < 1.861 < 2.15343).

Hypothesis test

The following table is the results of data processing using multiple linear regression analysis:

Table 4 The Result of Multiple Linear Regression Test

Variable	B	t	Sig.
(Constant)	-0.176	-1.961	0.051
BIG	-0.019	-1.405	0.161
SPEC	0.008	0.595	0.552
FSIZE	0.005	1.525	0.128
LEVER	-0.039	-2.213	0.028
GROWTH	0.001	1.937	0.054
F	2.309		
F Sig.	.044[b]		
Adjusted R Square	0.020609094		

Based on the results of the multiple linear regression test in table 4 above, the researchers are able to insert the values contained in the processed data into the regression equation as follows:

DA = -0.176 – 0.019 BIG + 0.008 SPEC + 0.005 FSIZE – 0.0039 LEVER + 0.001 GROWTH

Through the formula above, it can be seen that the constant value is -0.176. This value reflects when all of independent variables value and control variables in the research are considered equal to zero (0) or constant, then the value of earning management or discretionary accruals is -0.176. The coefficient values in table 4.9 also reflect that the value of independent variable and control variable has an increase or decrease which will affect the increase or decrease in Discretionary

Accrual value as the dependent variable.

The independent variable of audit quality which is proxied using KAP and industry specialization auditors has a value of -0.019 and 0.008, indicating that the other variables are considered constant; therefore there is an increase and decrease of one percent to discretionary accruals value. An increase of 0.008 was due to SPEC and a decrease of -0.019 was due to BIG.

Firm size control variable (FSIZE) has a value of 0.005 which means when the value of the independent variable is constant then FSIZE increases by 1%, then DA increases by 0.005 because the relationship between FSIZE variable and DA is positively related. The control variable leverage (LEVER) has a value of -0.0039 which means when the value of the independent variable is constant, LEVER will increase by 1% then the DA decreases by -0.0039 because the relationship between LEVER and DA is negatively related. The growth prospect control variable (GROWTH) has a value of 0.001 which means when the value of the independent variable is constant, FSIZE increases by 1% then the DA increases by 0.001 because the relationship between FSIZE and DA is positively related.

According to the results of the simultaneous test or F-test in table 4.10 above, it shows that the calculated F value is 2,309 with a significance value of 0.044. When comparing the significance value, it can be concluded that the significance level has a smaller value than a value which has a value of 0.05. The results of data processing shows that 0.044 (Sig.) <0.05 (a), the researchers are able to state that there is a significant positive effect between the dependent variable of earning management and the independent variable of audit quality. The independent variable can significantly influence the dependent variable.

According to the results of the research on the coefficient determination in table 4.10 above, the Adjusted R Square value for this test is 0.021 or 0.21%. This shows that the contribution of independent variable audit quality and control variable to dependent variable, called earnings management is 0.21%, while 99.79% is influenced by other factors outside the research.

The Effect of KAP Size on Earning Management

The research to determine the effect of audit quality from the size of KAP (BIG) on earnings management has been conducted, then the result of this study is the partial regression coefficient test results (t-test). The test results shows that the independent variable of KAP size on the dependent variable of earning management does not have a significant negative effect. The t-test has a significance value of 0.161 and has a t-count value of -1.405. The significance value of this variable is bigger than the a value of 0.161 > 0.05. In other words, Public Accounting Firms (KAP), both Big-4 and Non-Big-4, cannot reduce the opportunity for company management in earning management or it can be concluded that the first hypothesis is rejected.

According to the implemented research results, this research is in line with

several other researchers (Kusworo, 2015), and (Christiani, I., & Nugrahanti, 2014) which state that the research result conducted by researchers produce independent variables of audit quality using proxies. The KAP size with the dependent variable earning management does not have a significant effect. (Wiryadi, A., & Sebrina, 2013) also stated that manufacturing sector companies listed on the Indonesia Stock Exchange audited by KAP Big-4 were not able to weaken earnings management actions. Then the independent variable of audit quality where manufacturing companies audited by Public Accounting Firms (KAP), especially those included in the Big-4, cannot reduce earning management actions implemented by company management.

However, the results of this study contradict other studies such as (Challen, A. E., & Siregar, 2012), (Amijaya, M. D., & Prastiwi, 2013) which state that the independent variable has a significant positive effect on dependent variable of earning management. The KAP which is included in the Big-4 KAP is able to limit companies, especially management, in earning management actions. In addition, there is also no commitment to (DeAngelo, 1988) that the audit quality produced by Big-4 is able to produce results compared to Non-Big-4 auditors, but in fact it is not as result in this study.

In the research that has been conducted, it has been proven that the independent variable of audit quality with KAP size proxy does not have a positive effect on the dependent variable of earning management. According to (Luhgiatno, 2010) this is because most of the people who use financial statements have high expectations of large-scale KAPs, then they are able to provide audits with good quality. (DeAngelo, 1988) also stated that the Big-4 KAP auditors can also fail to detect the existence of earnings management conducted in a company.

The Effect of Industry Specialized Auditors on Earning Management

This is also to determine the effect of audit quality from the industrial specialization auditor (SPEC) on earnings management, then the result in this research are in the partial regression coefficient test results (t-test). The results of this test are the same as the KAP size which shows that the independent variable of industry specialization auditor on the dependent variable of earning management does not have a significant negative effect. The t-test has a significance value of 0.552 and has a t-count value of 0.595. The significance value of this variable is bigger than the a value of $0.552 > 0.05$. In other words, even though the independent auditors are included in industry specialization auditors, they cannot reduce the opportunity for company management in earning management action, or it can be conclude that the second hypothesis is rejected.

According to the results of previous research, this research is in line with several other studies such as (Luhgiatno, 2010), (Dian, F., & Kono, 2013) and (Sunarto, H., & Sundarta, 2015) which state that their hypothesis on earnings

management has no negative effect, or emphasize in earnings management. It similar with the research conducted by (Hegazy & El-Deeb, 2016) which states that industrial specialization auditors do not have better performance than auditors who are not industry specialists in dealing with earnings management. (Dian, F., & Kono, 2013) stated that industry specialization auditors have not been able to disclose earnings management; it could be that the manipulation object is not a financial report, but a discretionary cost reduction process which is not a violation of applicable accounting standards. In this research, it was found that industrial specialization auditors are widely used in one industry which causes a decrease in the ability of industrial specialization auditors in one particular industry.

Control Variable Regression Results

To assist the independent variable of audit quality, the authors use several control variables such as firm size (FSIZE), leverage (LEVER) and growth prospect (GROWTH). Firm size (FSIZE) has a sig value of 0.128 which the control variable company size has no effect on earnings management. The results of this control variable mean that the size of a company does not have an influence on the implemented earnings management, which is different from the research conducted by Putra et al. (2014) which states that the size of the company has a positive effect on earnings management, then the high size of a company will have an impact on the high and low earnings management.

Leverage (LEVER) has a sig value of 0.028 which the leverage control variable is able to have a significant influence on earning management. This indicates that the result of the division between total debt and total assets has a significant influence on the value of earnings management, the bigger value generated, the bigger value of earnings management.

The growth prospect (GROWTH) has a sig value of 0.054, which the control variable does not have a significant effect on earnings management. Companies can implement the earnings management, but cannot maintain the incentives in conducting these actions, then it can be said that the more the company grows, the more it does not affect managers in managing earnings. This result is contrast to research result conducted by (Amijaya, M. D., & Prastiwi, 2013) which states that the more a company grows and develops; it will affect managers in conducting earnings management.

CONCLUSION

After processing the research data and testing the collected data, the results of conducted research conclude that:

Audit quality is a possible where the auditor is able to detect and report material errors in financial statements, such as the existence of earnings management. The quality of audits with KAP size proxies in the application of the

earnings management of companies in the manufacturing sector for the period 2017 – 2019 did not produce significant results to suppress the company's earnings management.

Audit quality is also proxies using an industry specialization auditor, because it is judged that an auditor is able to focus on clients according to a particular industry, but in earnings management application for the manufacturing sector for the 2017 – 2019 periods did not produce significant results to suppress the company's earnings management.

This study uses three control variables, such as firm size, leverage and growth prospects, but there is only one control variable that can affect earnings management, called leverage.

IMPLICATION

From the results from the conducted research, it shows that audit quality proxies using the size of KAP and industrial specialization auditors has no effect on earning management. In other words, after doing research by the author, the authors produce quality audits conducted by KAP Big-4 and auditors who have focused on one industry are not able to suppress management actions in implementing the earnings management.

For companies, based from research that there is no effect on audit quality with proxy size of KAP Big-4 and Non Big-4, it can be said that not all KAP Big-4 can produce good audit quality, therefore it is better for every business entity, especially the manufacturing sector in choosing an auditor require to have experience and a good reputation in producing good audit quality for business entities. In addition, regarding industrial specialization auditors, it was found that in this research, there was no effect on earning management. It is better for companies to increase the credibility of financial reports, then the prepared financial statements can be accepted by the public. This is based on the fact that the auditors who specialize in industry are not much different in their audit results from auditors who are not specialized in the industry, especially in the manufacturing sector.

For independent auditors, the results of this research can be used to determine the effect of independent auditors conducted by KAP Big-4 and Non-Big-4 KAP on earnings management, then the independent auditors are able to increase the credibility and ability to fully and fairly disclose financial statements of the company. In this research, it was found that there was no effect of KAP size on earnings management. Therefore, independent auditors are expected to maintain the quality of their audits at their respective clients, such as conducting training in developing knowledge about the auditor.

For academics, the results of this study can be used as knowledge related to audit quality which is proxied using KAP measures and industry specialization

auditors on earning management. This research can also become a reference for future studies with related topics.

SUGGESTION

From the existence of a limitation, the author also hopes for further research are able to fix the limitations from this research. The author gives some recommendations as follows:

1. The sample used for further research can be from several or all companies listed as go public companies in the Indonesia Stock Exchange.
2. Independent variables can be added for further research, since they are able to influence the better results and better proxies.
3. The sample used for further research can use the recent research which may affect to the accuracy in detecting the influence of variables.

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