

Impact of Audit Committee Expertise on Earnings Management and External Auditor Moderation

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Received: June 01, 2021 Revised: July 06, 2021 Accepted: July 09, 2021

Abstract

Audit committees and external audits have a very important role for financial reporting and the tendency of corporate managers to manipulate earnings. Frequency is a key factor in reducing conflicts of interest and opportunistic behavior from managers. This study aims to examine the effect of the audit committee's financial expertise on earnings management with external auditors as moderation. In this study, there were 1,966 company data listed on the Indonesia Stock Exchange in 2016-2019. Earnings management variables, audit committee financial expertise, and external audit were analyzed using multiple linear regression models. The results showed that the financial expertise of the audit committee had a significant positive effect on earnings management. Audit committee expertise moderated by external audit has a negative and significant effect on earnings management.

Keywords: Audit Committee; Discretionary Accruals, Earnings Management, External Auditors; Financial expertise

DOI : <https://doi.org/10.33096/atestasi.v4i2.809>
p-ISSN : 2621-1963
e-ISSN : 2621-1505

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1. Introduction

The final result of an accounting process that has an important role in assessing the performance of a company is financial statements (Muslim et al., 2019). Financial reports have the function of conveying various information for interested parties in the company. One of the parameters that are considered important in the financial statements which function to measure management performance is earnings. According to Ball & Brown (1968) information from a firm's accounting earnings provides relevant and useful information for investors and decisions in the market.

Financial reports must be maintained properly because it is a central issue as a source of misuse of information that is detrimental to interested parties in decision making (Lannai & Muslim, 2021). Often there is information asymmetry between managers and shareholders which can lead to adverse selection. Agency theory suggests that monitoring mechanisms are supposed to align the interests of managers and shareholders and reduce conflicts of interest and any opportunistic behavior emanating from managers. The owner should assign an independent auditor to examine the financial statements prepared by management. Kieso et al. (1996), Eilifsen & Messier (2015) and Arens et al. (2012) stated that the audit function is to reduce information asymmetry and conflicts of interest that exist between managers and shareholders. The audit process is supposed to serve as a monitoring tool that will reduce managers' incentives to manipulate reported earnings (Chan et al., 1993; Karim et al., 2015).

Agency theory explains the existence of a contract between shareholders and managers. Where there are differences in interests between shareholders and managers because opportunistic managers enrich themselves by reducing the quality of financial reports which can cause losses for investors. This is done because managers do not present real information about the company's financial position. This management action is known and is often referred to as earnings management. The existence of this raises concerns for users of financial reports about the quality of audits and financial reporting, which may be that the accounting profit has been manipulated by managers which causes the collapse of the company in the long run (Alves, 2013). Therefore, it is necessary to have an audit of financial reports to ensure the quality of financial reporting and avoid earnings management. The existence of an external auditor from KAP (public accounting firm) as a third party is considered to have a function in examining financial statements because they are competent and independent (Al-Thuneibat et al., 2011). According to DeAngelo (1981) KAP which is included in KAP Big 4 is believed to carry out more accurate audits than KAP Non-Big 4.

In minimizing the existence of earnings management in the company, there must be a monitoring mechanism and good corporate governance or GCG (Good Corporate Governance) in the management of the company. Corporate governance, among others, regulates the formation of a board of commissioners and an audit committee. One of the manifestations of the implementation of GCG in Indonesia is the establishment of an audit committee under the provisions of Regulation No. IX.I.5 Attachment to Decree of the Chairman of BAPEPAM and Financial Institutions No. Kep-643 / BL / 2012 dated 7 December 2012 concerning the Establishment and Guidelines for the Work Implementation of the Audit Committee (Modal, 2004). Besides, OJK (Financial Services Authority) has also made POJK Number 55 / POJK.04 / 2015 (Komisioner & Jasa, 2015) concerning the establishment and implementation guidelines for audit committee work. Where the audit committee is a committee that is responsible to the Board of Commissioners in helping carry out the duties and functions of the Board of Commissioners.

OJK Regulation Number 55 / POJK.04 / 2015 states that each entity or company must have at least 1 member who has an educational background or expertise in accounting and finance (Komisioner & Jasa, 2015). These regulations it is supported by several previous studies if the audit committee with financial expertise has a negative relationship with earnings management because this expertise is considered capable of monitoring internal control (Badolato et al., 2014; J. V. Carcello et al., 2006; Joseph V. Carcello & Nagy, 2004; Choi et al., 2004) by ensuring that the financial statements of these entities are of good quality (Bédard et al., 2004; Berger et al., 2017; Gendron & Be, 2006; Moroney & Trotman, 2016). However, several studies are not under the established regulations where financial expertise is positively related to earnings management because this expertise is considered capable of understanding "gaps" in helping management in carrying out earnings management (Dhaliwal et al., 2011; Sun et al., 2014). The pre-existing regulations and research make it clear that it is appropriate to provide conditions for financial and accounting expertise on the audit committee. Even though there are still inconsistent results for the financial expertise that must be possessed by the audit committee. From the external side of the company, there is an external auditor as a competent and independent third party whose task is to assess how much influence financial reporting is. Meanwhile, from the internal side, there is an audit committee that is part of corporate governance. Given the task of the audit committee is to assist the board of commissioners in supervising the financial reporting process. In other words, the audit committee is a point that becomes a bridge between the company and third parties, namely the external auditors.

Agency theory according to Jensen & Meckling (1976) suggests that supervision is done to straighten the interests of managers and shareholders and to reduce conflicts of interest from the opportunistic behavior of a party. This often triggers management to practice earnings management. Earnings management is an action that attracts great attention to stakeholders because it is considered to reduce the quality of the financial reports that have been presented which of course has implications for the decision-making process of users of financial statements, especially investors. To reduce earnings

management practices that exist in an entity, it is necessary to have a good corporate governance structure. The role of this structure is to ensure compliance with the company with the financial accounting system to maintain the credibility of the financial statements. Alves (2013) argues that the audit committee in its duties has the function of overseeing the financial reporting process and monitoring the possibility or tendency of managers to manipulate earnings. This means that the task of the audit committee is to review the information on financial statements. Whereas in the same oversight mechanism, external auditors function in reducing the presence of information asymmetry and provide credibility for financial reports by providing audit opinions (Becker et al., 1998).

Earnings management is a manager's action that has the aim of increasing or decreasing the company's current earnings without causing an increase or decrease in the company's long-term economic profitability (Fischer & Rosenzweig, 1995). In contrast to Fischer & Rosenzweig (1995) and Healy & Wahlen (2005) define earnings management as when managers use their decisions to manage financial reports by changing financial reports which aim to provide irrelevant information to users, both about the company's economic performance and to influence decision outcomes. which depends on nominal and information reported. Scott (2015) defines earnings management as a manager's choice of accounting policies that can affect earnings to achieve several goals in earnings reports. Based on agency theory or better known as agency theory, the problems associated with the separation between 2 groups, namely ownership and control will cause managers who act as agents to act opportunistically by increasing their private ownership with owners who act as principals of an organization (Jensen & Meckling, 1976). According to agency theory, there is a relationship between owner and manager, which is difficult to create and harmony is difficult to form because of conflicting interests.

Financial statements provide information that is relevant to the existence of value to users. This heavy reliance on accounting numbers creates an incentive for managers to manipulate earnings for personal gain. The incentive for managers to manipulate reported earnings may be due to influence by employment, personal interest in the face of compensation schemes or the need to achieve revenue targets, contractual agreements between managers and external stakeholders, and to meet market expectations (Healy & Wahlen, 2005). Even if this is done without violating existing accounting standards, it can still lead to inaccurate information about the company. Therefore, companies need to have effective governance to protect investors' rights in obtaining correct and fair company information (Fung, 2014; García-Sánchez & Noguera-Gámez., 2017; Porta et al., 2000). Based on agency theory, expertise in a job can be a problem with agency problems in specific companies according to their expertise (Benedickson et al., 2016; Xie et al., 2003). The audit committee with its expertise is expected to be able to utilize the skills, knowledge, and expertise they have acquired to produce quality financial reporting.

According to the OJK Regulation (Otoritas Jasa Keuangan) what is meant by the Audit Committee is a committee formed by the Board of Commissioners and is directly responsible to the Board of Commissioners in assisting in carrying out the duties and functions of the Board of Commissioners (Komisioner & Jasa, 2015). According to OJK regulation No. 13 / POJK.03 / 2017 Concerning the Use of Public Accountant Services and Public Accountant Offices in Financial Services Activities, external auditors are organizers that carry out external audits. Where public accountants and public accounting firms carry out the implementation. The existence of an external auditor is expected to be able to reflect the implementation of good governance so that the availability of quality financial information is produced. (Keuangan, 2017).

The audit committee is considered a very important monitoring mechanism in corporate governance for oversight of the company's financial reporting process (Joshi & Wakil, 2004). Besides, the external audit also plays an important role in ensuring the credibility of the independent issuance of financial reports that are used by stakeholders as a basis for making capital allocation decisions. Auditor quality can add credibility to financial reporting. Higher quality auditors can reduce the accrual level of earnings management in a company (Becker et al., 1998). The audit committee and external auditors play

a central role in ensuring the integrity of the financial reporting process (Johl et al., 2007). Audit committees and external auditors serve as monitoring tools that can reduce management incentives to manipulate reported earnings. The audit committee that can implement its knowledge, especially in the financial sector and the existence of an external auditor (Big 4) as an independent supervisory mechanism that functions jointly within the company, is expected to further increase the tightness of the management monitoring process within the company.

This study examines the effect of audit committee expertise, external audit (Big 4), and the interaction of the two monitoring mechanism variables on earnings management. The expertise of the audit committee as an independent variable interacted with external auditors as a moderating variable, and earnings management as the dependent variable in this study. The control variables used in this study are the Size of the Audit Committee (SAC), Leverage (LEV), Firm Size (FS), and Profitability (ROA). Some control variables used are expected to reduce the element of bias in the study and separate other incentives that have the potential to influence accounting decisions by managers. Audit Committee's Financial Expertise on Earnings Management. The audit committee must assist the board of commissioners in maintaining the quality of financial reports by overseeing the financial reporting process ((KNKG), 2006). In its new regulation in OJK Regulation Number 55 / POJK.04 / 2015 concerning the Establishment and Guidelines for the Work Implementation of the Audit Committee, the OJK (Financial Services Authority) as the agency authorized to regulate if the audit committee is in carrying out its duties as the company's internal supervisor. So that in carrying out its duties it requires the support of expertise that must be possessed.

From these regulations, it is supported by several studies that accounting expertise harms earnings management in various countries such as Korea and America (Alzeban, 2018; Baxter & Cotter, 2009; Choi et al., 2004; Dhaliwal et al., 2011; Sun et al., 2014). Meanwhile, financial expertise is still considered to have a gap, wherein several journals it is stated that the existence of financial expertise on the audit committee has a negative effect (Badolato et al., 2014; Choi et al., 2004; Inaam & Khamoussi, 2016), while other studies show that there is Financial expertise on the audit committee has a positive effect (Dhaliwal et al., 2011; Sun et al., 2014). Financial expertise itself is someone who has a history of work as a banker, analyst, loan officer, investment manager, fund manager, asset manager, treasurer, finance director, financial manager, and vice president of finance (Badolato et al., 2014; Dwiharyadi, 2017).

If it is based on agency theory where expertise in a job can handle agency problems in specific companies according to their expertise (Benedickson et al., 2016; Xie et al., 2003). The existence of financial expertise is expected to be able to function or be utilized to be able to better monitor internal control (Inaam & Khamoussi, 2016; Krishnan & Review, 2005) and be able to reduce earnings management (Bédard et al., 2004). Based on the explanation above, the following hypothesis can be formulated:

H1: Audit committee's financial expertise has a negative effect on earnings management

Audit Committee's Financial Expertise, External Auditor and Earnings Management. Previous research on audit quality has focused on measures of external audit services used. The reason being the basis is because a large external audit, namely KAP Big 4, has an incentive that is considered to be better in detecting and revealing errors in financial reporting. In many ways, many studies show that auditors with higher quality (Big 4) can reduce the accrual level of earnings management (Becker et al., 1998; Robu & Robu, 2015; Tahinakis & Samarinas, 2016). Audit committees and external auditors are potential mechanisms that are considered capable of reducing agency problems in an entity. Agency theory predicts that auditors can play an important role in reducing information asymmetry and agency conflicts between shareholders and managers by certifying the credibility of financial statements through the existence of a given audit opinion. The external auditor's opinion can assure financial reliability that can detect agency

problems. Audit committees that work effectively and external audits of good quality are expected to reduce earnings management (Lin & Hwang, 2010). The relationship between the audit committee and audit quality has the potential to improve the quality of financial reports.

According to Sarbanes-Oxley Section 404, external auditors must report on the company's internal controls and prove the company's internal management. According to ICL, the external auditor has a role in his statement about whether the financial statements are under the identified financial reporting framework and whether the financial statements are reliable. The external auditor is personally appointed upon the recommendation of the audit committee. So that the external auditor must disclose (possible) errors, errors, rules, and internal company rules during the audit, and report them to the audit committee or the Board of Commissioners.

The audit committee and external auditors headed toward the financial reporting process and management's tendency to manage earnings. External auditors must make the company aware of, and return to, the rules of correct practice at the appropriate level of responsibility, both concerning material errors in the design or operation of the accounting system as well as internal controls, which have come to the auditor's attention. The audit committee or the supervisory board must take appropriate steps when management finds profit. The meeting of the audit committee's financial expertise with external auditors provides an effort to reduce the existence of earnings management in the company. Because the financial expertise of the audit committee can increase the role and bring more resources such as expertise in generating revenue and high-quality financial reporting so that earnings management in the company will drop. The function of external auditors here is divided into 2, namely the external auditors Big 4 and Non-Big 4. Where Big 4 can prevent earnings management because it has a greater incentive to disclose and disclose management reporting errors that can reduce the level of management earnings. This is the assumption on the assumption that high-quality audits are truly capable of being one of the detectors and barriers to financial management in the company. So that the meeting is expected to be able to improve strict financial processes in management related to the reporting process, which of course can prevent managers' incentives in manipulating earnings. Based on the research above, the following hypothesis can be formulated:

H2: External auditors reinforce the negative influence of the audit committee's financial expertise on earnings management.

2. Research Design and Method

In this research, we will use non-financial companies listed on the Indonesia Stock Exchange 2016-2019. The data source used in this research is secondary data from website of the Indonesia Stock Exchange (IDX) and OSIRIS. The research sample selected using nonprobability sampling technique with purposive sampling technique and the final sample of 1,966 companies, with the following criteria:

Table 1. Sample criteria

No	Criteria	2016	2017	2018	2019	Total
1	Companies listed on the IDX during 2016-2019	579	579	579	579	2,316
2	Companies with incomplete data in accordance with the variables used	112	91	42	47	(292)
	Number of sample companies					2.024
3	Outlier Data	44	4	6	4	(58)
	Final Sample					1,966

Based on the table 1, it can be seen that the companies that became the research samples were 2,024 data used. However, after processing the data, there were 58 data that had to be excluded from the research sample. Outlier data was identified as the cause of the data being abnormal because the extreme values

looked very different from other data, therefore outlier data had to be removed from the research sample. Outliers can be detected by calculating the value of the data into a standardized score or the so-called z-score (Ghozali, 2018). Furthermore, data that has a standard score (z-score) with a value in the range of 3 to 4 is declared an outlier. Thus, the final total sample used was 1,966 data and was subsequently used for analysis and hypothesis testing.

Dependent Variable, Earnings management is a manager's choice of using accounting policies that can affect the level of earnings in the company so that it achieves several goals in reporting earnings (Scott, 2015). The model used in the study was Kothari's Performance-Matched Discretionary Accruals. This model seeks to perfect the Jones Model that has the idea that the accruals that exist in the company have systematic "unusual" performance with non-zero expectations so that the company's performance is related to accruals. This shows that if companies that have "unusual" performance such as those that are experiencing growth will have a positive relationship with accruals. This high accrual value is influenced by growth in the company that is usually indicated by a high value of accounts receivable, not because of earnings management. Thus, to control for the level of performance that is considered "unusual" in estimating discretionary accruals more accurately, Kothari adds performance variables such as return on assets (ROA) as additional independent variables in his discretionary accruals regression model (Kothari et al., 2005).

The choice of this model is because according to Cespa (2008) this method is considered appropriate because it has better explanatory power, so it can reduce errors in measuring earnings management. This happens because measuring company performance through ROA is considered to have a systemic relationship with non-zero expectations of accruals. Total accruals as changes in non-cash current assets fewer changes in current liabilities do not include the portion of long-term debt less depreciation and amortization, which are scaled against total assets t-1. Estimated annually using all company years of observation.

The following model obtains the regression coefficient value, where the use of assets as a deflator is intended to reduce the residual heteroscedasticity. This model is regressed at the overall sample level using all years of observation. From the equation below, the residual value will be obtained which will be the discretionary accrual value at the company. Discretionary accruals are then interpreted from the values obtained from these calculations. If the value is away from 0, the higher the earnings management, and vice versa, if it is close to 0, the earnings management will be lower.

$$TA_t = \beta_0 + \beta_1 \left(\frac{1}{A_{t-1}} \right) + \beta_2 (\Delta SALES_t) + \beta_3 (PPE_t) + \beta_4 (ROA_t) + \varepsilon_t \dots \dots \dots (1)$$

Description:

TA_t	= total accruals divided by total assets t-1
A_{t-1}	= total asset t-1
$\Delta SALES_t$	= change in company sales divided by total assets t-1
PPE_t	= gross property, plant, and equipment divided by total asset t-1
ROA_t	= total liabilities divided by total assets t-1
β_1	= constant numbers
$\beta_1 \dots \beta_4$	= regression direction coefficient
ε_t	= residual (Earnings Management (EM))

Independent Variable, Audit committee financial expertise is financial expertise possessed by the audit committee as evidenced by looking at a person's work history in a position that has held positions as an accounting manager, banker, analyst, investor, fund manager, investment manager, fund manager, asset manager, treasurer, finance director, manager finance, and vice president finance (Badolato et al., 2014).

In this case, information related to work history is informed on each profile of the head of the internal audit, the researcher does not use the title as an indicator of financial expertise because the researcher feels that the work history indicator is sufficient to describe a person's expertise in doing his job. ACFE is measured by the proportion of the number of members of the audit committee's financial expertise to the number of members of the audit committee as seen in the annual report in the audit committee report section. ACFE is obtained by dividing the number of audit committees with financial expertise by the number of audit committee members.

Moderation Variables, According to ACCA Global, the External Auditor is an independent third-party professional who conducts an impartial review of an organization's financial records. Consistent with previous research (Alves, 2013), measuring external audit as a dichotomous variable by taking the value category is in category 1 if the company is audited by KAP Big 4 (Deloitte Touche Tohmatsu, Ernst & Young, KPMG and PricewaterhouseCoopers) and vice versa is in category 0 if companies audited by non-Big 4 public accounting firms.

Control Variables, The size of the Audit Committee is the number of audit committee members in the company (Alves, 2013; Lin & Hwang, 2010; Rusmin, 2005). It can be seen from the auditor's report that has been published by the company. Leverage is the use of assets and sources of funds by companies that have fixed expenses to increase profits for shareholders (Al-Rassas & Kamardin, 2015; Alves, 2013; Klein, 2002). Leverage was chosen because it can describe the company's condition in making future investment and funding decisions. LEV is obtained from the division between total liabilities and total assets. Total liabilities and total assets was obtained from the OSIRIS database. Firm size is the total assets of the company (Klein, 2002). Can be seen by doing a Natural Log of the company's total assets. can be seen from the company's balance sheet. FS is obtained from the natural logarithm of the company's total assets. Total assets in the study was obtained from the OSIRIS database. Profitability provides an overview of the company's ability to generate profits for a certain period using all the capabilities and resources it has, both from sales activities, use of assets, or use of capital, according to (Shirzad et al., 2015). Profitability that continues to increase indicates that the company is in good condition so that it will reduce the desire for managers to carry out earnings management. Meanwhile, according to (Agustia & Suryani, 2018), high or low level of profitability does not affect the level of earnings management because investors tend not to pay attention to existing profitability information so that managers are not motivated to do earnings management. The ROA (return on assets) ratio is measured by a comparison between the net income before tax to the company's total assets. The ROA in the study was obtained from the OSIRIS database.

The data analysis technique used is the Moderated Regression Analysis (MRA) test, which functions to measure the strength of the influence between two or more independent variables on one dependent variable and to predict the dependent variable on the independent variable. MRA is also used because it is an approach that maintains sample integrity and provides a basis or basis for controlling for the influence of variables (Ghozali, 2018). In using the MRA, there are 3 regression tests to determine the interaction of the moderating variable on the dependent variable and the independent variable, and also to classify the types of moderating variables. The following are the regression used:

Regression 1:

$$EM = \alpha_1 + \beta_1(ACFE) + \beta_4(SAC) + \beta_5(LEV) + \beta_6(FS) + \beta_7(ROA) + \varepsilon \dots \dots \dots (2)$$

Regression 2:

$$EM = \alpha_1 + \beta_1(ACFE) + \beta_2(EA) + \beta_4(SAC) + \beta_5(LEV) + \beta_6(FS) + \beta_7(ROA) + \varepsilon(3)$$

Regression 3:

$$EM = \alpha_1 + \beta_1(ACFE) + \beta_2(EA) + \beta_3(ACFE) * (EA) + \beta_4(SAC) + \beta_5(LEV) + \beta_6(FS) + \beta_7(ROA) + \varepsilon \dots \dots \dots (4)$$

Two tests will be used, namely the coefficient of determination (adjusted R2 value). The

coefficient of determination (R^2) is a measuring tool to determine the extent of the model's ability to explain variations in the dependent variable (Ghozali, 2018). And the individual parameter significance test (t-test). The partial test serves to determine the effect of each independent variable used on the dependent variable (Ghozali, 2018) by comparing the level of significance of the t-test results with α (level of confidence).

3. Results and Discussion

Statistical Result

Based on the selected sample, it shows the number of companies listed on the IDX during 2016-2019 which were obtained from the official website of the Indonesia Stock Exchange (BEI) and data from OSIRIS. There were 2,316 non-financial companies, which were then reduced by companies with incomplete data according to the variables used, namely 292 companies, which in the end found 58 companies that had to be outliers because the data deviated too far from other data. The final result of the sample used was 1,966 companies. The descriptive statistical analysis aims to provide an overview and description of data used in testing hypotheses regarding the variables used (Ghozali, 2018). The results of the descriptive statistical analysis related to the variables in the study are presented in table 2.

Table 2. Descriptive Statistical Analysis Results

	N	Minimum	Maximum	Mean	Std. Deviation
EM	1966	0	0.954	0.09459	0.133605
ACFE	1966	0	3	0.58	0.734
SAC	1966	0	7	3.00	0.567
LEV	1966	0	22.610	0.58056	1.149147
FS	1966	17.010	33.470	26.79285	3.631238
ROA	1966	-84.750	73.010	3.32208	12.375080
Valid N (listwise)	1966				

Based on table 2, it can be seen that the sample used was 1,966 companies. In the table, that management earnings (EM) have a value of 0.1336, with a maximum earnings management level of 0.954 and a minimum of 0 with an average of 0.0946. The financial expertise of the audit committee (ACFE) has a value range of 0.734 with maximum and minimum values of 3 and 0 respectively. A minimum value of 0 means that there are still companies that have not implemented the rules properly, where the company does not have an audit committee with expertise in finance, which is required in POJK number 55 / POJK.04 / 2015 (Komisioner & Jasa, 2015) chapter II third part of article 7. Meanwhile, for the size of the audit committee (SAC), there are still companies that do not comply with existing regulations. which in POJK number 55 / POJK / .04 / 2015 CHAPTER II second part of Article 4 states that the formation of the audit committee consists of at least 3 (three) members who come from Independent Commissioners and from parties outside the Issuer or Public Company.

The average size of the audit committee is 3 with a standard deviation of 0.567. This shows that the average company has complied with POJK Number 55 / POJK.04 /2015 CHAPTER 4 article 13 regarding the holding of audit committee meetings which are held regularly at least once in 3 months or 4x a year. although there are still companies that do not carry out the mandatory because some companies do not even have an audit committee due to lack of fees or there is a process of changing or changing positions. The leverage variable (LEV) has a value range of 1.1491 with an average of 0.5805. Leverage shows the lowest value of 0 because it refers to the OSIRIS database and the highest value is 22,610. The size of the company (FS) shows the lowest value of 17,010 and the highest value of 33,470. The average company size value is 26.79285 with a standard deviation of 3.631238. Return on assets (ROA) shows the highest and lowest values, respectively, of -84.750 and 73.010, with an average of 3.32208 and a standard deviation of 12.375080.

The external audit variable (AE) and the moderating variable for the audit committee with external auditor financial expertise (ACFE) are dummy variables so that they are analyzed based on the amount of data and the percentage. Based on table 3, that 886 or 38.3% of companies have members with educational backgrounds and expertise in accounting and finance, while the rest do not have members of the audit committee who have these expertise. So it can be said that there are still companies that have not fully implemented the existing regulations properly. Based on table 4, it can be seen that from 1966 companies, there were 1,312 or 56.6% companies that did not use the services of Non Big 4, while the remaining 654 or 28.2% companies used Big 4 auditors. Based on table 5, concluded that if there are 1,699 companies that were not audited by Big 4, they still do not have audit committee members with educational backgrounds and expertise in accounting and finance. Meanwhile, the rest are audited by Big 4 and have audit committee members with educational backgrounds and expertise in accounting and finance. This indicates if an external auditor assists the company in carrying out the existing regulations properly.

Table 3. Audit Committee's Financial Expertise

		Frequency	Percent
Valid	0	1080	46.6
	1	664	28.7
	2	188	8.1
	3	34	1.5
	Total	1966	84.9
Missing	System	350	15.1
Total		2316	100.0

Table 4. External Auditor

		Frequency	Percent
Valid	NON BIG 4	1312	56.6
	BIG 4	654	28.2
	Total	1966	84.9
Missing	System	350	15.1
Total		2316	100.0

Table 5. Audit Committee's Financial Expertise and Audited by BIG 4 or Non BIG 4

		Frequency	Percent
Valid	doesn't have an audit committee with financial expertise and/ or is audited by NON BIG 4	1699	73.4
	has an audit committee with financial expertise and is audited by BIG 4	209	9.0
	has an more than 1 audit committee with financial expertise and is audited by BIG 4	49	2.1
	has an more than 2 audit committee with financial expertise and is audited by BIG 4	9	.4
	Total	1966	84.9
Missing	System	350	15.1
Total		2316	100.0

Discussion of Results. The results of the classical assumption test show that the regression model has met the multicollinearity test, heteroscedasticity test, and normality test. After fulfilling the classical assumption test, then hypothesis testing is carried out. Hypothesis testing in this study was

carried out by Moderated Regression Analysis (MRA) with 3 aggression tests:

Regression analysis of the audit committee's financial expertise variable on earnings management:

Table 6. Coefficient of Determination Test Regression 1

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.109 ^a	.012	.009	.162763	.023

a. Predictors: (Constant), ROA, ACFE, SAC, LEV, FS
b. Dependent Variable: EM

Based on table 6, the regression coefficient (R-square) value is 0.012, so it is concluded that the audit committee financial expertise variable has an influence on earnings management by 1.02%, while the rest is influenced by other variables.

Table 7. Simultaneous Significance Test (F-Test) Regression 1

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.620	5	.124	4.683	.000 ^b
	Residual	51.924	1960	.026		
	Total	52.544	1965			

a. Dependent Variable: EM

b. Predictors: (Constant), ROA, ACFE, SAC, LEV, FS

Discussion

The Effect of the Audit Committee's Financial Expertise on Earnings Management. Based on table 14, the test results state that the beta coefficient of the audit committee's financial expertise (ACFE) with the proxy of the audit committee's expertise shows a value of -0.003 with a significant value of 0.587. This shows that the financial expertise of the audit committee has no effect on earnings management. Thus, the first hypothesis which states that an audit committee with financial expertise has a negative effect on earnings management is rejected. This is because according to (Susanto & Pradipta., 2016), if there is an audit committee that is competent in accounting and finance, especially finance, it is only required by regulations. In addition, the lack of a clear definition of financial literacy that must be possessed by audit committee members causes each company to tend to have its own financial expertise. The lack of a clear definition of accounting and finance expertise on audit committee membership requirements leaves companies confused in deciding how one can be considered an expert in finance.

External Auditors Reinforce Negative Effects of Audit Committee's Financial Expertise on Earnings Management. The variable of financial expertise of the audit committee and external auditors (ACFE_EA) shows a coefficient value of -0.200 with a significance value of 0.842. This means that the interaction variable of financial expertise of the audit committee and external auditors has no significant negative effect on earnings management. It can be concluded that the third hypothesis is rejected because it has insignificant results, even though it has the same, negative direction. The results show that the two mechanisms of the audit committee and the external auditor that function together within the company tend to have no effect on earnings management, the reason being that the two monitoring mechanisms that function together within the company do not carry out their duties, roles and responsibilities properly in supervising and monitoring activities. that is done by management. Lack of coordination and information between the audit committee and the external auditors is a factor in their failure to supervise management activities related to the financial reporting process even though the audit committee has expertise in finance and accounting. This is reinforced by not explaining more detail the financial and accounting expertise that the audit committee must have in POJK Number 55/POJK.04/2015.

There are several possibilities: First, that the individual expertise of the audit committee is not

optimal due to the lack of training or workshops that are available. given by the company so that these individuals have difficulty implementing their expertise. Second, because the company has a bad management flow. Third there are irresponsible people from both upper and lower management who work together (collusion) for certain purposes outside of the company's interests, they are motivated to carry out immoral accounting practices. Thus, the problems contained in the financial reporting process were not disclosed and were not recognized by the audit committee and did not find solutions. Fourth, the audit committee and the external auditor are not good partners in the company and act independently of each other in overseeing management. So, it can be concluded that the financial expertise of the audit committee and external auditors has not been effective in preventing earnings management practices. Thus, it can be concluded that the financial expertise of the audit committee and external auditors has not been effective in preventing earnings management practices. A company that has an audit committee with financial expertise and is audited by Big 4 and Non Big 4 has not been able to be characterized as a company that is effective in working together.

The test results for the control variables have the different effect on earnings management. The variables Size of Audit Committee (SAC) and Firm Size (FS) do not have a significant effect on earnings management. This is because, from the results of the calculation, the values obtained are more than the significant values, namely 0.367 and 0.127 (<0.05). Different with the variables Leverage (LEV) and Return On Assets (ROA) which have a coefficient value of -3.409 and 3.462 with a significant value of 0.001 and 0.001. Leverage (LEV) has a significant negative effect on earnings management. These results indicate that companies with high levels of debt are less able to perform earnings management because they are under the supervision of the lender. These results are similar to those of (Ali et al., 2015; Becker et al., 1998) found a negative relationship between leverage and earnings management. This means that the level of LEV and ROA has an effect on earnings management (EM).

4. Conclusions

Based on the research and data analysis that has been carried out, in accordance with the research objectives, namely to determine the financial expertise of the audit committee on earnings management with external auditors as a moderating variable, several conclusions were obtained where this study used a sample of 1,966 companies listed on the IDX in 2016-2019. In this study, using Moderated Regression Analysis, and the results of the moderating variable used are the moderator predictor variables. The results showed that companies that have an audit committee with financial expertise are considered unable to influence the company's earnings management. Meanwhile, companies that have an audit committee with financial expertise and are audited by external auditors of Big 4 or Non Big 4 also have no influence on the company's earnings management. However, (Arens et al., 2012) argue that human factors perform the function of the control process. There is no single system that can completely prevent all fraud that occurs in a company due to inherent limitations. This limitation can only be minimized, it cannot be completely eliminated by independent people from within or from outside. In any case, the system can best be defeated by collusion. Therefore, the best possible monitoring mechanism used by companies to oversee management will not function if there is collusion due to human factors who prioritize personal interests so that they are motivated to carry out immoral accounting practices.

This study has several limitations, namely the use of industrial samples listed on the IDX for the 2016-2019 which are considered relatively narrow and vulnerable to short years and may affect the reliability of the research. Suggestions from researchers are expected to use a longer sample period so that it can easily see the relationship of all variables more comprehensively to determine the overall relationship because each industrial sector has its own characteristics. Apart from the limitations regarding the focus on one audit committee expertise, it is hoped that further research can develop the characteristics possessed by the audit committee which can take into account the length of work experience of the audit committee, other audit committee skills that may be possessed by the audit committee members or other

factors.

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