The Effect of the Proportion of Independent Board, Audit Committee and Audit Quality on Earnings Management (Empirical Study on Manufacturing Companies Listed on the Stock Exchange Indonesia Period 2012 - 2014)

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Abstract
This research aimed to analyze the effects of the proportion of independent board, audit committee and audit quality on earnings management. Quality audits in this research is proxied in firm size, auditor independence and auditor industry specialization. The population used in this research were manufacturing companies listed on The Indonesia Stock Exchange during 2012 - 2014. The sampling technique used in this research was purposive sampling method and obtained 198 samples of data for 66 companies. This research uses secondary data from the annual financial statements obtained from the Indonesia Stock Exchange during 2012 - 2014. To test the hypotheses in this research used multiple linear regression. The results of this research showed that auditor independence has negatively influence to earnings management. The higher independence of auditors who audited the company, the lower earnings management that may be carried out by management. The research also found evidence that the proportion of independent board, audit committee, firm size and auditor industry specialization had not significant effect to earnings management.

Keywords: Independent board, audit committee, audit quality, earnings management.

INTRODUCTION
The financial report is a record that contains information about the financial condition of a company at a certain period. Where the financial statements is a form of accountability for the management company to the owner. Indicators show that the performance of a company looks nice one of which can be seen in the income statement. The amount of the profit stated in the income statement in addition to providing information about the financial condition of a company, can also be used to affect users of financial statements to take a decision about their relationship with the company. Profit information is often used by management to conduct opportunistic actions by selecting specific accounting policies so that the profits can be arranged, raised or lowered as desired management. The financial statements are the object of earnings management practices, as the financial statements reflect the company's performance in the short term and long term. According to Scott (2003), Earnings management occurs for several reasons, such as to increase the compensation, avoiding debt requirements, meet analyst forecasts, and affect the stock price. Earnings management behavior undertaken by managers came from the agency conflict is the conflict of interest between principal and agent. There are two different interests in companies where each party equally seek to maximize profits. The occurrence of earnings management in addition to the management of opportunistic action often occurs because of weak supervision or monitoring of companies that allow the agent to commit deviant acts. Earnings management practices can be minimized either by better supervision mechanism conducted by independent board. Supervision of the audit committee also helps to prevent acts of earnings management by the company. Great Quality audits can detect earnings management actions undertaken by the company.

In Case earning management has recently occurred is the company which is an electronics firm Toshiba and nuclear energy technology. The financial condition of the company is already distorted and different from the findings of an independent audit committee. Corporate profits overstated by $ 1.2 billion over a period of five years and it has seen since April 2015 when Toshiba investigate deviant practices in the energy division. Any circumstances worsened in May 2015 after an independent audit committee to take over the financial evaluation. As a result, Toshiba shares fell 20% since early April when issues related to finances began to smell. In One way to minimize the actions that earnings management with the implementation of good corporate governance in a company.

The Government has emphasized the importance of supervision by an independent commissioner in achieving good corporate governance. JSX Directors Decree No. Kep-305 / BEJ / 07-2004 on Independent Commissioner stated that in the framework of the implementation of good corporate governance (GCG), a company listed on the Stock Exchange are required to have independent board that amount comparable to the proportion of the number of shares held by non-controlling shareholders provided that the number of independent directors at least 30% of the total number of commissioners. Beasley (1996) states that fraud in financial statements less the case if the percentage of commissioners who come from outside the company for more. This shows that the independence of the board of commissioners can reduce the occurrence of fraud in the
company statements kuangan. Independence of the board of directors effective influence on the financial reporting process. More and more independent board of directors, the supervisory process will do more quality (Nabila and Daljono, 2013).

Supervision of the audit committee can prevent the occurrence of acts of earnings management in a company. Research on the audit committee performed by Mahdy, et al (2012) found that the audit committee has an influence on earnings management. Thus the audit committee of a company can influence the management to real earnings management activities

The occurrence of earnings management practices within a company will reduce the confidence of the stakeholders, this can be overcome by the application of a good quality audit in a company. Quality audits in this study was measured using Auditor Independence, Firm Size and Auditor Industry Specialization. For detecting earnings management practices required an independent party, the auditor (Princess and Yuyetta, 2013). The auditor's independence is indispensable to ensure the quality of audit reports produced by the auditor. Auditors must be able to ensure the execution of his duty to maintain an attitude of independence. If the company is audited by the big four accounting firm will reduce earnings management practices, KAP big four has a tendency to maintain the quality of the resulting audit in the audit process as this will have an impact on the reputation of his company. Auditor Industry Specialization is often associated with earnings management because the auditor is believed to be able to detect those errors better, increase efficiency and improve the assessment of the veracity of financial statements (Chrisnoventie, 2012).

LITERATURE AND DEVELOPMENT HYPOTHESIS
The Agency theory is a theory that states the relationship between the agent and the principal where one party has more information than the other party (Jensen & Meckling, 1979). This theory assumes that agents have more information than the principal for the agent who runs the company's performance related to the authority and responsibility given by the principal. While the principal has informasil less about the condition of the company. The information imbalance causing asymmetry of information between the principals and agents. Information held by the agent the agent can be used to commit fraud to other parties, namely the principal. The condition is used by agents to manipulate the financial statements that aim to improve their welfare.

Effect of the Proportion of Independent Board on Earnings Management
Independent commissioner deemed able to perform monitoring functions in order to create good corporate governance. With supervision by an independent commissioner will make managers more cautious and transparent in running the company that will lead to good corporate governance. The greater the number of commissioners who come from outside the company, the smaller the likelihood of fraud in presenting the financial statements by management for control by commissioners better and free from various internal interests in the company, Prastiti and Meiranto (2013). Jao and Pagalung (2011) in his study also concluded the same results that the greater the composition of independent board, the higher supervision in the company so as to minimize the possibility of managers to manage earnings. The existence of the board of directors from outside the company that is independent of the pressure and managerial intervention will create transparency in the company (Nabila and Daljono, 2013)

H1: The proportion of independent board negative effect on earnings management

Effect of Audit Committee on Earnings Management.
Several studies have shown that audit committees play a role in financial reporting honestly. Prastiti and Meiranto (2013) and Tiswiyanti et al (2012) proved that there is a relationship between the size of the audit committee with earnings management. Their audit committee is required in an effort to reduce the likelihood of earnings management, oversight of the audit committee who uphold the principles of good corporate governance practices will prevent the occurrence of earnings management in a company.

H2: The audit committee has a negative effect on earnings management

Firm Size Effect on Earnings Management
Nastiti and Gumanti (2011) concluded that large KAP can reduce earnings management practices in companies that did IPOs in Indonesia for attempting to maintain market share at the same time the reputation of the audit should not be done with the relaxation of audit quality which can lead to earnings management practices. Putri and Yuyetta (2013) also found that firm size has a negative effect on earnings management. The larger the size of the firm (Big 4), the smaller the profit of the company management. KAP which included the Big-4 is more competent than non Big-4 accounting firm, so it has more knowledge about how to detect and manipulate the financial statements and earnings management. Therefore, the manager would not dare do the cult of earnings management.

H3 = Size KAP negative effect on earnings management.
Effect of Auditor Independence on Earning Management
Research conducted by the Mahdi Safari et al. (2011) showed that the auditor independence negatively affect earnings management. That is, the auditor be independent, then the lower earnings management activity undertaken by managers. Auditor be independent and the exclusion of economic dependence in reviewing and providing an audit opinion that the possibility of fraud in financial reporting can be minimized. Auditor be independent to maintain the reputation and trust of the community. Thus, the hypothesis is:

H4 = auditor's independence negatively effect on earnings management

Effect of Auditor Industry Specialization on Earning Management
Research conducted Mahdi, et al (2011) showed that the auditor industry specialization negative effect on earnings management. This means that the auditor industry specialization can minimize profit management action. Christiani and Nugrahanti (2014) also concluded the same results that the auditor industry specialization can detect earnings management as auditor industry specialization has more knowledge (superior knowledge) about a particular industry. The ability of industry specialization encourages clients to not earning management so that the quality of earnings increases. Additionally auditor industry specialization can also detect earnings management to maintain their reputation as an auditor.

H5 = Specialties Industry Auditor negative effect on earnings management

RESEARCH.METHODS
Population, Sample and Sampling Techniques The population in this study is a manufacturing company listed on the Indonesia Stock Exchange (IDX) with observation-year period from 2012 to 2014 contained in IDX 2012-2014. The sampling technique is purposive sampling where the sampling of companies is based on the following criteria:

1. The Issuer is manufactur company listed on the Indonesia Stock Exchange (IDX), which publishes the annual financial statements for the period December 31 2012 to 2014.
2. The data on the variables to be studied available in full in the financial statements.
3. The Issuer and its annual report includes the financial statements audited by independent auditors.
4. Issuers should generate positive earnings in its financial statements

Variables and Measurement Variables used in this research are:
1. Dependent Variables in this research is the selection of Earnings management is undertaken by managers in determining the accounting policy to achieve some particular purpose (Scott, 2003). Earnings management in this study using discretionary accruals as a proxy, calculated using the modified Jones model because the model is considered to be better among other models to measure earnings management (Dechow in Ujiyantho and Scott, 2007). Total accruals are classified into discretionary and non-discretionary component in phases:
   a. Measuring total accruals using the modified Jones model
      Total accrual (TAC) = Net Income (NI) - Operating Cash Flow (CFO)
   b. Calculating the value of accrual estimated by regression equation OLS (Ordinary Least Square)
      \[ \frac{TAC}{At-1} = \alpha_1 \left( \frac{1}{At-1} \right) + \alpha_2 \left( \frac{\Delta R EV_t}{At-1} \right) + \alpha_3 \left( \frac{PPET}{At-1} \right) + e \]
      Where:
      \[
      \begin{align*}
      TAC &= \text{Total Accruals company i in period t} \\
      At-1 &= \text{Total assets in the first at the end of the year t-1} \\
      \Delta R EV_t &= \text{Changes in the company's revenue from year i t-1 to year t} \\
      PPET &= \text{Fixed assets (gross property plant and equipment) Companies in period t} \\
      \end{align*}
      \]
   c. By using the above regression coefficients, the value of non-discretionary accruals (NDA) can be calculated using the formula:
      \[ NDA_t = \alpha_1 \left( \frac{1}{At-1} \right) + \alpha_2 \left( \Delta R EV_t - \Delta R EC_t \right) + \alpha_3 \left( \frac{PPET}{At-1} \right) \]
      Where:
      \[
      \begin{align*}
      NDA_t &= \text{non-discretionary accruals for firm i in period t} \\
      \Delta R EC_t &= \text{changes in receivables i of year t-1 to year t} \\
      \end{align*}
      \]
   d. Further discretionary accrual (DA) can be calculated as follows
      \[ DAC_t = \left( \frac{TAC}{At-1} \right) - NDA_t \]
      Where:
      \[
      \begin{align*}
      DAC_t &= \text{Discretionary Accuals firm i in period to t} \\
      \end{align*}
      \]
2. Independent variables in this study area. Independent Commissioner Board, Independent board are: board members who are not affiliated with the management, board members and other controlling shareholders, and free from the influence of business or other influences that can affect the...
ability to act independently or act solely in the interest of the company (National Committee Governance, 2006).

a. The composition of independent directors is measured by comparing the number of independent directors with the total number of commissioners (Sun and Liu, 2013).

b. Audit Committee The audit committee is a party to assist the commissioner in order to improve the quality of financial reports as well as increasing the effectiveness of external and internal audit (Sulistiyono in Jao and Pagalung, 2011). The audit committee to act independently in carrying out its duties and responsibilities

\[ KA = A \text{ Total of member of the committee audit} \]

The number of members of the committee audit according to the rules OJK

c. Quality Audit

1. The size of KAP

One indicator of the quality of the audit is seen from the small size of the firm where the auditor works, which are divided into KAP Big-4 and Non Big-4. KAP Big-4 is the expertise and high reputation compared with non Big-4 accounting firm (Princess and Yuyetta, 2013). According to Kane and Velury (2005) in Luhgiatno (2010), KAP Big-4 can provide greater assurance to investors in the integrity of financial reporting because (1) they have a large capacity and a more geographically extensive and diverse technical capability to focus on audit assignments, and (2) the substantial resources of their legal rights, including the company's reputation, they provide high assurance of the integrity of a report.

KAP is included in a group of Big-4 are:

1. KAP Purwantono, Sarwoko and Sandjaja affiliated with Ernst and Young (E & Y).
2. KAP Haryanto Sahari & Co. affiliated with Pricewaterhouse Coopers (PwC).
3. Firm Osman Bing Satrio & Co. affiliated with Deloitte Touche Thomatsu (DTT).
4. KAP Siddharta Siddharta and Widjaja affiliated with Klynveld Peat Marwick Goerdeler (KPMG)

Firm size is measured with a nominal scale through dummy variables, using a scale of 1 to represent the companies audited by the Big-4 accounting firm and a scale of 0 to represent audited by non-Big-4 accounting firm.

2. Independence Auditor The independence of the auditor is the auditor whose state is free from influence, not controlled by the other party and not dependent on others (Mulyadi, 2002). In this study, the independence of auditors was measured with a nominal scale through dummy variables, namely (a) scale of 1 used if KAP providing opinions going concern in the current year and the client is experiencing financial distress and scale of 0 if otherwise, (b) the scale 1 is used if the firm does not give a going concern opinion in the current year and the clients do not experience financial distress and scale of 0 if otherwise (Princess and Yuyetta, 2013).

3. Auditor Industry Specialization

Industry specialization is measured using the same comparison the number of KAP with the overall number of companies in a particular industry. Auditor industry specialists at the KAP has a market share of at least 15% in certain industries while non-specialist auditors industry has a market share of less than 15% in certain industries Craswell et al. (1995). This classification is based on the percentage of the number of companies audited by the auditors in an industry (Andrew, 2012). This variable was measured by using a dummy, for auditor industry specialization coded 1 whereas non auditor industry specialization coded 0.

Classic Assumption Testing Before testing the hypothesis, then the data obtained in this study will be tested in advance to meet the basic assumptions, and tests performed include:

1. Normality Test data is performed using non-parametric Kolmogorov Smirnov,
2. Heteroskidastity using test scatterplots,
3. Test Multicolinearity by looking Tolerance Value and Variance Inflatin Factor (VIF),
4. Autocorrelation test with test menggunakan Durbin Watson Data analysis method

To test the effect of Proportion of Independent Commissioner Board, Audit Committee and Audit Quality on Earnings Management used multiple regression test (multiple regression analysis). The data in this study using SPSS 21, with a research model as follows:

\[ Y = \alpha + \beta_1 DKI + \beta_2 KA + \beta_3 KAP + \beta_4 SIA + \beta_5 IA + e \]

Information :

\[ Y = \text{Earnings Management} \]
\[ DKI = \text{Independent Board} \]
\[ KA = \text{Audit Committee} \]
\[ KAP = \text{Size} \]
IA = Auditor Independence
SIA = Auditor Industry Specialization
E = Error

DATA ANALYSIS AND DISCUSSION

Results of Data Collection Based on purposive sampling method, acquired 66 manufacturing companies that meet the specified criteria so that it can be used as a sample in this study. In this study using a 3-year period of observation, for observation data mining company gained as much as 66 x 3 years = 198 observation data.

Normality Data

Data normality test aims to test whether a regression, the dependent variable, independent variable or both have a normal distribution or not. To get the normality of the data, it is necessary to detect the absence of data outliers. From the test results of normality with non-parametric statistical tests Kolmogorov Smirnov showed that significant value is still below 0.05. So this means that residual data is not normally distributed. Data were not normally distributed can be transformed in order to be normal (Ghozali, 2013). In this study, researchers tried to change the independent and dependent variables into shape Natural logarithm (Ln). From the results of data transformation and non-parametric statistical tests Kolmogorov Smirnov has been done, in Table 1 are known Kolmogorov Smirnov value of 0.667 and significant at 0.776. It can be concluded the data were normally distributed residual and regression models feasible for use in this study.

Table 1

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Residual</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>56</td>
</tr>
<tr>
<td>Normal Parameters*a,b</td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>0E-7</td>
</tr>
<tr>
<td>Std. Deviation</td>
<td>.87872156</td>
</tr>
<tr>
<td>Absolute</td>
<td>.089</td>
</tr>
<tr>
<td>Positive</td>
<td>.089</td>
</tr>
<tr>
<td>Negative</td>
<td>-.065</td>
</tr>
<tr>
<td>Kolmogorov-Smirnov Z</td>
<td>.667</td>
</tr>
<tr>
<td>Asymp. Sig. (2-tailed)</td>
<td>.766</td>
</tr>
</tbody>
</table>

a. Test distribution is Normal.
b. Calculated from data.
Sumber: Data Diolah (2016)

Multicollinearity

In the regression model is a good should not happen correlation between independent variables, if there is a correlation there will be multikolinearitas. A regression model was declared free of multikolinearitas if the tolerance value is above 0.10 or variance inflation factors (VIF) under 10 (Ghozali, 2013)

Results of testing the tolerance values in the table below showed no independent variables that have a value tolerance of less than 0.10. The test results variance inflation factor (VIF) also showed similar results that no one independent variable which has VIF value of more than 10. The limit of VIF is 10 and the tolerance value is 0.1. If the VIF values greater than 10 and the value of tolerance is less than 0.1, there will be multikolinearitas and regression models.
Table 2
Multikoloniearitas test

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>-2.760</td>
<td>1.230</td>
<td>-2.244</td>
<td>.029</td>
<td></td>
</tr>
<tr>
<td>DKI</td>
<td>-.766</td>
<td>1.337</td>
<td>-.072</td>
<td>-.573</td>
<td>.569</td>
</tr>
<tr>
<td>KA</td>
<td>.613</td>
<td>.1213</td>
<td>.067</td>
<td>.506</td>
<td>.615</td>
</tr>
<tr>
<td>KAP</td>
<td>.602</td>
<td>.551</td>
<td>.246</td>
<td>1.092</td>
<td>.280</td>
</tr>
<tr>
<td>IA</td>
<td>-1.044</td>
<td>.269</td>
<td>-.503</td>
<td>-3.885</td>
<td>.000</td>
</tr>
<tr>
<td>SIA</td>
<td>-.526</td>
<td>.623</td>
<td>-.193</td>
<td>-8.45</td>
<td>.402</td>
</tr>
</tbody>
</table>

a. Dependent Variable: LnML

Sumber: Data diolah (2016)

Autokolerasi

Autocorrelation test aims to test whether a linear regression model was no correlation between bullies error in period t with bullies error in period t -1 (previous). If there is a correlation, then there is a problem called autocorrelation (Ghozali, 2013). To determine the existence of autocorrelation can see the value of Durbin Watson test.

The test results autocorrelation in the regression model to meet the criteria, value DW of 2.026, this value will be compared with the value of the table by using the value of significance of 5%, the number of samples 56 (n) and the number of independent variables 5 (k = 5) (du = 2, 37; 5 - du = 2.63). This means regression model above there is no autocorrelation problem represented by the numeral Durbin Watson was in between both tables and 5-du tables.

Tabel 3
Autokorelasi test
Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.497</td>
<td>.247</td>
<td>.172</td>
<td>.92161</td>
<td>2.026</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), SIA, DKI, IA, KA, KAP

Heterokedastisitas

Heterokedastisitas test aims to test whether the regression model occurred inequality residual variance from one observation to another observation. To detect the presence of heteroscedasticity in a regression model can be done through testing Glejser with the following results

Table 4
Heteroskedastisitas test with Glejser test

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>1.121</td>
<td>.739</td>
<td>1.518</td>
<td>.135</td>
</tr>
<tr>
<td>DKI</td>
<td>-.175</td>
<td>.803</td>
<td>-.031</td>
<td>-2.18</td>
</tr>
<tr>
<td>KA</td>
<td>-.397</td>
<td>.728</td>
<td>-.080</td>
<td>-5.45</td>
</tr>
<tr>
<td>KAP</td>
<td>.459</td>
<td>.331</td>
<td>.350</td>
<td>1.387</td>
</tr>
<tr>
<td>IA</td>
<td>.034</td>
<td>.161</td>
<td>.030</td>
<td>.208</td>
</tr>
<tr>
<td>SIA</td>
<td>-.570</td>
<td>.374</td>
<td>-.389</td>
<td>-1.522</td>
</tr>
</tbody>
</table>

a. Dependent Variable: AbsUt

Sumber: Data diolah (2016)

From the test results heteroskedastisitas above, it can be seen that the significant value of the variable proportion of independent board (DKI) of 0.828, the audit committee (AC) of 0.588, the size of KAP (KAP) of 0.172, the independence of the auditor (IA) of 0.836 and industrial specialties auditor (SIA) of 0.134 is greater than the significance level, namely 0.05. Thus it can be stated that the regression model no symptoms heteroskedastisitas
Hypothesis Testing

Table 5

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>-2.760</td>
<td>1.230</td>
<td>-2.244</td>
</tr>
<tr>
<td>DKI</td>
<td>-.766</td>
<td>1.337</td>
<td>-.072</td>
<td>-.573</td>
</tr>
<tr>
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<td>1.213</td>
<td>.067</td>
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<tr>
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</tr>
<tr>
<td>SIA</td>
<td>-.526</td>
<td>.623</td>
<td>-.193</td>
<td>-.845</td>
</tr>
</tbody>
</table>

Sumber: Data diolah (2016)

1. Effect of the Proportion of Independent Board on Earning Management
   Hypothesis test results can be seen in Table 5 shows that DKI variable with a value of t = -0.573 and significance value of 0.569, which means a significance value greater than 0.05. It can be concluded that the proportion of independent board had no effect on earnings management. This means that the presence of independent board, fraud in presenting the financial statements by management may still be possible. Monitoring carried out by the board of commissioners that is free of any internal corporate interests can not guarantee correctness in financial reporting. The results of this study are consistent with the hypothesis testing conducted Siregar and Main (2005) which states that the proportion of independent board has no effect on earnings management. This contrasts with research conducted by Jao and Pagalung (2011) and Prastiti and Meiranto (2013) which states that the number of independent board that big can reduce the occurrence of earnings management practices.

2. Hypothesis test results can be seen in Table 5, which shows that the KA variable with a value of t = 0.506 and a significance value of 0.615, which means a significance value greater than 0.05. It can be concluded that audit committees had no effect on earnings management. It is probable that there is a mandatory OJK regulation of the goal the company set up an audit committee just to meet sankisi persyataan so avoid punishment. Therefore, the performance of the audit committee are less effective and optimal in developing and implementing the regulatory process to minimize earnings management practices. The results of this study supported the hypothesis testing conducted Siregar and Main (2005) and Prastiti and Meiranto (2013) which states that the existence of audit committee has no effect on earnings management. This is contrary to all Tiswiyanti el (2012) which states THAT the audit committee of a company can reduce earnings management Size Effect of KAP on Earning Management.

3. Hypothesis test results can be seen in Table 5 shows that KAP variable with a value of t = 1.092 and a significance value of 0.280, which means a significance value greater than 0.05. So we can conclude that firm size has no effect on earnings management. This means that there is no difference between KAP KAP Big Four and Non Big 4 in detecting fraud committed by management. Management remains despite profit taking management action audited by the Big Four or KAP KAP Non Big 4. With their cases drag audit Big Four accounting firm can prove that the current firm size can not be used as a benchmark in minimizing profit management action. The results of this study are consistent and reinforce previous research conducted by Kono and Yuyetta (2013) and Christiani and Nugrahanti (2014) which states that the auditor is not able to affect earnings management because management utilizes accrual accounting system. This contrasts with research conducted Mahdi et al (2011), Princess and Yutetta (2013) and Dinuka and Zulaikha (2014) which states that the auditor at large KAP will likely restrict earnings management practices of clients. Auditor Independence influence on Earnings Management.

4. Hypothesis test results can be seen in Table 5 shows that the variable IA with a value of t = -3.885 significance level of 0.000, which means that the significance value less than 0.05. So we can conclude that the independence of the auditor effect on earnings management. This means that the auditor be independent and the exclusion of economic dependence in reviewing and providing an audit opinion that the possibility
of fraud in financial reporting can be minimized. The auditor must be independent to maintain the reputation and trust of the community. This study supports the results of research Mahdi, et al (2011) which states that the auditor independence effect on earnings management. This research study conducted contrary to the Princess and Yuyetta (2013) which states that not all auditors is to be honest in your opinions and examine the financial statements. Auditor Industry Specialization influence on Earnings Management.  

5. Hypothesis test results can be seen in Table 5 shows that the variable SIA with a value of t = -0.845 and significance value of 0.402, which means a significance value greater than 0.05. So we can conclude that the auditor industry specialization has no effect on earnings management. This means that the membership of the auditor to audit clients in the same industry can not be used as a control in reducing their profit management action. There may be industry specialist auditor is not to reduce earnings management actions, but rather to enhance the credibility of the company's financial statements only to be more trusted by the people. This study is consistent with research conducted by Kono and Yuyetta (2013) which states that law enforcement in Indonesia is still weak so as to make the auditor is less able to develop the ability to detect earnings management practices. This is contrary to Christiani and Nugrahanti (2014) which states that the industrial specialties auditor has a better understanding of the characteristics of the industry, better adherence to auditing standards, understand the risks and problems in the industry to be audited, have the ability to detect errors better than non specialist industry so that industry specialization can better reduce earnings management than non accrual auditor industry specialization.

CONCLUSIONS AND RECOMMENDATIONS

1. The proportion of independent board had no effect on earnings management. This means that the presence of independent board, fraud in presenting the financial statements by management may still be possible. Monitoring carried out by the board of commissioners that is free of any internal corporate interests can not guarantee correctness in financial reporting.

2. The audit committee has no effect on earnings management. This means that the existence of audit committee can not reduce the likelihood of earnings management. It is probable that there is a mandatory OJK regulation of the goal the company set up an audit committee to meet persyarat persyaratan just so avoid punitive sanctions. Therefore, the performance of the audit committee are less effective and optimal in developing and implementing the regulatory process to minimize earnings management practices.

3. Size KAP has no effect on earnings management. This means that there is no difference between KAP KAP Big Four and Non Big 4 in detecting fraud committed by management.

4. Auditor independence effect on earnings management. This means that the auditor be independent and the exclusion of economic dependence in reviewing and providing an audit opinion that the possibility of fraud in financial reporting can be minimized. The auditor must be independent to maintain the reputation and trust of the community.

5. Auditor industry specialization has no effect on earnings management This means that the membership of the auditor to audit clients in the same industry can not be used as a control in reducing their profit management action. There may be industry specialist auditor is not to reduce earnings management actions, but rather to enhance the credibility of the company's financial statements only to be more trusted by the people.

Reference


Management : Evidence from Iran”. ISSN 1450-2887, Issue 66 : 77-84.


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<tr>
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