



EFFECT OF EFFECTIVENESS AUDIT COMMITTEE, INTERNAL AUDIT AND QUALITY OF AUDIT ON PROFIT MANAGEMENT

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Abstract

The importance of Earnings Management for management is to determine the direction of Stakeholder decisions, it is very important, but Stakeholders will receive a bad impact from Earnings Management because of the number game practice carried out by management such as not obtaining invalid and adequate data so that in determining action they cannot take the right things. should be for the company. When earnings management actions are revealed, this has another effect, namely bad management which will have a major impact on the company, consequently reducing the trust of external parties to the company's managers . So, it is advisable to take several steps to strengthen the quality of corporate governance, including the effectiveness of the audit committee, internal audit and external audit practices.

Keywords: Earnings Management, Audit Committee, Internal Audit, Quality Audit





INTRODUCTION

Earnings Management is an action taken by the company's management in influencing reported profits, including information about economic advantages. In fact, profits reported with earnings management treatment in the long term will cause problems (Naftalia and Marsono, 2013). Earnings management is also used to trick stakeholders who want to know financial performance (Sulistyanto, 2008).

Subramanyaman and Wild (2010) stated that earnings management is a tool for management in deliberately intervening in the profit determination process which is generally for personal gain.

The emergence of differences in interests between agents and management is one of the drivers of earnings management practices. Based on agency theory, conflicts of interest arise due to different goals which cause management to take actions that are not in accordance with the interests of stakeholders (Messier, Glover, & Prawitt, 2006). Agency conflict between the principal and the agent is caused by the absence of information disclosure from the agent as the manager of the company to the principal as the owner of the company (Jensen & Meckling, 1976).

One way to monitor agent behavior is to minimize agency conflicts, especially in the company's financial reporting process (Jensen & Meckling, 1976). Internal and external technical monitoring is needed to ensure adequate disclosure of financial statements (Cheng & Courtenay, 2006). So, it is advisable to take several steps to

strengthen the quality of corporate governance, including the effectiveness of the audit committee, internal audit and external audit practices (Yassin & Nelson, 2012).

An audit committee is formed by the board of commissioners to help improve financial reporting and increase the effectiveness of internal and external audits. The presence of the audit committee is useful to ensure the transparency of financial statements, fairness to stakeholders and information disclosure can be carried out by management. The task of the audit committee is to be a supervisor in increasing effectiveness in establishing quality financial disclosures and reports, compliance with statutory regulations, and guaranteed internal control (Sulisyanto, 2008). This can increase the supervisory function, so that the quality of reporting carried out by management is guaranteed

In addition to the audit committee, companies can establish an internal audit function as a complement to the existing internal governance framework (Davidson, et al., 2005). The existence of the internal audit function provides consulting services, which can be developed on the effectiveness of risk management, control, and governance processes. The internal audit function is also expected to facilitate the effectiveness and operations of the audit committee (Davidson, et al., 2005). The results of this study are in accordance with the results of research by Davidson, et al. (2005). The existence of the internal audit function alone is not effective enough to control earnings management, if the internal audit has not played its role in corporate governance and there is a lack of





interaction between the internal audit function and the audit committee. The existence of an internal audit is expected to facilitate the effectiveness of the audit committee function, in accordance with the purpose of the audit function is the monitoring of financial reporting which is the responsibility of the audit committee.

One way to control earnings management practices is to conduct an audit of financial statements. The audit of financial statements has the objective of informing the state of the quality of the financial statements presented by management. Guna and Herawaty (2015) state that certainty regarding the relevance and reliability of the company's financial statements is needed to assist external parties in making business decisions. External auditors can be a control mechanism for management so that management presents financial information accurately and free from fraudulent accounting practices.

RESEARCH METHODS

The population in this study are manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2014-2016. The sampling technique was carried out by means of proportional sampling with the following criteria: (1) Manufacturing companies listed on the IDX (2) Companies issuing financial statements as of December 31 in a row for the period 2014-2016 (3) Companies using rupiah currency in their financial statements (4) Companies that generate positive profits (5) Have all the data used to calculate the variables that are the focus of this study. The data source is obtained from the Indonesia Stock Exchange on its

official website, namely www.idx.co.id, the capital market reference center and related websites.

The dependent variable in this study is earnings management. Earnings management is the selection of accounting policies by managers from existing SAKs and can naturally maximize their utility (Scott, 2006: 344). Earnings management can be measured through discretionary accruals as a proxy for earnings management which is calculated using Modified Jones (Dechow et al, 1995). The calculation model is as follows:

Step 1

Calculate the total accrual with the formula:

$$Tait = Nit - CFOit$$

Step 2

Calculating Non Discretionary Accrual (NDA)

$$Tait_{i,t} = \alpha_1 \Delta Ait_{i,t-1} + \beta_1 \Delta Rev_{i,t} - \Delta Rect_{i,t} - \beta_2 PPE_{i,t} + e_{i,t}$$

Step 3

By using the regression coefficient above, then non-discretionary accruals (NDA) are carried out with the formula:

$$NDA_{i,t} = \beta_1 \Delta Ait_{i,t-1} + \beta_2 \Delta Rev_{i,t} - \Delta Rect_{i,t} + \beta_3 PPE_{i,t} - Ait_{i,t-1}$$

Step 4

Calculate the value of discretionary accruals with the equation:

$$Dait = \left(\frac{Tait}{Ait_{i,t-1}} \right) - NDA_{i,t}$$

The independent variables in this study are the audit committee, internal audit and audit quality.





According to OJK Regulation Number 55/POJK.04/2015, the number of audit committees consists of at least three members from independent commissioners and external parties. Measurement of the audit committee by using the number of audit committee members in the company (Agustia, 2013).

The existence of an internal audit function in the company. Companies that disclose the existence of internal audits in their annual reports are given a score of one (1), otherwise they are given a value of zero (0).

The purpose of audit quality is all the possibilities where the auditor when auditing the client's financial statements can suppress violations that occur (SPAP; 2011). The quality of audits carried out by public accountants can be seen from the size of the KAP conducting the audit. Audit quality is measured using a dummy variable (DeAngelo, 1981), 1 = Describes companies being audited by big four KAPs and 0 = Explains companies audited by non-big four KAPs.

RESULTS AND DISCUSSION

The results of sample selection using purposive sampling technique amounted to 120, in detail can be seen in Table 1.

No.	Criteria	Sum
1	Number of research population	141
2	Manufacturing companies with incomplete data	(56)
3	Manufacturing companies that use currencies other than rupiah	(23)
4	Companies that do not generate positive profits	60
Samples that meet the criteria		42
Total Research Sample (42x3)		126
Data Outlayer		(6)
Processed samples		120

Table 1. Results Of Sample Selection

Descriptive statistics are intended to provide an overview of the analyzed data in terms of minimum, maximum, and average (mean). Table 2 is a statistical descriptive result of all the variables studied. Based on table 2, the descriptive statistical results of earnings management in manufacturing companies on the IDX, the lowest value is -0.20, the highest value is 0.21 with an average of -0.0230. The average manager performs earnings management by lowering the profit rate.

Information	N	Min.	Maks.	Mean.
Profit management	120	-0,20	-0,21	-0,0230
Audit Committee	120	3,00	6,00	3,1417
Audit Quality	120	0,00	1,00	0,5000

Table 2. Descriptive statistics

CONCLUSION

The audit committee has an effect on earnings management. Investors as outsiders cannot directly supervise and observe the company's information system, the audit committee is expected to provide their perception of the quality of the company's earnings reports. The audit committee helps the board of commissioners to supervise the management's financial reporting process so that the company's financial reporting to shareholders can be relied on so that management's motivation to manipulate financial statements can be reduced.

The existence of the internal audit function alone is not effective enough to control earnings management, if the internal audit has not played its role in corporate governance and there is a lack of interaction between the internal audit function and the audit committee. The existence of an internal audit is expected to facilitate the effectiveness of the audit





committee function, in accordance with the objective of the audit function to monitor financial reporting which is the responsibility of the audit committee. The internal audit function, which so far has only focused on control and operational risk, can be developed to monitor earnings management.

Audit quality is seen as the ability to enhance the quality of the company's financial reporting. With a high audit quality is expected to increase investor confidence because it is able to detect the occurrence of corporate earnings management actions. The higher the quality of the audit it will detect possible findings that occur within the company, the lower the earnings management that occurs in the company. Investors as outsiders cannot directly supervise and observe the company's information system, a quality audit is expected to provide their perception of the company's information system. quality and reliable company earnings reports so that management's motivation to manipulate financial statements can be reduced.

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