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The Influence of Audit Quality in Controlling Practice Earnings Management

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ABSTRAK

Tujuan dari penelitian ini adalah untuk mengetahui pengaruh kualitas audit dalam pengendalian praktik manajemen laba. Penelitian ini menggunakan penelitian kualitatif dengan metode kajian pustaka sebagai metodologinya. Penelitian akan menggunakan analisis data studi pustaka dan hasil yang diperoleh menunjukkan bahwa adanya pengaruh kualitas audit dalam pengendalian praktik manajemen laba pada suatu entitas korporasi. Diharapkan hasil penelitian ini akan memberikan wawasan untuk memahami peran penting kualitas audit dan manajemen laba. Tujuan dari penelitian pengaruh kualitas audit terhadap aktivitas pengendalian manajemen laba adalah untuk mengevaluasi sejauh mana peran kualitas audit dalam mencegah, mendeteksi atau meminimalkan hasil aktivitas manajemen dalam lingkungan bisnis. Penelitian ini dapat mencakup evaluasi keakuratan, kelengkapan dan integritas audit serta dampaknya terhadap integritas informasi keuangan yang disajikan perusahaan kepada para pemangku kepentingannya.

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The purpose of this research is to determine the effect of audit quality in controlling earnings management practices. This research uses qualitative research with the literature review method as the methodology. The research will use literature study data analysis and the results obtained show that the influence of audit quality in controlling earnings management practices in a corporate entity. It is hoped that the results of this research will provide insight into the understanding of the important role of audit quality and earnings management. The aim of studying the influence of audit quality on controlling earnings management activities is to evaluate the extent of the role of audit quality in preventing, detecting or minimizing the results of management activities in the business environment. This research may include evaluating the accuracy, completeness and integrity of the audit as well as its impact on the integrity of the financial information the company presents to its stakeholders.

1. INTRODUCTION

The phenomenon of earnings management needs to be given special attention in the company's current business context. This practice raises concerns about the trustworthiness of a company's financial statements. In this situation, audit quality plays a very important role in monitoring earnings management practices.

As an independent mechanism, audit is responsible for verifying the accuracy and validity of financial information. The audit's ability to detect and prevent manipulation of financial reports by management is very dependent on its quality which includes independence, professionalism and thoroughness. By having an understanding of the relationship between audit quality and earnings management practices, this research aims to contribute to the development of accounting and audit literature. It is hoped that the findings of this research will provide valuable guidance for people who work, organize and conduct research in this field.

2. LITERATURE REVIEW

Audit Quality

Meutia (2004) defines audit as a stage to reduce the lack of synchronization between managers in sharing information with share owners by using other parties to provide approval or validation of financial reports. DeAngelo (1981) Interprets audit quality as a combined benefit for detecting errors in financial reports. Audit quality includes the probability that an auditor, when auditing a client's financial statements, will detect violations that occur in the client's accounting system and report them in the audited financial statements.

Earnings Management

Earnings management is an attempt by company managers to influence information in financial reports with the aim of outsmarting stakeholders who want to know the condition and performance of the company. Earnings management is an accounting technique to provide company financial report results that are in accordance with the company's wishes
The company's goal in using earnings management is to reduce changes in earnings prices so that the company looks more stable and not at high risk. Management can be measured using real activities and accruals. Earnings management can occur because financial reports are prepared using an accrual basis. Accrual-based accounting uses accrual, deferral, allocation procedures which aim to link income, costs, profits (gains) and losses (losses) to describe the company's performance during the current period, even though cash has not been received or disbursed.

Table.1 Results of Articles/Journal Research

Writer	Year	Number of subject research	results
Ingrid Christiani, Yeterinn widi nugrahanti	2014	174 companies	The results of this study are also consistent with the study of Gramling et al. (2001) show that by leveraging expertise, the audit industry can identify errors in earnings management and forecasting and predict future cash flows. Gramling et al.(1998)

			explained that auditors' industry expertise can identify earnings management actions because auditors have superior knowledge of a particular industry.The auditor's ability to detect industry-specific earnings management will encourage clients not to do so. Manage results so that the quality of results increases.
Inne aryanti, farida poin kristanti hendratno	2017	23 companies	The results of this research are not in accordance with the established framework, so the hypothesis that institutional ownership has a partial negative impact on income smoothing is rejected. Indeed, in general, institutional investors do not effectively carry out their role as informed investors with the ability to monitor or supervise management activities, thereby preventing management from taking actions or policies that will affect the performance of securities management. Institutional investors only act as temporary investors (temporary owners of the company) who only focus on the short-term profits of their ownership. Organizations may not necessarily be able to increase the effectiveness of management control, resulting in fewer management policies being implemented to manage results. These results are in line with research conducted by Arleen and Welvin (2010), Agustia Dian (2013), Kusumaningtyas Metta (2012), Werner R Murhadi (2009) which states that institutional ownership has no effect on earnings management. The results of this research are consistent with the established framework that audit quality has a partial influence on earnings management, but in a positive sense. This means that the higher the quality of the audit, the more effective the management of the results will be. This may be caused by: In general, companies only use quality Bigfour or KAP services to increase the reliability of financial reporting so that investors can trust them more, but cannot limit the emergence of management errors. Revenue management is carried out by the company's directors.

Kelvin Gunarto Ernie Riswandari	2019	18 companies	This result is caused by the limited authority of the audit committee. The audit committee is only allowed to provide advice to the company, thereby limiting the function of the audit committee itself. The audit committee was established by the board of directors with the purpose of reducing the degree of managerial opportunism. When a conflict of interest arises when the supervisory board no longer has independence regarding the responsibilities entrusted to it by shareholders, the independence of the audit committee which is under the direction of the supervisory board will be questioned. The Supervisory Board has the authority to regulate the Audit Committee to limit the Audit Committee's own ability to supervise earnings management activities.

Source: from various sources

3. RESEARCH METHODOLOGY

This research will use qualitative methods combined with literature review methods. The literature review method will refer to available documents, especially documents published in scientific journals with the aim of developing theories and basic descriptions of references for this research. Both theoretically and practically, the literature review method can to some extent be used to solve research problems faced by researchers.

4. RESULT AND DISCUSSION

Based on the results of the analysis carried out on several articles or journals related to this research, it was found that the auditors industrial expertise can detect provit management behavior because the auditors industrial expertise has superior knowledge of a particular industry. An auditors ability to identify industry-specific earnings controls will discourage clients from doing so.Manage your results to improve their quality.This finding is consistent with the established framework that audit quality has a partial but positive impact on earnings management. This means that the higher the quality of the audit, the more effective the management of the results will be. This may be caused by: In general, companies only use quality Bigfour or KAP services to increase the reliability of financial reporting so that investors can trust them more, but cannot limit the emergence of management errors. Revenue management is carried out by the company's directors.

5. CONCLUSION

The conclusion that we can draw is that auditors' industry expertise allows them to identify earnings management behaviors because they have superior knowledge of a particular industry. This finding is consistent with the established framework that audit quality has a partial but positive impact on earnings management. In other words, the higher the quality of the audit, the more effective the management of the results.

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