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Effect of Good Corporate Governance Audit Quality Management and Earnings As A Moderating Variable

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Abstract

The purpose of this study to determine the quality of audits in industry companies related to institutional ownership, managerial ownership, independent board, the size of independent commissioner board and audit committee. And also, how earnings management moderate' institutional ownership, managerial ownership, independent commissioner board, the size of the independent commissioner board and the audit committee on audit quality. The design or method in this study uses univariate and multivariate (regression) methods to determine the relationship between good corporate governance and audit quality and earnings management moderation. Population and samples from the Financial Statements of 105 industrial companies listed on the Indonesia Stock Exchange, 2015-2019. The presented findings show that earnings management does not strengthen or weaken good corporate governance on audit quality.

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INTRODUCTION

Statements of Income are reports that represent the company's operating activities in financial terms during a period. This report can be used as a measure of the company's financial performance during a certain period, which is usually one year or one period (Subramanyan, 2014: 19). In the financial statements there is information about profit, where profit for investors is an increase in economic t value be distributed through dividend distribution. Profit also can be used to measure the performance of company management in a certain period as well as to hold responsibility for managing the resources that have been entrusted to company management or company managers (Ardiyansyah, 2014). The importance of earnings information encourages management to pay more attention to the reported earnings figures. Earnings information often becomes the target of management's opportunistic actions to maximize its welfare by manipulating the appearance of earnings as desired. This opportunistic action is known as earnings management (Setiawati and Na'im, 2000).

Earnings management is a choice of accounting method that is deliberately chosen by management for a specific purpose. Earning management is the potential for accrual management to make a profit. The efforts by companies or certain parties to manipulate, such as manipulate information, even take earnings management actions that can cause financial reports to no longer reflect their fundamental value, because financial reports should function as a medium for management communication with external parties or between companies and stakeholders. (Halim , 2007).

Earnings management occurs when managers use their judgment in preparing financial reports which can mislead stakeholders regarding the basic conditions that exist in a company. Several studies have shown the possibility of management intervention in the financial reporting process not only through estimation and accounting methods used but also through operational decisions. Healy and Wahlen (1999), Fudenberg and Tirole (1995), and Dechow and Skinner (2000) show earnings management that can be done by managers, that is accelerating sales, changing the delivery schedule, slowing down spending on research and development and spending on maintenance.

In the early 21st century, there have been several accounting scandals across Europe and the United States such as Enron, WorldCom and Xerox (Bassiouny et al. 2016: 91). In Enron's case, the company announced a net income for 2001 of $ 393 million, an increase of $ 100 million from the previous period. Yet Enron did not report any debt of $ 1 billion. This case had a long tail with Enron's bankruptcy filing to court and the verdict that KAP Arthur Andersen, the KAP that audited Enron, was guilty of obstructing the judicial process by destroying Enron's bankruptcy documentary evidence (Healy and Palepu, 2003: 3-26).

Although in principle, this earnings management does not violate generally accepted accounting principles, this practice can erode public trust in external financial reporting and blocking the competence of capital flows in the capital market (Scott: 2015). The manager's actions provide a view that earnings management problems can be minimized by monitoring through *good corporate governance.* (Afifa 2013; Prabaningrat 2015).

Good Corporate Governance is a set of regulations governing the relationship between shareholders, company managers, creditors, government, employees and other internal and external stakeholders relating to their rights and obligations, or in other words a system that regulates and controls the company. (Cadbury Committee of United Kingdom 1992). Since the start of the financial crisis in various countries, especially Indonesia in 1997, which eventually turned into the Asian financial crisis, which is seen as the result of weak Good Corporate Governance practices in Asian countries. Tjager, et al., (2003). The failure of several companies and the emergence of financial malpractice cases is an unexpected practice of Corporate Governance. Therefore, in the end GCG became an important issue, especially in Indonesia which was felt the worst due to the crisis. Also the number of violations committed by issuers in the capital market handled by the Capital Market and Financial Institutions Supervisory Agency (Bapepam-LK) shows the low quality of GCG practices in our country.

The Indonesian GCG General Guidelines state that one of the objectives of implementing this guideline will be a reference for companies to implement GCG in order to encourage awareness and corporate social responsibility towards society and environmental sustainability, especially the corporate sector (KNKG, 2006). The concept of GCG which is based on agency theory, is motivated by the separation between ownership and control of the company. This separation will cause problems due to differences in interests between shareholders (as principals) and management (as agents) (Jensen and Meckling, 1976).

The mechanism for *Good Corporate Governance* according to Dennis and Mc.Connel (2003) consists of: Managerial ownership is shares held by management personally and shares held by subsidiaries of the company concerned and its affiliates (Sudibyo 2013). Shleifer and Vishny (1986) stated that large share ownership, in terms of economic value, has an incentive to be monitored (Sudibyo 2013). Institutional ownership is share ownership by the government, financial institutions, legal entities, foreign institutions, trust funds and other institutions (Alves 2012). Institutional ownership has a significant interest in monitoring management because the existence of institutional ownership will encourage more optimal supervision. Independent commissioners are one of the cores of good corporate governance who are responsible and responsible for ensuring the implementation of corporate strategy, supervising management in running the company, providing advice to directors, and requiring the implementation of accountability. Independent commissioners usually consist of independent commissioners from outside the company (NCCG 2001). The existence of an audit committee is accepted as part of Corporate Governance. Even in assessing the implementation of good corporate governance in a company, the existence of an effective audit committee is one aspect of the assessment criteria (Purwandari 2011). The Blue Ribbon Committee (1999) recommends that a large number of audit committees is a good step to evaluate management. and financial reporting practices. This has been proven by the research results of Rajgopal et al. (1999) and Darmawati (2003).

The audit committee is responsible for supervising the interests of the company's shareholders and the quality of audits and company financial reports. In conducting supervision in the company, the audit committee requires the role of an external auditor to audit and detect misstatements in the financial statements prepared by company management. Jensen and Meckling (1976) argue that the audit functions as an important engagement mechanism within the company that can reduce the distance between the interests of the company's shareholders and the company's management.

Both the audit committee and external auditor are important oversight mechanisms that can weaken the *agency costs*, manage conflicts of interest, and reduce earnings management. The audit committee and external auditors must be able to exercise effective controls that can reduce the desire of management to manipulate earnings (Zgarni et al., 2016). The practice of earnings manipulation in the form of earnings management is carried out by management so that the financial statements look good so that they are able to attract more and bigger investment in company shares. Therefore, the role of corporate governance actors such as audit quality is needed to provide a supervisory function within the company in order to limit management behavior to carry out earnings management (Chen et al., 2007).

Although many factors are thought to influence earnings management, the most important thing is the quality of auditors. Because the auditor will judge whether a company's financial statements are presented fairly or not. Therefore, the role of the auditor is very important in limiting the practice of earnings management. So it can be said that, the better the quality of auditors used by a company, the less likely it is that earnings management practices will occur in that company. This is because, the better the quality of the auditor, the higher the expertise and reputation, and this will encourage the auditor to be more professional in disclosing material misstatements that indicate earnings management practices in a company. This is in line with the research results of Nanok, et al. (2008), and Guna and Herawaty (2010).

The quality of audits carried out by public accountants is proxied by the size of the Audit firm. The audit quality can affect earnings management (Sari and Wahidawahti, 2016). The size of Audit firm proxied by Big Six and Non Big Six, with the argument that large Audit firm have more superior knowledge, technical experience, capacity, and reputation than smaller Audit firms. So, they can prevent profit management from occurring (Herustya, 2012). Auditors who are specialized in certain industries have a better understanding of the characteristics of the industry, are more compliant with audited auditing standards, and have the ability to detect errors better so that they can reduce accrual earnings management than non-specialized industry auditors (Sari and Wahidahwati, 2016) . According to Jhonson et al. (2002) in Nihlati (2014) states that working period will be associated with an increase in discretionary accruals and real earnings management, this is because auditors who have a shorter tenure tend to have higher independence than auditors who have a longer working tenure. From the results of research conducted by Johnson et al. (2002), Gul et al. (2009), and Francis and Yu (2009) in Sari and Wahidahwati (2016), it can be concluded that auditors can gain sufficient understanding of the client's business and industry if the audit assignment period is in the medium period, namely 4-8 years, so that it will be more able to detect if there is earnings management carried out by management in the company because auditors are able to understand the characteristics of management in preparing financial reports.

Rusmin (2010) examines the relationship between earnings management and auditor quality in Singapore by using a *cross-sectional modified* Jones model asmeasuring instrument *discretionary accruals*. This study was successful in proving a negative relationship between earnings management indicators and auditor quality in Singapore. In other words, a better-quality auditor is able to detect the existence of earnings management, which results in a lower level of earnings management.

Chi, Lisic, and Pevzner (2011) with a sample using the Compustat database found that auditors with industry expertise and belonging to the Big N group (large Audit Firm) generally have higher earnings management. Huang and Liang (2014) in Taiwan found empirical evidence that Big 5 Audit Firm in general has no influence and cannot control the occurrence of earnings management. Another way that can be used to monitor earnings management is to see the use of *good corporate governance* in a company. *Good corporate governance* in this case aims to align various interests.

Referring to several previous studies that until now there has been no single conclusion on the relationship between earnings management and auditor quality with audit opinion there is still no similar conclusion. Bartov et al. (2001) stated that there was no significant relationship between auditor quality and audit opinion. Whereas Johl et al. (2007) stated the opposite, namely that there is a significant relationship between auditor quality and audit opinion. In addition, auditor quality as a moderating variable according to Johl et al. (2007) significantly strengthens the possibility of issuing a qualified opinion audit opinion, in contrast Rusmanto et al. (2014) stated that the quality of auditors did not strengthen significantly. This gap becomes a challenge for researchers to further test and prove the existence of a significant relationship between earnings management and audit quality. Therefore, it can be said that there is still a research gap or there is no similar conclusion from previous studies related to the relationship between earnings management and auditor quality.

Another development in this research is the use of the Good Corporate Governance mechanism under study. The author uses the mechanism of *Good Corporate Governance* which is proxied by the variables of institutional ownership, managerial ownership, the proportion of the independent commissioners board, the size of the board of commissioners, and the audit committee. Then analyze the effect of these mechanisms on earnings management and their impact on Audit Quality, whereas the previous research did not examine the five mechanisms of *Good Corporate Governance* but only examined several mechanisms. Like Ridlo's (2016) research on the Effect of Auditor Quality and Corporate Governance on Earnings Management. Independent variables are divided into 3 variables, namely managerial ownership, institutional ownership and the proportion of independent board of commissioners, while the dependent variable is earnings management. This study uses samples from manufacturing companies listed on the Indonesia Stock Exchange (ISE) in 2008-2010. The results showed that auditor quality has a significant positive effect on earnings management, managerial ownership and institutional ownership have no significant effect on earnings management. Meanwhile, the proportion of the board of commissioners has a significant effect on earnings management. And for Audit Quality, the writer chose *Big Six* and Non-Big *Six Audit Firm* while the previous research was conducted in *Big Four* and *Non-Big Four Audit Firms.*

The benefit of this research is expected to be able to better improve company performance so that earnings management practices can be avoided. In addition, the company can increase the level of confidence of the stakeholders not to carry out earnings management. Investors and users of financial statements can provide input to pay more attention to financial statements when investing their capital. For future researchers, it is hoped that these researchers will become a source of knowledge to be useful for the advancement of education and the advancement of the business world.

Review of Theory

Agency Theory

According to Anthony and Govindarajan (2005), principals employ agents to perform tasks for the principal's interests, including delegating authorization for decision making from principals to agents. If the agent does not act in the interests of the principal, there will be conflicts agency*(agencyconflict),*thus triggering the agency costs*(agencycost).*One of the obstacles that will arise between agents and principals is the asymmetry of information. According to Rahmawati (2007), information asymmetry is a condition in which managers have access to information on company prospects that are not owned by outsiders.

Corporate governance is based on agency theory. *Corporate governance is* expected to function as a tool to give investors' confidence that they will receive a *return* on the funds they have invested. *Corporate governance is* closely related to how to make investors believe that managers will provide benefits for them, where managers will not embezzle or invest into projects that are not profitable due to the capital invested by investors. In addition, *corporate governance is* also related to how investors control managers. In other words, *Corporate Governance is* used to reduce agency costs. (Shleifer and Vishny, 1997).

Freeman (1984) concluded that the true purpose of a company is to meet the needs of stakeholders, those who are affected by the decisions made by the company. Gray et al. (1995) said that the survival of a company depends on the support of stakeholders, and that support must be sought so that the company must seek that support and influenced by company activities, such as management accountability to stakeholders and audit quality.

Good Corporate Governance

Scott (2015) divides the understanding of earnings management into two. First, see it as the opportunistic behavior of managers to maximize their utility in the face of compensation contracts, debt contracts and political costs. Second, by looking at earnings management from the perspective of efficient contracting (Efficient Earnings Management), where earnings management gives managers the flexibility to protect themselves and the company in anticipating unforeseen events for the benefit of the parties involved in the contract.Mechanisms *Good Corporate Governance* : Institutional Ownership (Beiner, et al., 2003 (Faizal, 2004), Managerial Ownership (Tunggal, 2002: 13), Proportion of Independent Commissioners and Board of Commissioners Size (Tunggal, 2002: 25: Jensen, 1993), Audit Committee In accordance with Kep. 29 / PM / 2004

Earnings Management

Scott, 2015: Healy and Wahlen, 2001, The concept of earnings management has two accrual concepts, those are the discretionary accrual concept and the non-discretionary accrual concept. recognition of accruals of profit or expense which is free and unregulated and is the choice of management policy Non-discretionary accrual is the recognition of accruals of profit that is reasonable and subject to a generally accepted accounting standard or principle.

Referring to the risks arising from earnings management, previous research has trying to formulate a detection model for earnings management. Several previous researchers as summarized in Dechow et al. (1995), namely:

1. Healy Model - Healy (1985) conducted a test of earnings management by comparing the average total accruals against earnings management variables, which then divided the sample into three groups.
2. DeAngelo Model - DeAngelo (1986) conducted a test on earnings management by calculating the first differences in total accruals, and assuming the first differences have zero expectation values with the initial hypothesis that there is no earnings management. This model uses total accruals from the previous period as a measure of non-discretionary accruals.
3. Jones Model - Jones (1991) proposed a model in which non-discretionary accruals are not assumed to be constant. The model tries to take into account the effect of changes in the company's economic conditions on nondiscretionary accruals.
4. Modified Jones Model - Dechow et al. (1995) this model is designed to eliminate the tendency of the Jones Model (Jones, 1991) which measures discretionary accruals with error when discretion is executed with revenue.

Apart from the four models above, there are still several other model modifications such as the ross-sectional modified Jones model (Dechow et al., 1995), the CFO modified Jones model (Kasznik, 1999), the performance-matched discretionary accruals model (Kothari et al., 2005) and the F-Score by Dechow et al. (2011). Measuring and calculating accrual earnings management using the revenue discretionary model approach (Stubben 2010).

Audit Quality

Becker, 1998: Ahadiat, 2011; Watts and Zimmerman, 1986, companies with higher audit quality are expected to be able to employ professionals who can develop more effective tests to detect earnings management. Auditors are expected to limit and reduce earnings management and help to increase the confidence of shareholders and users of financial statements. Company Size.

According to Sabrinna (2010) institutional ownership is the ownership of shares by the government, financial institutions, legal entities, foreign institutions, trust funds and other institutions at the end of the year. Generally, the percentage of ownership of institutions will be higher than individual ownership, so that institutional ownership has a greater influence than other individual ownership. With a high share of ownership, institutional ownership can monitor the audit process. Institutional investors will demand high quality information from companies, besides that investors tend to choose quality auditors to ensure that the invested funds are used appropriately. According to (Sharma, 2004) in Pratama (2013), an increase in the presentation of institutional ownership will tend to lowering the cheating rate. So the higher the percentage of ownership by an institution to a company. Based on the description above, the hypothesis is as follows:

H1: Institutional ownership has a positive effect on audit quality.

Based on agency theory, problems often occur between company owners and company management due to differences in interests within the company. This problem of interest causes the importance of a mechanism that is useful for protecting the interests of shareholders (Jensen and Meckling, 1976) in Liftiani (2014). Managerial ownership is a company investment by company management, company directors, or parties who have the authority to carry out company operations. This type of ownership is not as popular as the other holdings. As a result, not many companies are found to have this type of ownership in their ownership structure (Pratama, 2013). Based on the description above, the hypothesis is as follows:

H2: Managerial Ownership has a negative effect on audit quality

The 'proportion of independent Board of Commissioners' who is separated from the party management has the main responsibility to supervise management performance. Many independent commissioners boards will demand higher quality from external auditors, resulting in higher audit costs. This suggests that companies with strong governance structures tend to seek higher quality audit services to protect the reputation of the company and protect shareholder wealth. Higher audit quality demands higher audit fees (Rizqiasih, 2010). Based on the description above, the hypothesis is as follows:
H3: The proportion of the Board of Independent Commissioners has a negative effect on audit quality.

The size of the board of commissioners plays an important role in monitoring and supervising management (Jensen in Yatim et al 2006). Beasley (1996) suggests that the number of commissioners will significantly influence the possibility of fraud in financial statements. If the number of commissioners increases, the possibility of fraud in financial statements also increases. This is in line with Jensen's (1993) research in Hazmi and Suharno (2013) which argues that there are difficulties in organizing and coordinating a large number of commissioners. Based on the description above, the hypothesis that is formed is as follows:
H4: The proportion of the Board of Commissioners has a positive influence on audit quality

According to Soliman and Elsalam, 2012: Manita et al., 2010, in Fahmi. 2011, regarding the quality of the audit process which is an empirical study with the audit committee, it was found that there are 4 indicators that influence the audit process, namely: communication and collaboration with the audit committee, understanding of the company's business scope, reliability in identifying risks, and relevance to existing risks. So that it can be explained that companies that have an audit committee with good financial reports or experience in conducting a good audit process generally provide the effectiveness of the audit committee so as to produce adequate audit quality compared to an audit committee that does not have similar experience. Based on the description above, the hypothesis that is formed is as follows:
H5: The Audit Committee has a positive influence on audit quality.

Institutional investors have the ability to provide effective supervision so as to reduce the opportunistic attitude of management to carry out earnings management (Putri and Sofyan, 2013: 3), the manager's motivation to do earnings management will also decrease if the auditor who will audit the company's financial reporting is a specialized auditor. Amijaya and Prastiwi (2013) found that industry specialist auditors as financial report supervisors can hinder earnings management. Based on the description above, the hypothesis is as follows:
H6: Earnings management strengthens the relationship between institutional ownership and audit quality.

Hidayati and Ratnasari, 2012, ownership of shares owned by management is believed to be effective in making managers display financial conditions in accordance with reality (Natalia, 2013). Indriani (2010) in their research shows that managerial ownership has a negative effect on earnings management. Anggi and Nazar (2015) in their research show that managerial ownership has a negative effect on earnings management. It is believed that the participation of qualified auditors who audit the company's financial reports can minimize earnings management practices. Setiawan and Fitiriany (2011) found that auditor specialization has a negative effect on the number of discretionary accruals (earnings management). Based on the description above, the hypothesis that is formed is as follows:
H7: Earnings management strengthens the relationship between managerial ownership and audit quality.

National Committee for Governance Policy, 2006: 13, the board of commissioners has the responsibility to oversee the quality of the information contained in the financial statements (Agustia 2013: 29). The more the number of independent commissioners boards, the better the quality of the financial statements, which means the less likely there is earnings management (Susanto, 2013: 160). High quality auditors are more trusted than unqualified auditors due to the assumption that qualified auditors will maintain their creditability so that they are more effective in carrying out the audit process (Naftalia and Marsono, 2013). Based on the description above, the hypothesis is as follows:
H8: Earnings management strengthens the relationship between the independent board of commissioners and audit quality.

Boediono (2005) explains that based on agency theory, the board of commissioners is considered

the highest internal control mechanism, which is responsible for monitoring the actions of top management. Supervision is carried out so that the tendency of managers to perform earnings management is reduced so that investors will continue to give confidence to invest in the company. Midiastuty and Machfoedz (2003), Nasution and Setiawan (2007), Kusumawati et al. (2013) provide empirical evidence that the size of the board of commissioners has an effect on earnings management practices carried out by management. Based on the description above, the hypothesis is as follows:
H9: Earning management strengthens the relationship between board size and audit quality.

Wedari, 2004, examining the effect of the audit committee on earnings management, it was found that the audit committee had a positive effect on earnings management, which means that the audit committee had not succeeded in reducing earnings management. Several previous empirical studies (Palmrose, 1988; Teoh and Wong, 1993; Bauwhede et ai., 2000) have concluded that auditors with high reputations are able to limit earnings management behavior by managers. Based on the description above, the hypothesis that is formed is as follows:
H10: Earning management strengthens the relationship between the Audit committee and audit quality.

Research Design

Sample collection

The population in this study are manufacturing companies listed on the Indonesia Stock Exchange (ISE) for the period 2015 - 2019. Sampling in this study was taken based on certain criteria that are thought to represent the population in the study. The sampling technique used in this study was purposive sampling technique.

This study is a company that has the following criteria:

1. Manufacturing companies listed on the Indonesia Stock Exchange
2. Companies publish audited financial reports
3. Companies use rupiah currency in their financial statements
4. The company has complete data related to measurement variable Good Corporate Governance, Earning Management and Qualification Audit.

The type of data used in this study is secondary data, those are manufacturing companies that publish financial reports in the 2015-2019 period. Collecting data in this study using the documentary method, by collecting data in the form of financial report documents published in www.idx.co.id

Measurement of Variables

The independent variables in this study are institutional ownership, managerial ownership, the proportion of independent board of commissioners, size the board of commissioners and the audit committee.

1.Institutional Ownership Institutional

Ownership is the proportion of shares owned by institutions such as insurance companies, pension funds or other companies which is measured by a percentage calculated at the end of the year.

Number of shares owned by institution
Total shares outstanding

2.Managerial Ownership Managerial

Ownership is the shareholder of management who actively participates in company decision making (directors and commissioners). Managerial ownership is measured by the percentage of shares owned by managers.

Number of shares owned by management
Total shares outstanding

3.Proportion of the Board of Independent Commissioners Independent

Commissioners are members of the board of commissioners who are not affiliated with management, members of the board of commissioners and controlling shareholders, and are free from business or other relationships that may affect their ability to act independent or acting solely for the benefit of the company according to KNKG (2004). The proportion of independent commissioners is calculated using the percentage of independent commissioners compared to the total number of commissioners.

Members of the board of commissioners from outside the company
All members of the board of commissioners of the company

Number of independent commissioners must represent at least 30% of the total number of Commissioners in the Board of Commissioners (BAPEPAM-LK Regulation Number IX.I.5).

4. Board of Commissioners

The Size of the board of commissioners is the number of members of the company's board of commissioners. The board of commissioners is measured using an indicator of the number of commissioners of a company (Beiner et. Al.)

5.Audit Committee

Based on the JSE Circular, SE-008 / BEJ / 12-2001, the membership of the audit committee consists of at least three people including the chairman audit committee. There is only one member of this committee who comes from the commissioner, the committee member who comes from the commissioner is an independent commissioner of a listed company as well as the chairman of the audit committee. Other members who are not independent commissioners must come from external independent parties.

Dependent Variable

The dependent variable is auditor quality. An auditor is someone who has certain qualifications in auditing the financial statements and activities of a company. Audit quality in this study is measured by proxy for the size of the Audit Firm where the auditor works, which is divided into Big Six and non-Big Six Audit Firm as in the study (Susiana and Herawaty 2007). Audit quality is measured on a nominal scale through dummy variables. Number 1 is used to represent companies that were audited by Big Six Audit Firm and number 0 is used to represent companies that were not audited by non-Big Six Audit Firm.

Moderation Variable

The moderating variable in this study is earnings management, which is deliberate errors or omissions in making reports on material facts or accounting data so that it is misleading when all the information is used to make judgments that will eventually cause the person reading it to change or change their opinion or decision.

The indicator that the author uses to measure this variable is the Jones Model developed by Stuben (2010), measuring and calculating accrual earnings management using the revenue discretionary model approach (Stubben 2010). The following is the formula for the revenue discretionary model (Stubben 2010):
Revenue Model

$\Delta ARit = \alpha + \beta 1\ \Delta R1\_3it + \beta 2\ \Delta R4it + e$

In this case:
ΔAR = Receivables in the fourth quarter
$\Delta R1\_3$ = revenue in the first three quarters
$\Delta R4$ = fourth quarter income.
ε = error

Control variable

Control variable is a variable used as a comparison whose function is almost the same as the independent variable.

a. The Company Size

Motivation for researchers to enter firm size is the political cost hypothesis (Watts and Zimmerman, 1986), that several large companies are often the target of political action that may incur costs, this condition encourages managers to choose accounting methods that avoid or reduce costs arising from these political actions. The firm size variable is measured using the natural logarithm of total assets (Rajgopal., 1999; Peasnell, 2000; Chtourou, 2001). $Size = \ln(Total\ Asset)$

b. The Leverage

Motivation for the researcher to include leverage is the debt covenant hypothesis (Watts and Zimmerman, 1986), that earnings management is carried out to avoid breaching debt covenants which may cause costs to the company. The leverage variable is measured by the ratio of total debt to total assets (DeAnggelo et al., 1994; Defond and Jiambalvo, 1994; Peasnell, 2000; Chtourou, 2001). This variable is a mechanism that can be used to reduce opportunistic management behavior. Jensen (1976) states that corporate debt is a mechanism to unify the interests of managers and shareholders, debt provides a signal about the status of the company's financial condition to meet its obligations. Debt.Ratio = $Total\ debt/Total\ assets$

c. Profitability

Sudarmadji and Sularto, 2007 stated that profitability is an aspect of manager performance when managing assets intended to generate profits. A high level of profitability indicates the success and monitoring of the company is carried out well, so that with low profitability it identifies the company's performance is not good in the eyes of principal. So, it can be said that the higher profitability ratio the better management of its assets to generate profits. In the future, it is hoped that it can attract investors' interest, besides that the amount of return is considered to be greater and the higher the ratio obtained the better the management asset.

The Analysis Data

The analysis used in this study is a linear regression analysis model using hypothesis testing. Linear regression analysis is to determine the direction of the relationship and the amount of influence between the independent variable and the dependent variable and to predict the value of the dependent variable if the independent variable experiences an increase or decrease (Suharyadi and Purwanto, 2009). For determining the effect, it can be made in a multiple regression equation. The multiple regression model equations in this study are as follows:

Hypothesis 1,2,3,4,5:
KA = β0 + β1KI + β2KM + β3DKI + β4DK + β5KM + β6LV + β7UP + β8 ROE + e

Hypothesis 6,7,8 , 9,10
KA = β0 + β1KI + β2KM + β3DKI + β4DK + β5KM + β6KI * ML + β7KM * ML + β8 DKI * ML + β9DK * ML + β10KM * ML + β11LV + β12UP + β13ROE + e

Description:
KA: Audit Qualification
B0: Constant
β1-5: Independent variable coefficient
β1-5: Moderate variable coefficient
β6-10: Moderated regression coefficient for independent variables
β6-8: Control variable coefficient
β11-13: Control variable coefficient
e: error

Descriptive statistics are part from statistics that study the collection and presentation of data so that it is easy to understand. Classical Assumption Test, Normality Test, Multicollinearity Test, Autocorrelation Test and Heteroscedasticity Test, Regression Feasibility Test, and Hypothesis Test.

RESULTS

Table 1. Descriptive Statistics

Variable	Obs	Mean St.	Dev	Min	Max
Institutional Ownership	505	.2619	.19161	.00	1.00
Managerial Ownership	505	.7381	.19161	.00	1.00
Independent Commissioners	505	.8768	.31921	.30	1.67
Board of Commissioners	505	4.0297	1.77871	2.00	10.00
Audit Committee	3.0495	505	.43132	2:00	5:00
Audit Quality	.9802 .13946		505	.00	1.00
Earnings Management	1.9138 1.70731 -8.20			505	20.44
Leverage	4.4838 79.25594 -225.04 1763.79				505
Profitability	505	.0414	.09811	-.55	.72
Company Size	28.2806 1.64214 22.76 33.51				505

The main variable used in this research is Institutional Ownership, which has a value of 505 observations of data, with a minimum value of 0.00, a maximum value of 1.00, this shows that the company in this study has institutional shares with a minimum of 0.00 and a maximum of 1.00, and an average value of 0.2619. and the standard deviation value of 0.19161, this means that the institutional company has an average of 0.2619 of all shares company. Share ownership by large institutional parties can accelerate company management to provide voluntary disclosures, because institutional investors are considered as sophisticated investors so that they can perform their monitoring function more effectively and do not easily believe in manipulation.

Managerial ownership has an observational value of 505 data, with a minimum value of 0.00, a maximum value of 1.00, this shows that the company in this study has managerial shares with a minimum of 0.00 and a maximum of 1.00 and an average value of 0.7381 and a standard deviation of 0.19161. This means that the managerial company owns an average of 0.7381 of all company shares. Share ownership by large managerial parties can accelerate the presentation of voluntary disclosures because investors are considered.

The proportion of the Independent Board of Commissioners has an observational value of 505 data, with a minimum value of 0.30, a maximum value of 1.67, this shows that the company in this study has a board. Independent commissioners with a minimum of 0.30 and a maximum of 1.67 and an average value of 0.8768 and a standard deviation of 0.31921, this means that the company has an independent board of commissioners on average 0.8768 of the total number of commissioners. This shows that the sample companies have complied with BAPEPAM regulations which require that a percentage of the presence of independent commissioners is 0.8768 on the board. The large number of independent commissioners in the company can be a control over company policy.

The size of the Board of Commissioners has an observational value of 505 data, with a minimum value of 2.00, a maximum value of 10.00, this shows that the company in this study has a board of commissioners with a minimum of 2.00 and a maximum of 10.00 and an average value of 4.0297 and a standard deviation value of 1.77871. , this means that the company has an average board of commissioners of 4.0297 of the total number of members of the existing commissioners board . This shows that the sample companies have met BAPEPAM regulations which require a percentage of the presence of a board of commissioners to be 4.0297.

The Audit Committee has an observation value of 505 data, with a minimum value of 2.00, a maximum value of 5.00, this shows that the company in this study uses an audit committee with a minimum of 2.00 and a maximum of 5.00 and an average value of 3.0495 and a standard deviation of 0.43132. This means that the companies in the sample of this study were only 3.0495 companies that held audit committee reports the most.

Audit quality has an observation value of 505 data, with a minimum value of 00, a maximum value of 1.00, and an average value of 0.9802 and a standard deviation value of 0.13946. (Out of 505, there are 495 companies that have a value of 1 and the remaining 10 companies have a value of 0). This means that the companies in the sample of this study are only 0.9802 companies that use quality auditors or are included in the big six group, while the rest still use non big six auditors. The use of qualified auditors will reduce the company's opportunity to commit fraud in presenting inaccurate information.

Earnings management is carried out using the Stuben model which has an observational value of 505 data, with a minimum value of -8.20, a maximum value of 20.44, with a negative minimum value and a positive maximum, this shows that there is an increase in profit that occurs in the companies in this study sample. This shows that the major management actions taken by companies in reporting earnings are by choosing accounting methods that can increase profits. The average value is 1.9138 and the standard deviation value is 1.70731.

Leverage has an observational value of 505 data, with a minimum value of -225.04, a maximum value of 1763.79, this shows that the company has a total long-term debt that is smaller than total assets, this means that the company's ability to pay off long-term liabilities using assets is quite high and the average value of 4.4838 and the standard deviation value of 79.25594. The average value of 4.4838 shows that on average the company has total long-term debt less than total assets, which means the company has the ability to pay off its obligations using assets.

Profitability has an observational value of 505 data, with a minimum value of –0.55, a maximum value of 0.72 and an average value of 0.0414 and a standard deviation of 0.09811. This shows that the company has profitability with a minimum value of 0.55 and a maximum of 0.72.

Company size has an observational value of 505 data, with a minimum value of 22.76, a maximum value of 33.51 and an average value of 28.2806 and a standard deviation value of 1.64214. This value shows that the average company in the sample of this study has assets of 28,2806 billion in rupiah. There is a sample that has the highest assets of 33.51 billion in rupiah and the sample has the lowest assets of 22.76 billion in rupiah. Companies in the sample of this study are classified as small companies, because according to Nurkhin (2009) a company is categorized as large if it has total assets of more than 1 trillion, and medium companies have total assets greater than 100 billion and smaller than 1 trillion, while small companies have assets in below 100 billion.

Table 2. Regression Results

$KA = \beta_0 + \beta_1 KI + \beta_2 KM + \beta_3 DKI + \beta_4 DK + \beta_5 KM + \beta_6 KI * ML + \beta_7 KM * ML + \beta_8\ DKI * ML + \beta_9 DK * ML + \beta_{10} KM * ML + \beta_{11} LEV + \beta_{12} SIZE + \beta_{13} ROE + e$

Variable	Pred.Sign	Coefisient	T_{count}	Sign.
KI	(+)	.106	3,267	.001 *
KM	(-)	-.106	-3.299	.001 *
DKI	(-)	-.033	-1.474	.141
DK	(+)	.011	2,449	.015 *
KM	(-)	.006	. 424	.672
KI * ML	(+)	. 032	1,218	.224
KM * ML	(-)	-.032	-1,218	.224
DKI * ML	(-)	-.016	-1,212	.226
DK * ML	(+)	.001	.595	.552
KM * ML	(-)	-. 002	-.280	.779
LV	(-)	-1.974	-.245	.807
UP	(-)	-.001	-.151	.880
ROE	(-)	-.025	-.377	.706
Prob (Statistic)				1.964
Adj R square				0.18
Std.Error				.13818
N				505

* significance at 5% level

Information:

KI	: Institutional Ownership	KA	: Audit Quality
KM	: Managerial Ownership	ML	: Profit Management
DKI	: Independent Board of Commissioners	LV	: Leverage
DK	: Board of Commissioners	UP	: Company Size
KM	: Committee audit	ROE	: Return on Earning

by using the 0.05 value obtained$_t$ is $t_{arithmetic}$ with t_{table} amounted to 1,964, thus the significance t value is greater than t_{table} or 3,267> 1,964, this means that significantly influence the Institutional Ownership Audit Quality. Institutional ownership has a very low relationship with audit quality. The positive correlation coefficient indicates that adequate institutional ownership tends to be followed by an increase in audit quality. While the control variable, namely leverage, shows a t value of -.245 with a significance level of .807, profitability shows a t value of -.377 with a significance level. 706 and company size which shows the t value of -.151 with a significance level of .880. Both leverage, profitability and firm size do not have a significant effect on audit quality because the level of significance is greater than 0.05.

By using the 0.05 obtained t value with t_{table} amounted to -1964, thus the significance $_t$ value is greater than t_{table} or -3267> -1.964. This shows that managerial ownership has a significant effect. The managerial ownership has very low correlation on audit quality. The correlation coefficient is negative, indicating that more adequate managerial ownership tends to be followed by a decrease in audit quality. While the control variable, namely leverage shows a t value of -.245 with a significance level of .807, profitability shows a t value of -.377 with a significance level of .706 and company size which shows a t value of -.151 with a significance level of .880. Both leverage, profitability and firm size do not have a significant effect on audit quality because the level of significance is greater than 0.05.

By using the 0.05 obtained t value with t_{table} amounted to 1,964, thus the significance value$_t$ is smaller than t_{table} or -1474 <-1964, this means that the Independent Commissioner Board does not affect the quality. The independent board of commissioners has a very low relationship with audit quality, meaning that the correlation coefficient is negative, indicating that a more adequate independent board tends to be followed by a decrease in audit quality, while the control variable, namely leverage, shows a t value of -036 with a significance level of .971, the profitability shows the t value of -.670 with a significance level of .503 and the size of the company which shows the t value of -.606 with a significance level of .545. Both leverage, profitability and firm size do not have a significant effect on audit quality because the level of significance is greater than 0.05.

By using the 0.05 obtained t value with t_{table} amounted to 1,964, thus the significance value$_t$ is greater than t_{table} or 2,449> 1,964, this means that BOC significant effect on audit quality. The board of commissioners has a very low relationship with audit quality. The correlation coefficient is positive, this is because the more commissioners, the better the quality of the supervisory process carried out by the board in a company that demands quality audit results with qualified auditors in the company, while the control variable, namely leverage, shows a t value of -. .036 with a significance level of .971, profitability shows a t value of -.670 with a significance level of .503 and company size showing a t value of -.606 with a significance level of .545. Both leverage, profitability and firm size do not have a significant effect on audit quality because the level of significance is greater than 0.05.

By using the 0.05 obtained t value with t_{table} amounted to 1,964, thus the significance t value is smaller than t_{table} or 0424 <1964, this means that the Audit Committee no significant effect on audit quality. Audit committees have a very low relationship with audit quality. The positive correlation coefficient indicates that an adequate audit committee tends to be followed by an increase in audit quality. While the control variable, namely leverage shows a t value of -.119 with a significance level of .905, profitability shows a t value of -703 with a significance level of .483 and company size which shows a t value of -1.422 with a significance level of .156. Both leverage, profitability and firm size do not have a significant effect on audit quality because the level of significance is greater than 0.05.

From the results of the SPSS output above, it shows that the influence of the influence of Earning Management on Audit Quality and Moderate influence is not significant (<0.05), which means that Earnings Management is not suitable to be a moderating variable (not a moderating variable). This shows that earning management is not able to be a moderating variable between the independent variables, namely: institutional ownership, managerial ownership, independent board of commissioners, board of commissioners and audit committee with the dependent variable, it is audit quality. These results indicate that good or bad earning management will not be able to strengthen or weaken the relationship between institutional ownership, managerial ownership, independent board of commissioners, board of commissioners and audit committee with audit quality.

DISCUSSION

From the results of hypothesis testing that has been conducted, there are found as follows:

1. Institutional Ownership has a significant positive effect on Audit Quality. This shows that institutional ownership has an effect on audit quality, meaning that the existence of share ownership by the institution is able to produce quality audits.
2. Managerial Ownership has a significant negative effect on Audit Quality. This shows that managerial ownership has an inverse effect on audit quality, it means that adequate managerial ownership of shares tends to result in reduced audit quality.
3. The independent commissioners board has no effect on the quality of the audit, this shows that the independent board of commissioners is not influenced by quality audits
4. The board of commissioners has a significant positive effect on audit quality, this shows that the presence of the board of commissioners can produce quality audits, this is because the more commissioners, the supervisory process carried out by this board will have higher quality in a company that demands quality audit results with qualified auditors in the company.
5. The audit committee has no effect on audit quality, this is because although the audit committee in the company exists it will not affect the use of qualified auditors.
6. Hypothesis testing shows that the moderating variable states that earning management is unable to be a moderating variable between the independent variables, such as institutional ownership, managerial ownership, independent commissioners board, board of commissioners and audit committee with the dependent variable, audit quality. These results indicate that good or bad earning management will not be able to strengthen or weaken the relationship between institutional ownership, managerial ownership, independent commissioners board, board of commissioners and audit committee with audit quality.

CONCLUSION

This study aims to obtain empirical evidence of the effect of good corporate governance on audit quality with earnings management as a moderating variable. This study used a sample of 105 manufacturing companies listed on the Indonesia Stock Exchange for the period 2015-2019. The companies with institutional ownership, managerial ownership and board of commissioners are proven to have a significant effect on audit quality, while independent boards of commissioners and audit committee have no effect on audit quality. Companies that apply good corporate governance to audit quality with earnings management as a moderating variable cannot be a moderating variable. Companies that apply good corporate to audit quality with control variables have no effect on audit quality.

This research will be very useful, if the results of the analysis can be used as a consideration for improvement academics, companies, investors, and future researchers are expected to re-test the same research by adding a larger number of samples and not only using manufacturing companies and using a longer period so as to provide evidence that the company's goals can be achieved, one of which is improve the quality of financial reports as indicated by decreasing earnings management.

In this study, it cannot be separated from the limitations possessed by the researcher, that is where this study uses secondary data in the form of financial reports and other historical data, so that if there is incomplete data it is difficult to reveal further data. This will result in a reduced number of observations in the study.

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