



Audit Opinion and Company Size on Earning Management as moderated by the Audit Committee at Sharia Commercial Banks in Indonesia

Mariyam Chairunisa^{1*}

¹ Universitas Mercu Buana, Jakarta, Indonesia

(*) Corresponden Author: mariyam.chairunisa@mercubuana.ac.id

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Abstract

This research examines the influence of audit opinion and company size on earnings management moderated by the audit committee at Islamic commercial banks in Indonesia in the period 2017 - 2022. There are many reasons why management carries out earnings management, including conflicts of interest that occur between management as agents and investors as principals, which often benefits one party. Earnings management practices can affect the fairness of the presentation of financial reports, so that financial reports can mislead users even though they should be useful for the users. The research method used is a saturated sample method which uses secondary data in the form of annual reports from fifteen Islamic commercial banks in Indonesia which provide Annual Reports. The data obtained was processed with moderate regression analysis (MRA) using SPSS statistical tools. The results of this research state that audit opinion has no effect on earnings management, but on the contrary, company size has an effect on earnings management. Furthermore, the audit committee is unable to moderate both audit opinion and company size on earnings management. It is hoped that this research can become a reference for further research

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INTRODUCTION

The government passed Law Number 28 of 2007 as a tax regulation. The spread of the COVID-19 pandemic has harmed society, the economy and public health (Brammer et al., 2020). Several business sectors experienced a decline in sales and production due to restrictions implemented by governments in various countries (Sultana et al., 2021). To deal with the pandemic, managers must often make complex decisions, such as managing financial reporting (Tibiletti et al., 2021). This is due to the importance of financial reports in decision making (Thi and Thi, 2022), especially in analyzing investment and credit decisions related to the company's future (Atuik and Salia, 2018).

One of the information presented in financial reports is regarding company profits. Profit

can describe management's capacity to manage company resources and indicate prospects for future business expansion (Michelon et al., 2020). Internal and external stakeholders utilize earnings reporting in financial reports for different purposes. Therefore, the success of a company as described in its financial reports is often modified in a structured manner or referred to as earnings management (Hanifah, 2020).

Earnings management is changing financial reports to obtain business opportunities that are in line with opportunistic stakeholders' interests (Tiffany and Wijaya, 2020). Earnings management does not always refer to the manipulation of data or information; This can also refer to selecting appropriate accounting methods to manage company finances (Minanari and Rahayu, 2019). There is no denying that this earnings management approach helps businesses improve their performance, financial performance and gain many competitive advantages (Gajdosikova et al., 2022). Usually, companies carry out earnings management to achieve an unqualified audit opinion (Susanto et al., 2021).

In 2018, the Financial Services Authority (OJK, 2018) imposed sanctions on Deloitte Public Accountants for failing to audit financial reports. The client, PT Sunprima Nusantara, received an unqualified opinion, but based on the results of the OJK examination, the company's financial status was not presented according to its actual financial condition. The case raises concerns about how the practices of Public Accounting Firms in developing countries follow codes of ethics. Earnings management is a deliberate intervention in the financial reporting process to external parties for personal interests (Beneish, 2001). Managers can use considerations regarding financial reporting and transaction structure so that the information presented can mislead stakeholders and affect the quality of financial reporting (Bratten et al., 2019).

Audit opinion is one of the factors that influences earnings management. The audit opinion expressed in the audit report is an instrument to confirm the existence of high quality financial information (Boolaky & Quick, 2016). Audit opinions are generated by an external audit process and this process functions as a control medium to overcome opportunistic management practices that tend to provide self-benefit such as earnings management (Jensen & Meckling, 1976). Therefore, the auditor's report serves as a guarantee of the level of information reported in the financial statements (Watts & Zimmerman, 1983). Audit opinions are broadly classified into two types, namely unqualified opinions and modified opinions.

An unqualified opinion issued by an auditor can be used as a guarantee for users of financial information. On the other hand, a modified auditor's opinion can produce information that is detrimental because this information can reduce the auditor's reputation and trust (Moalla, 2017). Financial reporting scandals in several companies have triggered a crisis of trust and had a negative impact on stakeholders (Zgarni et al., 2016).

Another factor that is thought to influence earnings management is company size. Company size is a comparison used to show the size of the company through total assets, net sales and market capitalization (Mahawyahrti and Budiasih, 2016). Companies with a larger size have a greater number of assets and a greater amount of invested capital. This shows that there are more and more parties involved in the company. Companies with a larger size tend to be more careful in presenting the condition of their financial reports because they are under closer supervision, so they tend to reduce earnings management actions. Research conducted by Purnama (2017) shows that company size has a negative influence on earnings management. A different view is taken in Putri and Machdar's (2017) research that company size has no influence on earnings management.

The first role of the audit committee is to supervise management so that managers will be limited in managing profits according to their wishes, but in accordance with the actual conditions of the company. Many previous studies support that audit committees limit earnings management opportunities (Zgarni et al., 2016). Then, the audit committee will encourage appropriate audit opinions through limiting earnings management opportunities. Study of partial relationships between variables will mislead the role of the audit committee. The existence of an audit

committee is necessary in a good corporate governance mechanism, to assist the Board of Commissioners in supervising managers. Therefore, evaluation of the audit committee's performance must be carried out comprehensively. This research will also provide evidence of the effectiveness of the audit committee, whether they carry out their role as required.

Previous research has shown a relationship between audit opinion and earnings management. However, investigations into the direct relationships between these variables have yielded inconsistent findings. Research (Krismiaji and Sumayyah, 2022) confirms that the relationship between audit opinion and earnings management is positive and significant. However, research conducted (Devie et al., 2019) shows that earnings management strategies have no effect on audit opinion. Inconsistent research results regarding the relationship between audit opinion and earnings management provide an opportunity for further research.

Opportunities for earnings management can be narrowed by the existence of an audit committee. Several previous studies support that audit committees can reduce earnings management (Inaam and Khamoussi, 2016). However, other research finds the opposite, namely that the audit committee has no effect on earnings management (Rahman and Mohamed Ali, 2006).

The audit committee as a corporate governance mechanism has the expertise to evaluate management's financial reports. A more experienced audit committee (experts in accounting, finance, business industry and so on) will be more effective in reviewing financial reporting (Sun et al., 2014) because they have the right knowledge and experience to detect earnings management practices (Suteja et al., 2016).

Mansor, and Ahmad, (2020) stated that the internal audit committee is responsible for the relationship between the audited company accounts and the actual financial profit management of non-financial companies listed in Nigeria. The survey results show that the internal audit committee mediates the relationship between audited company accounts and actual earnings management. The survey results also show that companies found to be small in size and low in profits by financial profit standards should be forced to put greater emphasis on abuse of audit committee independence which is higher among listed non-financial companies in African countries.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

According to Jensen & Meckling (1976) Agency theory is the basic thing used to understand the relationship between principals and agents. In this case the agency relationship is a contract between one or more people who employ others to provide a service and then delegate decision making authority to the agent. Based on this theory, there is a separation between the owner (principal) and the manager of the company (agent), causing agency problems. Furthermore, the separation of owner and manager also creates information asymmetry, which is a condition where agents have access to information that is not owned by the principle. Imbalance of information owned by the owner and manager of the company imposes the emergence of information asymmetry. Based on the assumption of human nature, every human being has a tendency to act by prioritizing his personal interests.

Earnings management is management's choice of accounting policies or real actions that influence profits in order to achieve several profit objectives that will be reported (Scott 2015:445). This earnings management action is carried out by managers to present profits that are adjusted to the desired objectives and are created through selecting applicable accounting policies (Savitri, 2016: 88). There are several reasons why earnings management occurs, including increasing compensation, avoiding debt agreements, and influencing share prices. Changing accounting methods, such as determining accounting numbers, is a form of earnings management (Subramanyam, 2017). Profit is often used as an engineering target by management to minimize

and maximize the amount of profit by carrying out profit management practices (Muiz and Ningsih, 2020).

For users of financial reports, good audit quality can provide an acceptable and responsible opinion and ensure that there is no fraud or material misstatement (Li et al., 2019). An audit opinion is a disclosure that the financial statements are fair and issued by a certified public accountant (Sumaryati et al., 2021). The more often a company obtains an unqualified opinion, the more likely it is that the company will have excellent performance (Utami et al., 2020). Therefore, audit opinions on financial reports are the basis for investors' considerations in making investment decisions. Investors will invest in companies that can guarantee high returns (Kuswara and Yanto, 2019).

Company size is an indicator used by companies regarding the company's wealth, assets or assets. If a company's wealth is greater, then the company can invest well so that it can complement and fulfill the company's products well (Kalbuana et al., 2021). Company size explains the amount of resources the company has which are presented through total assets, number of sales, average sales, and average total assets (Kingsley et al., 2016). According to Mahawyahrti and Budiasih (2016) and; Purnama (2017), company size has a negative effect on earnings management practices. The larger the company size, the smaller the earnings management actions. This is because large companies are increasingly paying attention to investors, thereby putting pressure on reliable financial reporting. Meanwhile, according to Yamaditya and Raharja (2014) that large companies receive more attention from investors so they require companies to always report good profits.

The audit committee plays a role in reducing risk and uncertainty regarding problems that arise in financial reports such as financial control, deviations from legal compliance, theft, and so on (Scott, 2015). The audit committee is a committee that takes a strategic and important role in the company to maintain the credibility of the preparation of financial reports so that the internal control system can run well (Giovani, 2017).

The audit committee needs to have competence and expertise in the fields of accounting and finance (Wulandari, 2019). Article 1 number 5 of the Financial Services Authority Regulation Number 1/POJK.03/2019 of 2019 concerning the Implementation of the Internal Audit Function in Commercial Banks ("POJK 1/2019"), explains that the Audit Committee is a committee formed by and responsible to the Board of Commissioners in assisting in carrying out the duties and functions of the Board of Commissioners. Financial Services Authority Regulation Number 55/POJK.04/2015 concerning the Establishment and Implementation Guidelines for the Audit Committee in Article 7, must have at least 1 (one) member with an educational background. and expertise in accounting and finance.

Based on review of the theory and previous studies, the hypotheses proposed in this study are as follows:

- H1 : Audit Opinion influences Earnings Management
- H2 : Company size influences earnings management
- H3 : Audit Opinion influences Profit Management, moderated by the Audit Committee
- H4 : Company Size influences Profit Management, moderated by the Audit Committee

METHOD

The data used in this study are secondary data obtained from the 2017-2022 Indonesia Stock Exchange. The total sample used in this study is 60 Financial Statements and GCG Reports of

Sharia Banks.

RESULTS AND DISCUSSION

Descriptive Statistics Test Results

Descriptive statistical analysis provides an overview of data seen from the minimum value, maximum value, mean value, and standard deviation of data.

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Earning Management	60	-8,71	8,27	,1461	2,57648
Audit Opinion	60	4,0	5,0	4,917	,2787
Company Siza	60	27,22	33,35	30,6182	1,50283
Valid N (listwise)	60				

Sumber : Pengolahan Data SPSS 2024

Descriptive Statistics display output shows the number of respondents (N) as 60. The minimum Profit Management is -8.71 and the maximum is 8.27, where the average is 0.1261. The minimum Audit Opinion is 4 and the maximum is 5, where the average is 4.917. The minimum company size is 27.22 and the maximum is 33.35, where the average is 30.6162.

Assessing The Normality

The normality test is used to test whether in a regression model, the dependent variable, independent variable or both have a normal distribution or not. A good regression model is data that is distributed normally or close to normal. Normality testing was carried out using the Kolmogorov-Smirnov Asymptotic Significance test.

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		60
Normal Parameters ^{a,b}	Mean	,0000000
	Std. Deviation	2,44713551
Most Extreme Differences	Absolute	,159
	Positive	,159
	Negative	-,159
Test Statistic		,159
Asymp. Sig. (2-tailed)		,001 ^c

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

The normality test results show that the Kolmogorov Smirnov test value is known to be the Asymp. Sig (2-tailed) is 0.001 which means $\leq 5\%$ so that the data test results are not normally distributed. To overcome data that is not normally distributed, this research uses outliers, namely by removing 6 data samples. So the data sample used in this research was 54 data.

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		54
Normal Parameters ^{a,b}	Mean	,0000000
	Std. Deviation	1,22778241
Most Extreme Differences	Absolute	,085
	Positive	,085
	Negative	-,071
Test Statistic		,085
Asymp. Sig. (2-tailed)		,200 ^{c,d}

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

d. This is a lower bound of the true significance.

The results of data normality testing using the Kolmogorov-Smirnov test after outlier showed a significant Asymp value. Sig.(2-tailed) is 0.200 which is higher than 0.05. So it can be concluded that the data is normally distributed. In other words, the regression mode used in this study meets the normality assumption.

Assessing The Multicollinearity

Multicollinearity testing is carried out through detection of tolerance value and VIF (variance inflation factor), which shows that multicollinearity does not occur if the tolerance value is > 0.10 and $VIF < 10$. Based on data processing, the multicollinearity results are in table 5.3 below:

Coefficients ^a		
Model	Collinearity Statistics	
	Tolerance	VIF
Audit Opinion	,782	1,280
Company Size	,782	1,280

a. Dependent Variable: Earning Management

The results of the multicollinearity test presented in the Coefficients table above show that the Audit Opinion and Company Size variables have a tolerance value above 0.10 and with a VIF value below 10, it can be concluded that there is no multicollinearity between variables in this regression model.

Assessing The Autocorrelation

The autocorrelation test is used to determine whether in a linear regression model there is a correlation between the confounding error in period t and the error in period $t-1$ (previous). A good regression model is a regression that is free from autocorrelation. To test whether there is autocorrelation, you can use the Durbin-Wastson Test (DW test).

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,669 ^a	,448	,426	1,25163	1,642

a. Predictors: (Constant), Compny Size, Audit Opinion

b. Dependent Variable: Earning Management

The DW value of 1.642 will be compared with the Durbin – Watson table value. The number of samples (N) is 54 and the number of independent variables is 2 ($k = 2$), then the values obtained are $DL = 1.4851$ and $DU = 1.638$. Because the DW value of 1,642 is greater than the upper limit (DU) of 1,638 and less than $4 - DU$, namely $4 - 1,638 = 2,361$, so the result is $1,638 < 1,642 < 2,361$ and is in accordance with the requirements of $DU < DW < 4 - DU$, it can be concluded that in this regression model there is no autocorrelation.

Assessing The Heteroscedasticity

A good regression model is one where heteroscedasticity does not occur. To test whether there is heteroscedasticity or not, it can be done using the Glejser Test. If the significance value is above 0.05 then the data does not have a heteroscedasticity problem. However, if the significance value is below 0.05 then the data is said to have a heteroscedasticity problem.

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5,630	2,581		2,181	,034
	Audi Opinion	-,478	,499	-,147	-,956	,343
	Company Size	-,075	,082	-,140	-,913	,366

a. Dependent Variable: ABRESID

From the Coefficients table, it can be seen that the significance value of the parameter coefficients for each variable is more than 0.05, so it can be concluded that this research does not have heteroscedasticity problems.

Assessing the Feasibility of the Regression Model (Goodnes of Fit Test)

Assessing The Coefficient of Determination (R2)

The coefficient of determination test (R2) aims to determine the level of influence that independent variables simultaneously have on the dependent variable which can be seen from the value of the coefficient of determination (adjusted R - square). The value of the coefficient of determination or R Square ranges between 0 and 1. If the R Square value is closer to 1, the influence of the independent variable on the dependent will be stronger. Vice versa, if the value is negative, then the influence will be weaker. The following are the results of the Coefficient of Determination Test (R2):

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,669 ^a	,448	,426	1,25163

a. Predictors: (Constant), Company Size, Audit Opinion

b. Dependent Variable: Earning Management

The Adjusted R Square (R²) value in table 5.6 is 0.132 or 13.2%. This shows that the variation in Earnings Management is 44.8% influenced by the variables Audit Opinion and Company Size. Meanwhile, the remaining 55.2% is influenced by other factors outside the research model.

Assessing Simultaneous Significance (F Test)

The F test is used to test whether the independent variables together (simultaneously) have an effect on the dependent variable with a significance level of 0.05. The results of the F test can be seen in the table below

ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	64,862	2	32,431	20,702	,000 ^b
Residual	79,895	51	1,567		
Total	144,757	53			

a. Dependent Variable: Earning Management

b. Predictors: (Constant), Company size, Audit Opinion

Based on Anova, it can be seen that the results of the ANOVA test or F test in model 1 can be seen from the calculated F value of 20,702 with a probability of $0.000 < 0.05$, so it can be concluded that the regression model on the variables of financial stability and supervisory ineffectiveness together has a significant effect on management. profit

Assessing The Hypothesis

Hypothesis Test (T Test)

The T test is carried out to test whether the independent variable partially influences the dependent variable. The significance value used is 0.05. The t test results can be seen in the table below.

Coefficients^a

Model	Unstandardized Coefficients	Standardized Coefficients	t	Sig.
	B	Beta		
1 (Constant)	27,173		6,251	,000
Opini Audit	-1,428	-,200	-1,698	,096
Ukuran Perusahaan	-,649	-,552	-4,693	,000

a. Dependent Variable: Manajemen Laba

Based on the Coefficients table above, it can be concluded that:

- The significance value of Audit Opinion on Earnings Management is 0.096 or more than 0.05. From this significance value it can be concluded that the hypothesis H1 is rejected and

the Audit Opinion variable has no effect on earnings management.

- b. The significance value of Company Size on Profit Management is 0.000 or less than 0.05. From this significance value it can be concluded that the hypothesis H2 is accepted and the company size variable has a significant and negative effect on earnings management.

Regression Analysis with Moderated Regression Analysis (MRA)

This analysis is to determine the direction of the relationship between the independent variable and the dependent variable and whether the presence of a moderating variable can strengthen or weaken the respective relationship between the independent variable and the dependent variable. To see the effect, moderated regression analysis is used with the following equation:

Model 1

The following are the results of the moderated regression analysis of equation (1) with SPSS 25 presented in the following table:

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,669 ^a	,448	,426	1,25163

a. Predictors: (Constant), Company size, Audit Opinion

Coefficients ^a						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	27,173	4,347		6,251	,000
	Audit Opinion	-1,428	,841	-,200	-1,698	,096
	Company Size	-,649	,138	-,552	-4,693	,000

a. Dependent Variable: Earning Management

Interpretation

a. Equation Model

Based on table 5.9, it is known that the equation model is as follows:

$$Y = 27.173 - 1.428OA - 0.649UP + e$$

b. Coefficient of Determination

The Adjusted R Square (R²) value is 0.448, meaning that 44.8% of earnings management can be explained by the independent variables audit opinion and company size. The remaining 55.2% is influenced by other variables outside the model.

Model 2

The following are the results of the moderated regression analysis of equation (2) with SPSS 25 presented in the following table:

Hasil Uji MRA (2)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,684 ^a	,468	,412	1,26719

a. Predictors: (Constant), Company Size*Audit Committee, Audit Opinion, Company Size, Audit Committee Opinion, Audit committee

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients		t	Sig.
		B	Std. Error	Beta			
1	(Constant)	14,420	15,252			,945	,349
	Audit Opinion	-,059	1,353	-,008		-,044	,965
	Company Size	-,287	,463	-,244		-,620	,538
	Audit Committee	15,219	13,789	4,836		1,104	,275
	Audit Committee Opinion	-4,548	3,765	-1,351		-1,208	,233
	Company Size*Audit Committee	-,338	,356	-3,559		-,949	,348

a. Dependent Variable: Earning Mangement

Interpretation

a. Equation Model

Based on table 5.10, it is known that the equation model is as follows:

$$Y = 14.420 - 0.059OA - 0.287UP + 15.219KA - 4.546*OA*KA - 0.338UP*KA + e$$

b. Coefficient of Determination

The Adjusted R Square (R²) value is 0.468, meaning that 46.8% of the dependent variable earnings management can be explained by the independent variables audit quality, company size and audit committee. The remaining 53.2% is influenced by other variables outside the model.

Conclusion

1. The significance of the moderate variable Audit Opinion*AuditCommittee 0.965 > 0.05. These results show that the audit committee as a moderating variable between audit opinions has no sensitivity to earnings management or in other words the audit committee as a moderating variable has no influence or strengthens the influence on audit opinions and earnings management.
2. The significance of the moderate variable Company Size*Committee Audit 0.538 > 0.05. These results show that the audit committee as a moderating variable between company size has no sensitivity to earnings management or in other words the audit committee as a moderating variable has no effect on company size and earnings management or weakens the influence on audit quality and earnings management.
3. The Adjusted Square (R²) value in the first regression was 0.448 or 44.8%, whereas after the second equation the R² value rose insignificantly to 0.468 or 46.8%.

CONCLUSION

Based on the results of the research and discussion used according to the objective of the hypothesis, which was carried out with MRA analysis in equation 1 before there was a moderating variable and MRA analysis in equation 2 after there was a moderating variable, the following conclusions can be drawn: 1) Audit Opinion is proven to have no effect on earnings management; 2) Company size has no effect on earnings management. 3) Based on the MRA test, it can be concluded that the audit committee is unable to be a moderating variable because the audit committee weakens the relationship between audit opinion and company size on earnings management.

SUGGESTION

This finding suggests that further research can use different research objects so that it can enrich the research results from various research objects. It is recommended that further research change or add other independent variables which are thought to influence earnings management, where in this research R is 44.8%. Meanwhile, the remaining 55.2% was influenced by other factors not discussed in this research.

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