

THE INFLUENCE OF AUDITOR QUALITY, CORPORATE GOVERNANCE, AND TAX PLANNING ON PROFIT MANAGEMENT

(Empirical Study of Manufacturing Companies on the Indonesia Stock Exchange)

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Abstract

This study aims to analyze the Effect of Auditor Quality, Good Corporate Governance and Tax Planning on Earnings Management (Empirical Study on Manufacturing Companies Listed on the Indonesia Stock Exchange). The data analysis method used is panel data regression analysis and classical assumption test with the help of Eviews software. The sampling method used in this research is purposive sampling method. Partially, the results of the study state that audit quality and good corporate governance have a negative effect on earnings management in manufacturing companies on the Indonesia Stock Exchange. Tax planning has no effect on earnings management in manufacturing companies on the Indonesia Stock Exchange. Simultaneously audit quality, good corporate governance and tax planning affect earnings management in manufacturing companies on the Indonesia Stock Exchange.

Keywords: *Audit Quality, Good Corporate Governance, Tax Planning, Earnings Management.*

INTRODUCTION

Management has a tendency to take actions that can make financial reports better, one of which is earnings management. According to Scott (2006), earnings management is basically a method of determining the selection of accounting policies by management to achieve certain goals. The selection of these accounting policies is motivated by both efficiency and opportunistic goals. Profit management is efficient if the company's management tries to increase the level of profit transparency in communicating internal company information. Profit management is opportunistic when the company's management maximizes profits for itself.

According to Belkaoui (2000) income smoothing is an effort that is deliberately made to reduce fluctuations in profit levels that are considered normal by the company. Meanwhile, according to Rahmawati (2008) earnings management can reduce the credibility of financial statements when used for decision making because earnings management is a form of manipulation of financial reports which is a means of communication between managers and external parties of the company.

The practice of income smoothing is caused by management motivation to reduce reported profit fluctuations. Management chooses to maintain a stable profit value compared to a volatile profit value, so that management will increase reported profit if the actual amount of profit decreases from the previous year's profit. Conversely, management will choose to reduce reported profits if actual profits increase compared to the previous year's earnings (Novita, 2009).

The case of Profit Management for a Manufacturing Company, namely PT Tiga Pilar Sejahtera Food Tbk (2019), has inflated funds worth Rp. 4 trillion, inflated revenues of Rp. 662 billion, and other inflation of Rp. 329 billion contained in the EBITDA post. (cnbcindonesia.com).

Furthermore, the case of PT. Bantol International Investama Tbk (2019) experienced a net loss of IDR 312.32 billion, although it decreased by 42% from the previous semester, the company's sales were recorded to have increased by 0.29%. Recording as if the company has suffered losses for 7 consecutive years (2012-2019) is to avoid taxes. (cnbcindonesia.com) PT. Timah Persero Tbk (2016) manipulated financial reports by presenting fictitious financial reports of Rp. 59 billion to cover the financial performance of PT. Timah Persero which is increasingly worrying for the company's sustainability. (Finance.detik.com). Earning Management is inseparable from several influencing factors, such as audit quality, good corporate governance and tax planning.

The first factor affecting earnings management is audit quality. Audit is a process to reduce information asymmetry that exists between managers and shareholders to provide validation of financial statements. Users of financial statements, especially shareholders, will make decisions based on reports that have been audited by the auditor. Therefore audit quality is an important thing that is considered by auditors in the auditing process (Christiani & Nugrahanti, 2014).

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Examination of financial statements conducted by auditors has different qualities. Therefore, high-quality auditing acts as a deterrent to effective earnings management, because management's reputation will be destroyed and company value will decrease if misreporting is detected and revealed (Wiryadi & Sebrina, 2013).

The Agro Pantas Tbk Company (ARGO) In 2019 obtained a Going Concern Opinion from KAP Anwar and Partners which shows that the company's audit quality is low. In the Audit Opinion there is an exception to the auditor's opinion where the financial statements indicate that the Company experienced a net loss of US\$ 7,277,027 for the year ended December 31, 2019 and, on that date, the Company also recorded a capital deficiency of US\$ 86,633. 129. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. In this case the quality of the audit provided decreased, namely there was an emphasis on one thing in the company's audit report.

The second factor is good corporate governance. Corporate governance arises because there is a separation between ownership and company control, or often known as agency problems. The agency problem in the relationship between the owner of capital and the manager is how difficult it is for the owner to ensure that the funds invested are not taken over or invested in projects that are not profitable so that they do not generate returns. The Influence of Auditor Quality, Good Corporate Governance and Tax Planning on Profit Management (Empirical Study of Manufacturing Companies Listed on the Indonesian Stock Exchange)".

RESEARCH METHOD

This research is a research with a descriptive statistical approach and the type of research data is quantitative data using data panel. Descriptive statistics are statistics used to analyze data by describing or illustrating the data that has been collected as is without intending to draw conclusions that apply to general or generalization. According to Sugiyono (2018), quantitative research is a research method by conducting research on populations or samples obtained randomly and then the data will be processed randomly statistic with the aim of testing the hypothesis. The data used in this study is panel data where this study uses a combination of time series data and data cross section.

The data analysis used to solve the problems in this study is panel data regression analysis with the help of Eviews 9. The research data used is secondary data namely annual reports published by manufacturing companies on the IDX in the 2017 - 2019 period of 67 companies using the purposive sampling method.

The panel data regression method used is through three approaches, namely, the least squares approach of common effects, the second is the fixed effect approach and the third is the random effect approach. Furthermore, the data is also tested for classical assumptions. The equation model for panel data regression analysis is as follows:

$$Y_{it} = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + e_i$$

Information:

- Y_{it} = Manajemen Laba
- α = Constant
- X₁ = Audit Quality
- X₂ = GCG
- X₃ = Tax planning
- i = Entity to-i
- t = Period to-t
- β = Variable Regression Coefficient
- Ln = Natural Logarithm
- E = error term

The variables used in the study are:

- a. according to Schipper in Wild, et al. (2008) is defined as intentional management intervention in the profit determination process, usually to fulfill personal goals. How to use indicators:

$$TA_{i,t} = Net\ Income_{it} - CPO_{it}$$

- b. According to Rahman (2018), audit quality is measured using a dummy variable by looking at the auditor's tendency to issue a Going Concern opinion

Score 1 if you get a Going Concern opinion and 0 if you get a non Going Concern opinion

- c. Analysis of studies on corporate governance practices is needed to assist investors in obtaining a clear picture of governance in a company (Bhuiyan and Biswan 2007).

$$KI = \frac{\text{Komisaris Independen}}{\text{JUmlah Dewan Komisaris}}$$

- d. Suandy (2008) defines tax planning as the process of organizing a taxpayer's business or a group of taxpayers in such a way that the tax debt, both PPh and other tax burdens, is at a minimum, this activity is legalized by the government.

$$\text{Tax} = \frac{\text{Net Income It}}{\text{Laba Sebelum Pajak}}$$

The framework and hypotheses in the study are as follows:

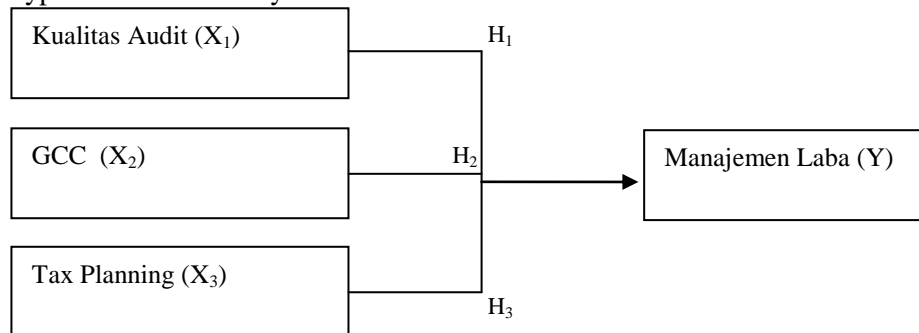


Image 1. conceptual framework

Based on the description of the conceptual framework and supported by existing theories, the research hypothesis is as follows:

- H1: Audit Quality has a negative effect on Earnings Management in Manufacturing companies listed on the Indonesia Stock Exchange.
- H2: Good Corporate Governance has a negative effect on Earnings Management in Manufacturing companies listed on the Indonesia Stock Exchange.
- H3: Tax Planning has a positive effect on Profit Management in Manufacturing companies listed on the Indonesia Stock Exchange.
- H4: Simultaneously Audit Quality, good corporate governance and tax planning have a positive effect on Earnings Management in Manufacturing companies listed on the Indonesia Stock Exchange

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RESULTS AND DISCUSSION

Results

In order for the model used in this model to be good and appropriate, a model selection technique is needed. There are three models to be selected, namely the Common Effect Model (CEM), Fixed Effect Model (FEM) and Random Effect Model (REM). The models that can be selected in this study can be seen in the table below:

Table 1. Chow Test Results

Variabel	CEM		FEM		REM		t _{tabel}
	Koefisien	t _{hitung}	Koefisien	t _{hitung}	Koefisien	t _{hitung}	
C	.990	.048	.634	.170	.878	.750	,650
KA	0.125	1.797*	0.143	1.840*	0.139	2.039**	
GCG		4.591**				-	
	1.724	*	0.796	1.021	1.441	2.969***	
ML	0.037	0.934	0.009	0.271	0.018	0.532	
R-squared							0.055121
Adjusted R-squared							0.044384
F-statistic							5.133607
Prob (F-statistic)							0.001820
Durbin Watson stat							1.572210
Cros-section Chi-Square							
					Df	Prob	
Uji Chow					66		0,0000
Uji Hausman					3		0,6442

Based on Table 4 shows the models used in panel data regression, namely the Common Effect Model (CEM), Fixed Effect Model (FEM), Random Effect Model (REM). Furthermore, testing will be carried out to choose which model is suitable and in accordance with this research. The first test to be carried out is the Chow Test.

The chow test is a test that compares the CEM model and the FEM model. As for the chow test, the probability value of the Chi Square line is 0.0000. This value is below the error rate value of 0.05. Based on the Chow test, the best model in this study is the Fixed Effect Model (FEM). So it is necessary to test to see between the Fixed Effect Model (FEM) and the Random Effect Model. While the hausman test has a probability value of 0.6442. This value is above the error rate of 0.05. Based on the Hausman test, the best model in this study is the Random Effect Model (REM). So this study uses the Random Effect Model (REM).

Then the regression equation that can be compiled in this study is as follows:

$$ML = 0.87 - 0.14 KA - 1.44 GCG - 0.09 TP + e$$

Based on the equation above, it can be explained that a constant of 0.87 means that the variables KA < GCG and TP are considered constants (value 0), so the ML value remains at 0.87. The regression coefficient value of KA is - 0.14 indicating a negative relationship (not unidirectional), which means that for every 1% decrease in KA, ML increases by 0.14%.

Then the GCG regression coefficient of -0.44 shows a negative relationship (not unidirectional) which means that every 1% increase in GCG causes ML to decrease by 0.44%. then the TP regression coefficient of -0.019 shows a negative relationship (not unidirectional) which means that every 1% increase in TP causes ML to decrease by - 0.019%.

Based on Table 4 it can be seen that the R-squared value is 0.551 or 55.1%. These findings indicate that KA, GCG and TP can affect ML by 55.1%, while the rest is explained by other factors not analyzed in this study.

Discussion

Hypothesis test

Results of Panel Data Regression Estimation

The Influence of Audit Quality on Earnings Management

The results of this study indicate that audit quality has a negative and significant effect on earnings management in Manufacturing companies on the Indonesia Stock Exchange. This is shown by the results of the t count > t table, namely $2.039 > 1.650$ and a significant value of $0.04 < 0.05$.

The Effect of Good Corporate Governance on Profit Management

The results of this study indicate that GCG has a negative and significant effect on earnings management in Manufacturing companies on the Indonesia Stock Exchange. This is shown by the results of the t count > t table, namely $2,969 > 1.650$ and a significant value of $0.040 < 0.05$.

Effect of tax planning on Profit Management

The results of this study indicate that tax planning has a negative and significant effect on earnings management in manufacturing companies on the Indonesia Stock Exchange. This is shown by the results of the t count > t table, namely $0.532 > 1.650$ and a significant value of $0.59 < 0.05$.

Simultaneously audit quality, good corporate governance and tax planning have an effect on Manufacturing Company Profit Management on the Indonesian Stock Exchange

CONCLUSION

The results of the study show that the three regression coefficients are positive and significant to the dependent variable. From the regression model, it can be explained further, namely as follows:

1. Partially, audit quality has a negative effect on earnings management in Manufacturing companies on the Indonesia Stock Exchange.
2. Partially, good corporate governance has a negative effect on earnings management in manufacturing companies on the Indonesia Stock Exchange.
3. Partially, tax planning has no effect on earnings management in Manufacturing companies on the Indonesia Stock Exchange.
4. Simultaneously audit quality, good corporate governance and tax planning affect earnings management in manufacturing companies on the Indonesia Stock Exchange.

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