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Preface

U ndergraduate and master's students are required to write a thesis involving a scientific research in order to complete their degree. Such a task is carried out under the supervision of the lecturers and professors who are experts in the fields being researched. The research and writing process have been completed in order to achive the best results as good sereach papers.

The purpose of this monograpfh is to compile among the best papers written by those students and provide examples of the research reports by undergraduate and postgraduate students in accounting discipline. Various topics are presented, from environmental issues to corpotate performance, and from fraud to culture issues at government institutions. Theare are also research that compare the data of Indonesia and neighbouring coutnies.

Completed in relatively short time and limited funding as the requirement of their degrees, limitations in certain areas, such as theoretical framework, data sampling, methodological amd writing issues, are unavoidable. Nonetheles, such ciscumstances and the selection of the issues, make it suitable for this monograph to be used as a reference where research limitations need to be discussed in related courses, such as Research Methodology and Statistics for Business Research.

The instructors/lecturers can assign their students to perform a critical review within their research capabilities. Students can also use the divered topics of this monograph and choose the one(s) suitable for their own. Since these reseach were conducted by previous students, the current students may relate better to their own cases. By doing so, students may learn from the previous research and improve their knowledge and skills in conducting a better research and write better papers to be published in reputable journals.

Editor

Chapter 9

ANALYSIS OF INFLUENCE OF AUDITOR QUALITY ONEARNINGS MANAGEMENT CASE STUDY OF PUBLIC COMPANIES IN ASEAN

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ABSTRACT

This study aims to analyze earnings management and its relationship with the law protection and sanctions against public accountant is one of the efforts of the regulator for the quality of auditors can be maintained. The conclusion obtained from this research is hypothesis that states that the auditor quality has a role of increasing the earnings management is moderated by law system in a c+ountry is unacceptable. The ratio of the company's sample asset value compared to the total asset auditee shows that the higher the company's asset value is stamped compared to the total asset of the company that becomes the auditee of KAP of the Big 4, the lower the auditee's earnings management. Audit quality research variables show the result that the auditor quality variables affect the low earnings management that exist in the manufacturing sector in a public company that is sampled. **Keywords**: Auditee Assets, Audit Quality, Earnings Management, Legal Origin.

9.1 Introduction

According to Institute of Indonesia Chartered Accountants Indonesia (IAI)-(2013) in 2010 total of accountants in Indonesia was 10.000 people, the this amount if it is compared to the same countries in ASEAN is umali relatively. For instance, Thailand has 51.737 accountants, Malaysia has 27.292 accountants, Singapore has 23.262 accountants and Philippine has 21.599 accountants. Data of Accounting Development and Appraisal Services (PPAJP) of Ministry of Finance, the amount public accountant in Indonesia is no less agitated compared to the neighbor country in IAJ (2013). Indonesia had only 1.000 public accountant in 2012, very opposite to the amount of public in Malay- sia (2.500), Filipina (4.941), and Thailand (6.000).

One of the assessment of performances generally used is earnings quality of company. One of methods used by the owner of a company in order to get te company is in accordance with agreed regulation between the company manager and the owner of the company by using auditor as it is necessary considered as independent by the owner and manager of the company. Professional Auditor is the terms of qualified financial reporting. Auditor is as one of professions of public accountant (AP) and is as an inseparable part of public accountant office (KAP).

Indonesia with the ability and limitation of auditor in this matter (AP) incomparable to other countries indirectly indentifies the existence of issues of its auditor quality, But in reality until 2015 there has not been frozen Public Accountant Office or the permit is revoked due to legal sanction related to its audit quality (in Indonesia it has not been litigation risk yet that proves the Public Accountant Office imposed a legal banction). Pursuant to Law of Public Accountant 2011 there is constraint of regulation toward Public Accountant Office and foreign AP to get involve in delegating audit

in Indonesia. This study is elevating issue on quality comparison of auditor across the countries in ASEAN and the impact of auditor quality on the quality of financial reporting in ASEAN countries. This research in important due the gap of number of auditors and the quality of auditor Indonesia will affect the earnings quality level difference Ivtween Indonesia and other ASEAN countries. This renearch is aimed at comparison of the role of auditor quality across ASEAN countries and the impact of auditor quality on earnings quality.

9.2 Theoritical Basis and Development of Hypotheses

Earnings Quality

Farnings information is an important role for the manager in taking its provided by the management as requirement that must be performed in urder to achieve the agreement between the manager and the owner of the company. According to PSAK conceptual frame the quality of financial reporting among other things is a financial reporting that understood, relevant, reliable and can be compared. Relevant information is information that possesses predictive value, feedback value and real time. Information may reliable if the information can be verified, presented honestly and neutrally.

Earning quality according to Dechow et al. (1996) consists of earnings persistence, earnings smoothing, discretionary, conservatism, and the achievement of earnings target. From those five earnings qualities accrual discretionary and the achievement of earnings target is a form of earnings management. Those three types of earnings management revealed by Dechow et al. (1996) mentioned is a form of accrual earnings management. Accrual earnings management used is a form of discretionary

account in accounting standard. This is different than earnings management that use real discretionary such as operating activity, findings and investment that has impact on reported earnings.

AUDIT QUALITY

The influence of audit on earnings quality has documented by several previous researchers. Carcello and Nagy (2002) prove that negative relation between auditor specialists on its business client. Whilst Dunn et al. (2000) proves that there is a better improvement provided which is audited by auditor specialist. Teoh and Wong (1993) prove there is a larger market reaction in the company reporting larger earnings and audited by Big 8 accountant compared to company that audited by non-Big 8 accountant.

LAW SYSTEM

Francis and Wang (2008) states that in common law information reveals to public is more transparent and using more appropriate accrual-based accounting system compared to code law country. Expenditures of company for audit fee is more to common law country. Francis and Wang (2008) state that common law country is more protecting the investor, but only for audited company by non-Big 4 auditor, its earnings quality does not influenced by the Country protection. country law Research result of Francis and Wang (2008) indicates that there is an auditor role in elev- ating the quality of financial reporting. In the country with strong of law enforcement, auditor encountered by larger litigation risk. As the risk mentioned is high, therefore they perform its audit more carefully, so that the quality of company's earnings more higher as well. That argument indicates that the system of law moderates the relation between auditor and earnings quality, Based on this thus proposed hypothesis is the quality of the role of auditor increases the earnings quality that moderated by law system of a Country.

This research is comparison audit quality and earnings quality between ASEAN countries. Sample country of this research has already joined with ASEAN since 2008- 2012, consists of 10countries such as: Indonesia, Malaysia, Singapore, Thailand, Philippines, Brunei, Laos, Myanmar, Vietnam and Cambodia. Ha: auditor quality that has the role to increase earnings quality moderated by law system in a Country.

9.3 Research Method

Data and Sample Selection

Data of financial reporting, auditor obtained from State Stock Exchange affiliated in ASEAN Country. Observation year starts from 2008-2015.

Sample obtained by judgment random sampling method. Sample from wrvice induslry and banking are not included as sample in this research due to industrial characteristic differences.

Reverarch Variable

Earmings management

Earmings management used is earnings quality that is discre- tionary accrual artsing from company management discretionary by using modified Jones. The use of absolute accrual value (DA) due to the components dscretionary accrual (DA) and non discretionary accrual (NDA). The asurement of discretionary accrual is performed by at first calculating al accrual for each year of t by modified Jones method such as:

$$TAC_{it.}/ A_{it-1} = NI_{it}/A_{it-1} - CFO_{it}/A_{it-1} \qquad \textbf{(1)}$$

With the explanation as follows:

TAC_{it} : total accrual company in the period of t

NI_{it} : net income of company i in the period of t

CFO_{it} : cash flow of operating of company i in the period of t

A_{it-1} : log of total asset of company i in the period of t

Value of total accrual (TAC) estimated to detect regression coefficient by OLS regression equity as follows:

$$TAC_{it}/ A_{it-1}= \beta_1(1/A_{it-1})+\beta_2(\Delta Rev_{it}/ A_{it-1}-\Delta Rec_{it}/ A_{it})+ \beta_3(PPE_{it}/ A_{it-1}) + \varepsilon_{it}$$

(2)

By using regression coefficient above Discretionary Accrual (DA) computed as follows:

$$DA_{it} = TAC_{it} - (\hat{\beta}_2 (1/A_{it}) + \hat{\beta}_2(\Delta Rev_{it}/ A_{it-1}-\Delta Rec_{it}/A_{it}) + \hat{\beta}_3(PPE/As1))$$ **(3)**

With the explanation as follows:

DA_{it} :discretionary accrual of company i in the period of t

TAC_{it} total accrual of company i in the period of t

A_{it-1} :log of total asset of company i in the period of t

ΔRev_{it} :change of revenue of company i in the year of t

ΔRec_{it} : change of credit of company i in the period of t

PPE_{it} : fixed asset of company i in the period of t

ε_{it} : error of company i in the period of t

Legal Origins

When a Country mentioned as common law follower it valued1 whilst when code law follower it valued 0.

Audit Quality

This research uses dummy variable 1 for public accountant office big 4 consists of affiliated public accountant office Foreign Big 4, public accountant office such as Ernst & Young, Pricewaterhouse Cooper, Deloitte and KPMG. Other than this 4 public accountant office dummy 0 is used.

Control variables

Control variable in this research is Return on Asset (ROA) net earnings divided by asset, COUNTRY: dummy 1 stands for a country where the company is domiciled natural logarithm of total assets. Leverage is total loan divided by total and 0 stands for another. Size calculated from assets.

Empirical Test

Research Model

$$DA_{it}=\beta_1+ \beta_2 KUAs_{it}+ \beta_3 LO_{it}+ \beta_4 ROA_{it}+ \beta_5 COUNTRY_{it}+\beta_6 SIZE_{it}+\beta_7 LEV_{it} + \beta_8 KUA*LO_{it}+ \varepsilon_{it}$$

Description:

DA_{it} : discretionary accrual of company i in the period of t

KUA_{it} : audit quality is proxies from big 4 and big 4

LO_{it} : when a Country named as common law follower then it is valued
          but when it is code follower it valued 0.

COUNTRY: Name of country in ASEAN

ROA_{it} : return on asset of year t, is calculated from earnings divided by total
          assets of company i in the period of t

$SIZE_{it}$: natural logarithm of total assets of company i in the period SIZE.

LEV_{it} : total loan divided by total assets of company i in the period of t

9.4 Data Analysis

Data Analysis Procedure

Hypothesis test is performed by using multiple regression test prior to the use of regression model error test, therefore classic assumption test toward several normality test, heteroscedasticity test, autocorelation test and multicolinearity test. Multiple linear regression model resulted is a model as a result of good estimator occupied by regression assumption that has high influence the pattern of dependent variable change.

9.5 Discussion

Data and Sample Selection

Data of financial reporting, auditor is obtained from State Stock Exchange affiliated in ASEAN countries. Observation year from 2008-2015. Sample obtained by purposive random sampling method. Sample from service industry and banking are not included as sample in this research due to industry characteristic differences. Based on OBV OSISRIS 2014 data is obtained in Indonesia from 50 companies, Malaysia 225 companies, Filipina 36 companies, Singapore 127 companies, Thailand 147 companies and Vietnam 2 companies. Some of public companies that exist in 10 ASEAN countries are not all of them taken as sample due to the purposive Tändom sampling used by re- searcher. Available data only for five ASEAN countries as follows: Indonesia, Malaysia, Filipina, Singapore and Thailand.

Descriptive Statistic

Descriptive statistics for research samples in the form of management accrual for each country. Based on the data in Table 1 it can be viewed that the average of discretionary accrual for samples of manufacturing company

Contemporary Accounting Research the five ASEAN countries' Stock Exchange of 0.0105 means that it is relatively small with variation of 0.03, The minimum value for accrual discretionary in the five countries which their companies taken for samples is 0.001480 and its maximum value is 0.327923.

Table 9.1 *Descriptive Statistics Company Accrual Earnings Management*

Country	N	Accrual Earnings Management			
		Mean	Stand.	Min	Max
Indonesia	50	0.005213	0.005779	0.001517	0.079203
Malaysia	225	0.015343	0.082121	0.030824	0.301108
Filipina	36	0.027840	0.034513	0.057377	0.245018
Singapore	127	0.096491	0.036187	0.001480	0.058099
Thailand	147	0.010357	0.051871	0.054096	0.227740

Prior to hypothesis testing performed with moderated regression analysis, regression model error testing is used therefore classic assumption testing must be performed in the form of normality test, heteroscedasticity test, autocorelation test and multicolinearity test. The outcome of múltiple linear regresión model is regression model resulting a good estimator if regression assumption is met which higly has influence toward the pattem of dependent variable change. The result of BLUE test indicates that the model can be used. The result of hypothesis by using MRA is presented as follows:

Table 9.2 *Result of Hypothesis Testing Summary of Moderated Regresion Analysis*

Relation between Variable	Without Moderation		With Moderation		P-value
	B	ΔR^2	β	ΔR^2	
Auditor Quality	-0,786	0,6453			0,1514
Legal Origins Auditor Quallity			-0,904	0,6064	0,3056

Dependent Variable: Accrual Discretionary

Based on the test result in Table 2 above, the hypothesis which states that the auditor has the role to increase the quality of earnings that is moderated by law system in a country is unaccepted. The result of this research explains that the accrual discretionary of manufacturing company in a country is not influenced by interaction between auditor quality and applicable legal origins in that country, Although the result of testing indicates the existence of differences between accrual discretionary in the country that its legal origin is code law with a country that its legal origin is common law in ASEAN region but his is not the reason of the interaction of law protection and auditor quality which may cause the level of earnings management of manufacturing company is declining in that region.

9.6 Conclusions

This research raises the issue of comparative auditors quality among countries in ASEAN on the impact of auditor quality toward financial quality in ASEAN countries. This research is very important due to number of auditors and auditors quality gap in Indonesia will distinguish the level across ASEAN countries and the impact of auditor quality on earnings

quality. of earnings quality between Indonesia and other ASEAN countries. This research is aimed at determining the comparison of auditor quality role

The conclusion obtained from this research is hypothesis that states that the auditor quality has a role of increasing the earnings management is moderated by law system in a country is unacceptable. The result of this research describes that accrual discretionary of manufacturing company in a country is not influenced by the interaction between auditor quality and applicable legal origins in that country.

Although the result of the test indicates the existence of discrepancy between accrual discretionary in the country that its legal origins is code in law with the country that its legal origins is common law in ASEAN regions but this is not the cause of the interaction of law protection and auditor quality can lower the level of earnings management occurred in manufacturing company in that region.

This rescarch has limitation data that only obtained in observation year of 2007-2012 by means the year of 2007 is as basıc year so that the data obtained from year of 2008-2015. In this research it is suggested thal lovger range of data may be used in order to get a better research resuk

9.7 References

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