The effect of audit committee on audit opinion through earnings management as mediation variable

by Juniarti Juniarti

The effect of audit committee on audit opinion through earnings management as mediation variable

Juniarti*, Fany and Devie

Fakultas Ekomomi,
Universitas Kristen Petra,
Jl. Siwalankerto 121-131, Surabaya 60236, Indonesia
Fax: (031)-8417658
Email: yunie@petra.ac.id
Email: fany090496@gmail.com
Email: dave@petra.ac.id
*Corresponding author

Abstract: This study aims to examine the mediating effect of earnings management on the influence of the audit committee on audit opinion. The research samples are listed companies in the IDX in the sectors of infrastructure, utilities, and transportation for 2011–2017. This selection of industrial sectors due to these sectors obtains many qualified audit opinions in the study period compared to other sectors. This study adds control variables, namely firm size and leverage. We measure audit committee using two approaches, the first is the total score of each component of audit committees including size, independence, expertise, and meeting and the second is the partial score of each attribute of the audit committee. The results show that the audit committee influences the audit opinion and there is a negative significant influence of earning management and audit opinion, but, this study fails to prove the mediating effect of earning management in the relationship of the audit committee and audit opinion.

Keywords: audit committee; earning management; audit opinion.

Reference to this paper should be made as follows: Juniarti, Fany and Devie (2022) 'The effect of audit committee on audit opinion through earnings management as mediation variable', *Afro-Asian J. Finance and Accounting*, Vol. 12, No. 6, pp.790–803.

Biographical notes: Juniarti is an Associate Professor of Accounting, she is a Senior Lecturer in the Department of Accountancy, Petra Christian University. In addition to teaching, she is also Editor in Chief of the *Jurnal Akuntansi dan Keuangan (Journal of Accounting and Finance)*, which is slightly among nationally accredited journals. Her research interests are in financial and management accounting, especially related to family firm business, good corporate governance, corporate social responsibility and sustainability issues.

Fany graduated from Master of Management Petra Christian University. She obtained her Bachelor of Accounting from University of Surabaya, Faculty Business and Economics.

Devie is an Associate Professor at Accounting Department, Petra Christian University. He is also a former Dean in Faculty of Economics of Petra (2000–2008). He is doing his professional work as a lecturer and also a business consultant. His research interest includes managerial accounting, financial management, and accounting behaviour.

1 Introduction

Financial report scandals in several companies have triggered a crisis of trust and have a detrimental effect on stakeholders (Zgarni et al., 2016). Audit quality has been highlighted in these scandals. One of the notable scandals is the Enron case because it has to lead the collapse of Arthur Andersen (Chen et al., 2005). According to Nogler (2008), some large companies, such as WorldCom, Global Crossing, and Ual Crop followed the Enron case, even though these companies have received an unqualified opinion, previously. Indonesia also experienced similar scandals. In 2018, the Otoritas Jasa Keuangan (OJK, 2018) gave sanctions to Deloitte's Public Accountants for failing to conduct financial statement audits. Its client, PT Sunprima Nusantara received unqualified opinions, however, as the result of the OJK's examination, the financial status of the company was not presented as the actual financial conditions. The case raises concerns about how the Public Accounting Office practices in developing countries follow the code of ethics.

The presence of external auditors aims to oversee fairness in the financial statements. However, there are conflicts between management and external auditors because of differences of opinion related to accounting estimates, interpretations of accounting standards, and disclosure problems (Salleh and Stewart, 2012). The auditor is appointed by the company and can be dismissed if the opinion does not match the manager's expectations. This often means manager and auditor enter into negotiation of some conditions of its financial statements (Mohd Saleh et al., 2007). As a consequence, the published audit opinion is biased and misleads interested parties.

Audit committees are appointed to act independently in resolving conflicts between managers and auditors (Klein, 2002; Salleh and Stewart, 2012). They monitor the independence and objectivity of external auditors through the audit process (Wu et al., 2014). Prior studies suggested that there is a positive effect of the audit committee and audit opinion (Bronson et al., 2009; Carcello and Neal, 2000, 2003; Hoitash and Hoitash, 2009; Pomeroy and Thornton, 2008). According to Hoitash and Hoitash (2009), the role of an effective audit committee makes auditors more independent in conducting audits so that the opinions issued are under the conditions of the company. Hoitash and Hoitash (2009) explained that the dismissal of auditors can occur because the auditor publishes qualified opinions that are not under the expectation of management. This causes the company to look for other auditors to obtain audit opinions as the manager expected.

Earnings management is a deliberate intervention in the process of financial reporting to external parties for personal gain (Healy and Palepu, 1990; Beneish, 2001; Skinner and Dechow, 2000). Managers can use judgment on financial reporting and transaction structure so that the information presented can be misleading for stakeholders and influence financial reporting quality (Bratten et al., 2019; Healy and Wahlen, 1999). Earnings management opportunities can be narrowed by the existence of an audit committee. Some previous studies support that audit committees can reduce earnings management (Bradbury et al., 2006; Inaam and Khamoussi, 2016; Mohd Saleh et al., 2007; Zgarni et al., 2016). However, other studies found the opposite, that audit committees do not affect earnings management (Rahman and Mohamed Ali, 2006).

When a company manages profits, it will affect the audit opinion issued (Suryanto and Grima, 2018). It is also in line with the finding of Johl et al. (2007) when managers manage earnings, the auditor will issue a qualified opinion. Francis and Krishnan (1999) researched accrual level on audit opinion. The result showed that when the company's accrual level is high, the auditor will issue a qualified opinion. Accrual levels are related to high abnormal (discretionary) accruals (Johl et al., 2007).

Issuing audit opinion is the responsibility of the external auditor. On the other hand, the audit committee is responsible for overseeing the financial reporting process and the audit process, so that the company obtains an audit opinion following the conditions of the company. Many prior studies directly examine the relationship between the audit committee and earnings management or between earnings management and audit opinion. This study will develop a comprehensive model, by proposing earnings management as the mediating variable in the relationship of the audit committee and audit opinion. We argue that the role of the audit committee in obtaining proper audit opinion should be indirect. This is because the role of committee audit is first to oversee the management so that managers will be limited to manage earnings as they want, but as the real condition of the companies. Many prior studies supported that the audit committee limits earnings management opportunities (Bradbury et al., 2006; Inaam and Khamoussi, 2016; Mohd Saleh et al., 2007; Zgarni et al., 2016). Then, the audit committee will drive a proper audit opinion through limiting of earnings management opportunities. The study of the partial relationship among variables will mislead the role of the audit committee. The existence of an audit committee is required by good corporate governance mechanism, to help the Board of Commissioners to monitor managers. Therefore, the evaluation of the performance of the audit committee should be conducted comprehensively. This study also will provide evidence of the effectiveness of audit committees, whether they carry out their role as required.

2 Literature review

2.1 Agency theory

In agency theory, the motivation of a rational agent is to act on behalf of the principal, but the interests of the agent are contrary to the interests of the principal (Scott, 2015). The agent has the responsibility to maximise the benefit of the principal, but the agent has other interests to maximise his welfare. This is called a conflict of interest (Jensen and Meckling, 1976). Manager's opportunistic behaviour can be minimised through the audit committee. The audit committee can reduce this agency problem so that it can improve the quality of financial reporting and maintain information that will be conveyed to stakeholders (Islam et al., 2014). This agency problem is a lack of companies, such as lack of internal control effectiveness, lack of independent auditors, and others.

2.2 Effectiveness of the audit committee

Audit committees oversee the financial reporting process and ensure financial reporting is presented correctly and fairly (Beasley et al., 2000). The effectiveness of the audit committee is closely related to supervisory activities. This monitoring area includes monitoring of the financial reporting process, monitoring internal controls and risks, and monitoring the activities of external auditors (Beasley et al., 2009; Kusnadi et al., 2016). Monitoring the financial reporting process includes monitoring accounting policies, compliance with regulations, and investigating problematic accounting practices (Beasley et al., 2009).

2.3 Earnings management

Earnings management is one of the indicators of financial reporting quality. Low earnings management represents a higher financial reporting quality. Much previous research using earnings management as an indicator of financial reporting quality, among others are Chandar et al. (2012), Johl et al. (2013), Krishnan et al. (2011) and Al Shaer (2017). Qualified financial reporting leads to better decision-making of interested parties. Based on IFRS (2018), information is useful, if it is relevant and provides a representation of what is a faithful representation. Thus, the profits managed by management do not reflect actual company performance (Bellovary et al., 2005).

2.4 Audit opinion

An audit is one of the governance mechanisms which aim to reduce information asymmetry and conflicts of interest between managers and shareholders (Moalla, 2017). The audit opinion is the result of audit processes. There are four types of audit opinions, which are unqualified, qualified, or reasonable with exceptions, adverse, and disclaimer or refuse to give an opinion (Arens et al., 2015). An audit can increase investor confidence and ensure that the information presented by the manager is not in its interest. External auditors are parties contracted by companies, but they must work independently from managers so that they can produce an objective opinion. Often, this situation makes auditors face difficulties, especially when issuing qualified opinions because they are vulnerable to management pressure (Ballesta and Meca, 2005). Qualified opinion is an opinion that is not desired by the manager because it shows the poor quality of the financial statements. This can be minimised when the role of the audit committee is more effective. An effective audit committee can keep audit quality (Carcello and Neal, 2000).

Prior studies identified the following characteristics of the effective audit committee:

1 has a large size

2 has enough independent members

3 has an expertise and experience in its ranks

4 has high committee meetings (Abbott, 2000; DeFond and Francis, 2005; Hichem and Samaha, 2016; Mohd Saleh et al., 2007).

An effective audit committee will monitor and supervise tightly during the audit processes to ensure the audit (DeFond and Francis, 2005; Abbott, 2000). The auditor will be protected from manager pressure and can publish opinions according to the facts.

H1 Audit committee has a positive influence on the audit opinion.

Agency theory requires a supervisory mechanism in the relationship between agents and principals. This mechanism is to monitor agent behaviour so that it can minimise opportunistic behaviour and non-compliance from the agent. The role of the audit committee is to oversee the preparation of financial statements and to prevent discrepancies between auditors and management (Martinez and Fuentes, 2011). This can reduce management errors and non-compliance in preparing financial statements. Previous research examined the characteristics of the audit committee for earnings management. According to DeFond and Francis (2005), the size of a large audit committee can provide effective monitoring so that it encourages management to improve the quality of financial reporting. Independent audit committees and audit committees that meet frequently can reduce accounting irregularities (Dechow et al., 1996; Nor et al., 2010). DeZoort and Salterio (2001) also found that the expertise of the audit committees in the field of accounting and finance enables them to understand well the auditor's assessment and will mediate the conflict between management and the auditor. An independent audit committee limits earnings management because it provides clear responsibilities in overseeing the accounting, financial reporting, and audit processes to reduce earnings management. Then Klein (2002) study states that:

H2 The audit committee has a negative influence on earnings management.

Earnings management occurs when managers use judgment in financial reporting that affects the accounting numbers to be reported (Healy and Wahlen, 1999). The higher the earnings management, the more likely the auditors are to issue opinions other than unqualified (Johl et al., 2007). Audit opinion communicates whether financial statements are free of material misstatement and are following accounting standards. The qualified auditors can detect the existence of earnings management practices, then they will communicate it through their opinion. The previous study supported that companies that conducted earnings management, received a qualified opinion (Butler et al., 2004)

H3 Earnings management has a negative influence on audit opinion.

One of the motivations of management in committing fraud is to get bonuses related to the company's performance or other financial targets (Kassem, 2018). When a company fails to achieve profit, management will take advantage of the flexibility of accounting standards to modify profits to be reported (Suryanto and Grima, 2018). This profit modification will affect the audit process and audit opinion. Suryanto and Grima (2018) explained that audit opinions are very important in enhancing the company's reputation and increasing investor interest in investing. Modification of earnings can be prevented through the role of the audit committee so that the opinions issued describe the condition of the company. The role of the audit committee becomes less effective if it has a small number of members and lacks skills and knowledge (Rahmat et al., 2009). The audit committees that have expertise can monitor management activities (Bilal et al., 2018). An independent audit committee can minimise conflicts between auditors and management (Kusnadi et al., 2016). Besides that, the activity of monitoring through the high frequency of audit committee meetings will make the governance mechanism more effective. This is because the audit committee will discuss financial reporting issues to find solutions and take corrective actions (Hichem and Samaha, 2016).

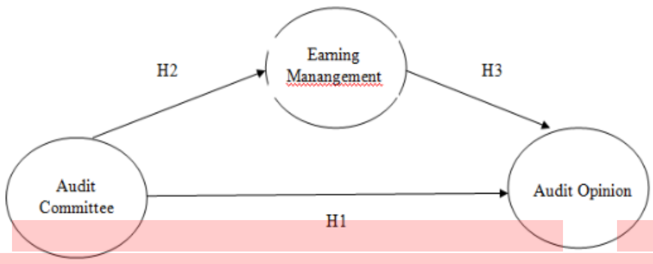
H4 Earnings management mediates the influence of the audit committee on audit opinion.

3 Methodology

The sample of this research is public companies listed in the Indonesia Stock Exchange from 2011–2017, excluded the non-financial sector. Companies have a book year ending December 31, with the highest qualified opinion in the research period.

The research model is explained in Figure 1.

Figure 1 Research model



We measure the audit committee, using two approaches. The first one is the total score of each component of audit committees including size, independence, expertise, and meeting (Baxter, 2010). If the audit committee's size consists of more than three people, it will be scored 1, otherwise, 0. If the audit committee has independent audit members equal to or more than 50%, it will be scored 1, otherwise, 0. If the audit committee has members with expertise in accounting or finance or both, it will be scored 1, otherwise, 0. The last is the meeting frequency, if the audit committee meeting is more than three times a year, will be scored 1, otherwise, 0. The score of the audit committee (KA) is obtained by summing the score of each component. The higher the total score means the more effective the role of the audit committee. The second approach is using the partial score of each attribute of the audit committee, size (SIZEAC) calculated by a number of audit committee members, independent audit committee (ACIND) is the proportion of independent commissioners in the audit committee (ACIND), audit committee expertise is the proportion of audit committee expertise in accounting and finance (ACEXPERT), audit committee meeting (ACMEET) is the number of meeting audit committee for one year.

The dependent variable is audit opinion (OA) measured using a dummy variable. If the company receives an unqualified audit opinion, it will be scored 1, otherwise, 0 (Johl et al., 2007). Earnings management (EM) is measured using the modified Jones model (Dechow et al., 1995). The steps to measure earnings management using John modified is as follow:

$$\frac{TA_{i,t}}{A_{i,t-1}} = \beta_1\left(\frac{1}{A_{i,t-1}}\right) + \beta_2\left(\frac{\Delta REV_{i,t}}{A_{i,t-1}}\right) + \beta_3\left(\frac{PPE_{i,t}}{A_{it-1}}\right) + \varepsilon_{i,t} \tag{1}$$

$$AA = \frac{TA_{i,t}}{A_{i,t-1}} - \left[\hat{\beta}_1\left(\frac{1}{A_{i,t-1}}\right) + \hat{\beta}_2\left(\frac{\Delta REV_{i,t} - \Delta REC_{i,t}}{A_{i,t-1}}\right) + \hat{\beta}_3\left(\frac{PPE_{i,t}}{A_{it-1}}\right)\right] \tag{2}$$

where $TA_{i,t}$ is the total accruals at the company *i* for year *t*, which is defined as net income minus operating cash flows; AA is abnormal accruals; $\Delta REV_{i,t}$ is the change in revenue for the company *i* for year *t*, $\Delta REC_{i,t}$ is a change in receivable for the company *i* for year *t*; $A_{i,t-1}$ is the total assets of the company at the beginning of the year *t*; $PPE_{i,t}$ is a fixed asset at the company *i* for year *t*; β_1, β_2, and β_3 are estimates of regression of the coefficients β_1, β_2, and β_3; and $\varepsilon_{i,t}$ is a residual.

The control variables in this study are firm size (FSIZE) measured by natural logarithm of total assets and leverage (LEV) measured by debt divided by assets.

The research model in this study is as follows:

$$OA_{i,t} = \alpha_0 + \alpha_1 KA_{i,t-1} + \alpha_2 FSIZE_{i,t-1} + \alpha_3 LEV_{i,t-1} + \varepsilon_{i,t} \quad (3.1)$$

$$EM_{i,t-1} = \beta_0 + \beta_1 KA_{i,t-1} + \beta_2 FSIZE_{i,t-1} + \beta_3 LEV_{i,t-1} + \varepsilon_{i,t} \quad (3.2)$$

$$OA_{i,t} = \gamma_0 + \gamma_1 EM_{i,t-1} + \gamma_2 FSIZE_{i,t-1} + \gamma_3 LEV_{i,t-1} \quad (3.3)$$

$$OA_{i,t} = \theta_0 + \theta_1 KA_{i,t-1} + \theta_2 EM_{i,t-1} + \theta_3 FSIZE_{i,t-1} + \theta_4 LEV_{i,t-1} + \varepsilon_{i,t} \quad (3.4)$$

4 Results

The profile of the research variables is presented in Table 1.

Table 1 Statistic descriptive

	N	*Min*	*Max*	*Mean*	*S. dev*
KA	247	0	4	1.88	0.703
SIZEAC	247	1	7	3.24	0.707
%ACIND	247	20%	100%	36,85%	13,47%
%ACEXPERT	247	20%	100%	75.24%	23.98%
ACMEET	247	1	57	8.17	9.17
EM	247	0.000	1.881	0.086	0.162
FSIZE	247	9.96	14.30	12.55	0.84
LEV	247	0.004	7.170	0.486	0.667

KA has an average of 1.88. This means that on average, the effectiveness of the audit committee is quite low. Using the second approach measurement of the audit committee, the score of each attribute is as follows, on average companies have 3.24 mean of SIZEAC, this shows that the average number of audit committee members meet the requirements; then the ACIND variable has an average of 36.8498%. This means that overall, companies can fulfil the minimum requirement of the independent audit committee. The third attribute is ACEXPERT variable it has an average of 75.2448% means that the expertise of the audit committee meets the requirements. Besides, the ACEMEET variable has an average of 8.17. This shows that the overall audit committee have fulfilled the requirements in holding regular meetings within 1 year.

EM variable has an average value in this variable equal to 0.086311. This means that overall the company has good financial reporting quality or little management of its profits. The FSIZE variable is a control variable that measures the size of a company. Overall, the average size of the company is 12,548438. Then, the LEV variable has a company average of 0.485561, which means that the average company is 48.561% of its assets funded by debt.

Two hundred forty-seven companies qualify the sample criteria, as 85% of the companies have unqualified opinions and the remaining 15% are companies that have qualified opinions. This means that the company has presented financial statements fairly and following applicable accounting standards. This study also fulfilled the feasibility test requirements for logistic regression models (overall model fit, Nagelkerkel R square, and

Hosmer and Lemeshow) and classical assumption tests (normality, heteroscedasticity, multicollinearity, and autocracy). The results of hypothesis testing will be explained through the model image (Figure 2) of the study to explain the hypothesis received in this study.

Figure 2 The result of research model

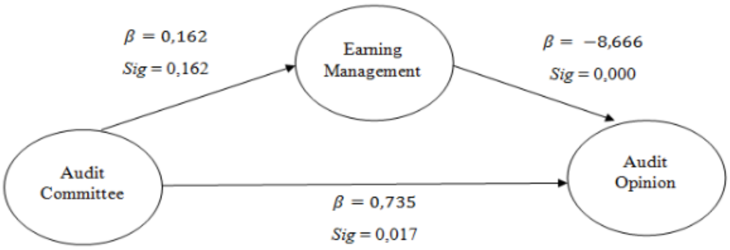


Figure 2 shows that the audit committee has a positive influence on audit opinion so that Hypothesis 1 (H1) is accepted. But when tested by each of the audit committee attributes, only audit committee meetings have a positive influence on opinion. The audit committee on earnings management does not have a significant effect on earnings management so Hypothesis 2 (H2) is rejected. When the attributes of the audit committee are tested, it turns out that the number of audit committees, independent audit committees, expertise, and meetings do not have a significant effect on audit opinions. Hypothesis 3 (H3) is accepted, namely earnings management has a negative influence on audit opinion. Furthermore, Hypothesis 4 (H4) will include earnings management as a mediating variable to see how the audit committee influences the audit opinion which can be seen in Table 2.

This result can be seen that the audit committee has a coefficient value of 0.835, at significance level 0.018. This means that overall the audit committee has a positive influence on audit opinion. Then the earnings management of the audit opinion has a coefficient value of –8.649 with a significance of 0.001. Therefore, if a company manages its earnings according to the management interest, it will lead to having an opinion other than unqualified. Furthermore, the significance of this mediation test will be proven by the Sobel test. The results of the Sobel test calculation have a z-value of –1.5475 or smaller 1.96 which indicates that earnings management cannot significantly mediate the relationship of the audit committee and audit opinion. Then when the audit committee attributes are each tested, they have the same results. This means that overall earnings management cannot mediate the influence of the audit committee on audit opinion.

Table 2 Hypothesis testing results (H4)

	β	*Sig*
$KA_{i,t-1}$	0.835	0.018
$EM_{i,t-1}$	–8.469	0.001
$FSIZE_{i,t-1}$	–0.026	0.938
$LEV_{i,t-1}$	–1.513	0.001

5 Discussion

This study finds that the audit committee has a positive influence on opinion. From the partial approach of the audit committee, we find that only the audit committee meeting has a positive influence on the audit opinion. This finding is supported by Choi et al. (2004) which explains that although the audit committee is independent and has expertise but does not hold meetings, the role of the audit committee has not been effective. The audit committee meeting shows the activities of the audit committee in conducting oversight. Previous studies found that auditors' independence and objectivity can be monitored by audit committees (Carcello and Neal, 2000; Wu et al., 2014). Independent audit committees and holding meetings can increase the auditor's ability to detect and report material misstatements (Abbott, 2000; DeAngelo, 1981). This oversight will make the auditor more independent when conducting the audit process so that the opinions issued reflect the true condition of the company (Hoitash and Hoitash, 2009). The size of the audit committee has no significant effect on the audit opinion. This means that the size of the audit committee does not influence the issuance of the opinion. According to Haji (2015) the number of large audit committees is difficult to make decisions because it has a variety of opinions. Other opinions such as DeFond and Francis (2005) stated that the size of the audit committee is small, therefore, the monitoring of the audit committee becomes less effective. The size of the audit committee is not a significant factor in conducting supervision (Alkdai and Hanefah, 2012). Bédard et al. (2004) proposed that the size of the audit committee is not so large, but large enough to ensure effective monitoring. The issuance of an opinion by the auditor can be monitored by the audit committee if the number of audit committees is large enough to carry out monitoring.

Our second finding is the audit committee does not have a significant effect on earnings management. The number of audit committees is small so that the role of the audit committee becomes less effective in carrying out supervision. But if the number of audit committees is large, it tends to be easy to follow the opinions of other members so that the audit committee becomes less independent. Therefore, the number of audit committees needs to be adjusted to the needs of the company (Kipkoech et al., 2016). Several prior studies found that independent audit committees, audit committee expertise, and audit committee meetings do not have a significant influence on earnings management (Bédard et al., 2004; Peasnell et al., 2000; Rahman and Mohamed Ali, 2006). According to Rahman and Mohamed Ali (2006), the role of the audit committee cannot prevent earnings management. It seems that the formation of an audit committee within the company has not yet achieved its objectives.

This study also proves that earnings management has a negative influence on audit opinion. According to Bellovary et al. (2005), the profit managed does not reflect the condition of the company, it does not represent the real condition of the company. The managed profit will affect the audit process and more likely the audit opinion (Suryanto and Grima, 2018). This finding is also supported by Butler et al. (2004) and Johl et al. (2007) which stated that the higher the earnings management, the auditor issues opinions other than unqualified. This means that earnings management can be detected through an audit process and resulting opinions other than unqualified. The published audit opinions reveal the condition of the company, where the auditor works independently without being intervened by the manager (Moalla, 2017).

Further, we find that earnings management cannot mediate the influence of the audit committee on audit opinion. The existence of an audit committee cannot detect the presence of earnings management. The role of the audit committee needs to be improved in overseeing the financial reporting process so that it can improve the quality of financial reporting. On the influence of the audit committee on audit opinion, it can be seen that the audit committee meeting has a major contribution in overseeing the opinions issued by the auditor. The audit committee meeting shows the activities of the audit committee in fulfilling its responsibilities in conducting oversight (Abbott, 2000). Monitoring mechanisms are more effective when audit committees hold meetings more often (Rahmat et al., 2009). Then the earnings management can be detected through an audit opinion. This means that the auditor has worked effectively in detecting material errors and misstatements in the financial statements. The auditor needs to be independent so that the formulation of opinions is more objective and unbiased (Moalla, 2017). Auditors' independence and objectivity need to be monitored by the audit committee (Wu et al., 2014). All fraud and illegal actions discovered by the auditor can be reported to the audit committee regardless of materiality (Arens et al., 2015).

6 Conclusions

This study aims to research the mediating effect of earning management on the influence of the audit committee on audit opinion. The research models are tested in two stages. The first test is using the audit committee a whole on audit opinion through earnings management as a mediating variable. The second is tested the partial attributes of the audit committee such as the audit committee's size, independent audit committee, audit committee expertise, and audit committee meetings. This study finds that the audit committee has a positive influence on audit opinion. The meeting activities of the audit committee are an important attribute that effectively influences the audit opinion. However, the existence of the audit committee does not have a significant effect on earnings management. Furthermore, this study shows that earnings management has a significant negative effect on audit opinion. This study cannot prove the mediating effect of earnings management in the influence of the audit committee toward audit opinion.

Managerial implications based on the results of this study are that companies need to pay attention to and empower audit committee meetings effectively. The meeting shows the activities of the audit committee in fulfilling its responsibilities. The number of large audit committees, independence, and expertise is indeed needed, but if there is no meeting, there is no activity of the audit committee and not enough supervision. Then, the existence of an audit committee can oversee between auditors and management so that problems and conflicts between auditors can be overcome by the existence of an audit committee. The auditor's role can capture the existence of earnings management through the issuance of opinion because the financial statements presented have not yet described the actual performance conditions.

This study has some limitations including a sample that was restricted to only certain sectors so that the result cannot be generalised in other sectors. The reason to restrict the industrial sectors is based on the number of qualified opinions received in the sectors. Further research can be applied to similar sample characteristics but in different study period in order to get the robust results. This study also uses a single proxy to measure financial reporting quality that is earnings management Future study is expected to use other indicators so that the results of the study are more comprehensive.

References

Abbott, L.J. (2000) 'The effects of audit committee activity and independence on corporate fraud', *Managerial Finance*, Vol. 26, No. 11, pp.55–67.

Al Shaer, H., Salama, A. and Toms, S. (2017) 'Audit committees and financial reporting quality: evidence from UK environmental accounting disclosure', *Journal of Applied Accounting Research*, Vol. 18, No. 1 [online] https://doi.org/10.1108/09574090910954864.

Alkdai, H. and Hanefah, M. (2012) 'Audit committee characteristics and earnings management in Malaysian Shariah-compliant companies', *Business & Management Review*, Vol. 2, No. 2, pp.52–61.

Arens, A.A., Elder, R.J. and Beasley, E. (2015) *Auditing dan Jasa Assurance*, Airlangga, Jakarta.

Ballesta, J.P.S. and Meca, G.E. (2005) 'Audit qualifications and corporate governance in Spanish listed firms', *Managerial Auditing Journal*, Vol. 20, No. 7, pp.725–738 [online] https://doi.org/10.1108/02686900510611258.

Baxter, P. (2010) 'Factors associated with the quality of audit committees', *Pacific Accounting Review*, Vol. 22, No. 1, pp.57–74 [online] https://doi.org/10.1108/01140581011034227.

Beasley, M.S., Carcello, J.V., Hermanson, D.R. and Lapides, P.D. (2000) 'Fraudulent financial reporting in China: consideration of timing traits and corporate governance mechanisms', *Accounting Horizons*, Vol. 14, No. 4, pp.441–454 [online] https://doi.org/10.2308/acch.2000.14.4.441.

Beasley, M.S., Carcello, J.V., Hermanson, D.R. and Neal, T.L. (2009) 'The audit committee oversight process', *Contemporary Accounting Research*, Vol. 26, No. 1, pp.65–122 [online] https://doi.org/10.1506/car.26.1.3.

Bédard, J., Chtourou, S.M. and Courteau, L. (2004) 'The effect of audit committee expertise, independence, and activity on aggressive earnings management', *Auditing*, Vol. 23, No. 2, pp.13–35 [online] https://doi.org/10.2308/aud.2004.23.2.13.

Bellovary, J., Giacomino, D. and Akers, M. (2005) 'Earnings quality: it's time to measure and report', *The CPA Journal*, Vol. 75, No. 11, p.32 [online] http://proquest.umi.com/pqdweb?did=928795481&Fmt=7&clientId=23852&RQT=309&VName=PQD.

Beneish, M.D. (2001) 'Earnings management: a perspective', *Managerial Finance*, Vol. 27, No. 12, pp.3–17.

Bilal, Chen, S. and Komal, B. (2018) 'Audit committee financial expertise and earnings quality: a meta-analysis', *Journal of Business Research*, November 2017, Vol. 84, pp.253–270 [online] https://doi.org/10.1016/j.jbusres.2017.11.048.

Bradbury, M., Mak, Y.T. and Tan, S.M. (2006) 'Article information: board characteristics, audit committee characteristics, and abnormal accruals', *Pacific Accounting Review*, Vol. 18, No. 2 [online] https://doi.org/10.2307/1977170.

Bratten, B., Causholli, M. and Sulcaj, V. (2019) 'Overseeing the external audit function: evidence from audit committees reported activities', *SSRN Electronic Journal* [online] https://doi.org/10.2139/ssrn.3314334.

Bronson, S.N., Carcello, J.V., Hollingsworth, C.W. and Neal, T.L. (2009) 'Are fully independent audit committees really necessary?', *Journal of Accounting and Public Policy*, Vol. 28, No. 4, pp.265–280 [online] https://doi.org/10.1016/j.jaccpubpol.2009.06.001.

Butler, M., Leone, A.J. and Willenborg, M. (2004) 'An empirical analysis of auditor reporting and its association with abnormal accruals', *Journal of Accounting and Economics*, Vol. 37, No. 2, pp.139–165 [online] https://doi.org/10.1016/j.jacceco.2003.06.004.

Carcello, J.V and Neal, T.L. (2003) 'New', *Going-Concern Reports*, Vol. 78, No. 1, pp.95–117.

Carcello, J.V. and Neal, T.L. (2000) 'Auditor reporting', *The Accounting Review*, Vol. 75, No. 4, pp.453–467.

Chandar, N., Chang, H. and Zheng, X. (2012) 'Does overlapping membership on audit and compensation committees improve a firm's financial reporting quality?', *Review of Accounting and Finance*, Vol. 11, No. 2, pp.141–165 [online] https://doi.org/10.1108/14757701211228192.

Chen, K.Y., Lin, K.L. and Zhou, J. (2005) 'Audit quality and earnings management for Taiwan IPO firms', *Managerial Auditing Journal*, Vol. 20, No. 1, pp.86–104 [online] https://doi.org/10.1108/02686900510570722.

Choi, J-H., Jeon, K-A. and Park, J-I. (2004) 'The role of audit committees in decreasing earnings management: Korean evidence', *International Journal of Accounting, Auditing, and Performance Evaluation*, Vol. 1, No. 1, pp.37–60 [online] https://doi.org/10.1504/IJAAPE.2004.004142.

DeAngelo, L.E. (1981) 'Auditor size and audit quality', *Journal of Accounting and Economics*, Vol. 3, No. 3, pp.183–199 [online] https://doi.org/10.1016/0165-4101(81)90002-1.

Dechow, P.M., Sloan, R.G. and Sweeney, A.P. (1995) 'Detecting earnings management author(s): detecting earnings management', *The Accounting Review*, Vol. 70, No. 2, pp.193–225 [online] https://doi.org/10.2307/248303.

Dechow, P.M., Sloan, R.G. and Sweeney, A.P. (1996) 'Causes and consequences of earnings manipulation: an analysis of firms subject to enforcement actions by the SEC', *Contemporary Accounting Research*, Vol. 13, No. l, pp.1–36 [online] https://doi.org/10.1111/j.1911-3846.1996.tb00490.x.

DeFond, M.L. and Francis, J.R. (2005) 'Audit research after Sarbanes-Oxley', *Auditing*, Vol. 24, pp.5–30, Suppl. [online] https://doi.org/10.2308/aud.2005.24.s-1.5.

DeZoort, F.T. and Salterio, S.E. (2001) 'The effects of corporate governance experience and financial-reporting and audit knowledge on audit committee members' judgments', *Auditing*, Vol. 20, No. 2, pp.31–47 [online] https://doi.org/10.2308/aud.2001.20.2.31.

Francis, J.R. and Krishnan, J. (1999) 'Accounting accruals and auditor reporting conservatism', *Contemporary Accounting Research*, Vol. 16, No. 1, pp.135–165 [online] https://doi.org/10.1111/j.1911-3846.1999.tb00577.x.

Haji, A.A. (2015) 'The role of audit committee attributes in intellectual capital disclosures: evidence from Malaysia', *Managerial Auditing Journal*, Vol. 30 [online] https://doi.org/10.1108/MAJ-07-2015-1221.

Healy, P.M. and Palepu, K.G. (1990) 'Effectiveness of accounting-based dividend covenants', *Journal of Accounting and Economics*, Vol. 12, Nos. 1–3, pp.97–123 [online] https://doi.org/10.1016/0165-4101(90)90043-4.

Healy, P.M. and Wahlen, J.M. (1999) 'A review of the earnings management literature and its', *Accounting Horizons*, Vol. 13, No. 4, pp.365–383 [online] https://doi.org/10.2308/acch.1999.13.4.365.

Hichem, K. and Samaha, K. (2016) 'Audit committee activity and internal control quality in Egypt: does external auditor's size matter?', *Managerial Auditing Journal*, Vol. 31, No. 3, pp.269–289 [online] https://doi.org/10.1108/MAJ-08-2014-1084.

Hoitash, R. and Hoitash, U. (2009) 'The role of audit committees in managing relationships with external auditors after SOX: evidence from the USA', *Managerial Auditing Journal*, Vol. 24, No. 4, pp.368–397 [online] https://doi.org/10.1108/02686900910948206.

IFRS (2018) *Conceptual Framework for Financial Reporting* [online] https://www.ifrs.org/-/media/project/conceptual-framework/fact-sheet-project-summary-and-feedback-statement/conceptual-framework-project-summary.pdf (accessed 2 March 2019).

Inaam, Z. and Khamoussi, H. (2016) 'Audit committee effectiveness, audit quality, and earnings management: a meta-analysis', *International Journal of Law and Management*, Vol. 58, No. 2, pp.179–196 [online] https://doi.org/10.1108/IJLMA-01-2015-0006.

Islam, M.Z., Islam, M.N., Bhattacharjee, S. and Islam, A.K.M.Z. (2014) 'Agency problem and the role of audit committee: implications for corporate sector in Bangladesh', *International Journal of Economics and Finance*, Vol. 2, No. 3, pp.177–188 [online] https://doi.org/10.5539/ijef.v2n3p177.

Jensen, M.C. and Meckling, W.H. (1976) 'Theory of the firm: managerial behavior, agency costs, and ownership structure theory of the firm: managerial behavior, agency costs, and ownership structure', *Journal of Financial Economics* [online] https://doi.org/http://dx.doi.org/10.1016/0304-405X(76)90026-X.

Johl, S., Jubb, C.A. and Houghton, K.A. (2007) 'Earnings management and the audit opinion: evidence from Malaysia', *Managerial Auditing Journal*, Vol. 22, No. 7, pp.688–715 [online] https://doi.org/10.1108/02686900710772591.

Johl, S.K., Kaur Johl, S., Subramaniam, N. and Cooper, B. (2013) 'Internal audit function, board quality, and financial reporting quality: evidence from Malaysia', *Managerial Auditing Journal*, Vol. 28, No. 9, pp.780–814 [online] https://doi.org/10.1108/MAJ-06-2013-0886.

Kassem, R. (2018) 'Exploring external auditors' perceptions of the motivations behind management fraud in Egypt – a mixed-methods approach', *Managerial Auditing Journal*, Vol. 33, No. 1, pp.16–34 [online] https://doi.org/10.1108/MAJ-11-2016-1470.

Kipkoech, S.R., Kenyatta, J. and Rono, L. (2016) 'Audit committee size, experience, and firm financial performance. Evidence Nairobi Securities Exchange, Kenya', *Research Journal of Finance and Accounting*, Vol. 7, No. 15, pp.87–95, ISSN [online] httpt://www.iiste.org.

Klein, A. (2002) 'Audit committee, board of director characteristics, and earnings management', *Journal of Accounting and Economics* [online] https://doi.org/10.1016/S0165-4101(02)00059-9.

Krishnan, J., Wen, Y. and Zhao, W. (2011) 'Legal expertise on corporate audit committees and financial reporting quality', *Accounting Review*, Vol. 86, No. 6, pp.2099–2130 [online] https://doi.org/10.2308/accr-10135.

Kusnadi, Y., Leong, K.S., Suwardy, T. and Wang, J. (2016) 'Audit committees and financial reporting quality in Singapore', *Journal of Business Ethics*, Vol. 139, No. 1, pp.197–214 [online] https://doi.org/10.1007/s10551-015-2679-0.

Martinez, M.C.P. and Fuentes, C.D. (2011) 'The impact of audit committee characteristics on the enhancement of the quality of financial reporting: an empirical study in the Spanish context', *International Journal of Economics and Accounting*, Vol. 2, No. 1, p.100 [online] https://doi.org/10.1504/IJEA.2011.038965.

Moalla, H. (2017) 'Audit report qualification/modification: impact of financial variables in Tunisia', *Journal of Accounting in Emerging Economies*, Vol. 7, No. 4, pp.468–485.

Mohd Saleh, N., Mohd Iskandar, T. and Mohid Rahmat, M. (2007) 'Audit committee characteristics and earnings management: evidence from Malaysia', *Asian Review of Accounting*, Vol. 15, No. 2, pp.147–163 [online] https://doi.org/10.1108/13217340710823369.

Nogler, G.E. (2008) 'Going concern modifications, CPA firm size, and the Enron effect', *Managerial Auditing Journal*, Vol. 23, No. 1, pp.51–67 [online] https://doi.org/10.1108/02686900810838164.

Nor, M.N., Shafie, R. and Hussin, W.N. (2010) 'Corporate governance and audit report lag in Malaysia', *Management Journal of Accounting and Finance*, Vol. 6, No. 2, pp.57–84 [online] http://imagenes.lainformacion.com/2016/11/15/arte-cultura-y-espectaculos/videojuegos/consola-NES-Nintendo-revoluciona-Navidad_972213512_117222771_667x375.jpg.

Otoritas Jasa Keuangan (OJK) (2018) *OJK Kenakan Sanksi terhadap Akuntan Publik dan Kantor Akuntan Publik Auditor PT Sunprima Nusantara Pembiayaan* [online] https://www.ojk.go.id/id/berita-dan-kegiatan/siaran-pers/Pages/Siaran-Pers-OJK-Kenakan-Sanksi-terhadap-Akuntan-Publik-dan-Kantor-Akuntan-Publik-Auditor-PT-Sunprima-Nusantara-Pembiayaan.aspx (accessed 1 March 2019).

Peasnell, K., Pope, P. and Young, S. (2000) 'Board monitoring & earnings management: do outside directors influence abnormal accruals?' [online] https://doi.org/10.2139/ssrn.249557.

Pomeroy, B. and Thornton, D.B. (2008) 'Meta-analysis and the accounting literature: the case of audit committee independence and financial reporting quality', *European Accounting Review*, Vol. 17, No. 2, pp.305–330 [online] https://doi.org/10.1080/09638180701819832.

Rahman, R.A. and Mohamed Ali, F.H. (2006) 'Board, audit committee, culture, and earnings management: Malaysian evidence', *Managerial Auditing Journal*, Vol. 21, No. 7, pp.783–804 [online] https://doi.org/10.1108/02686900610680549.

Rahmat, M.M., Iskandar, T.M. and Saleh, N.M. (2009) 'Audit committee characteristics in financially distressed and non-distressed companies', *Managerial Auditing Journal*, Vol. 24, No. 7, pp.624–638 [online] https://doi.org/10.1108/02686900910975350.

Salleh, Z. and Stewart, J. (2012) 'The impact of expertise on the mediating role of the audit committee', *Managerial Auditing Journal*, Vol. 27, No. 4, pp.378–402 [online] https://doi.org/10.1108/02686901211217987.

Scott, W.R. (2015) *Financial Accounting Theory*, Pearson.

Skinner, D.J. and Dechow, P.M. (2000) 'Earnings management: reconciling the views of accounting academics, practitioners, and regulators', *Accounting Horizons*, Vol. 14, No. 2, pp.235–250 [online] https://doi.org/10.2308/acch.2000.14.2.235.

Suryanto, T. and Grima, S. (2018) 'The corporate decision in indonesia: a result of corporate governance requirements', *Earning Management and Audit Reports*, pp.183–206 [online] https://doi.org/10.1108/S1569-375920180000099009.

Wu, C.Y.H., Hsu, H.H. and Haslam, J. (2014) 'Audit committees, non-audit services, and auditor reporting decisions prior to failure', *British Accounting Review*, Vol. 48, No. 2, pp.240–256 [online] https://doi.org/10.1016/j.bar.2015.03.001.

Zgarni, I., Hlioui, K. and Zehri, F. (2016) 'Effective audit committee, audit quality, and earnings management', *Journal of Accounting in Emerging Economies*, Vol. 6, No. 2, pp.138–155 [online] https://doi.org/10.1108/JAEE-09-2013-0048.

The effect of audit committee on audit opinion through earnings management as mediation variable

ORIGINALITY REPORT

9%	8%	14%	7%
SIMILARITY INDEX	INTERNET SOURCES	PUBLICATIONS	STUDENT PAPERS

PRIMARY SOURCES

1	www.inderscience.com Internet Source	3%
2	Submitted to Kenya College of Accountancy University Student Paper	1%
3	N.A. Juniarti, N.A. Fany, N.A. Devie. "The effect of audit committee on audit opinion through earnings management as mediation variable", Afro-Asian J. of Finance and Accounting, 2022 Publication	1%
4	Submitted to Institute of Graduate Studies, UiTM Student Paper	1%
5	repository.feb.uns.ac.id Internet Source	1%
6	Ujkan Bajra, Simon Čadež. "Audit committees and financial reporting quality: The 8th EU Company Law Directive perspective", Economic Systems, 2017 Publication	1%

7	Juniarti Juniarti. "Does mandatory CSR provide long-term benefits to shareholders?", Social Responsibility Journal, 2020 Publication	1%
8	Mochamad Muslih, Dahlia Banjarnahor. "Sustainable Governance to Improve the Performance of SOEs Bank Listed on Indonesian Stock Exchange that are Classified as LQ45", Majalah Ilmiah Bijak, 2020 Publication	1%

Exclude quotes	On	Exclude matches	< 1%
Exclude bibliography	On		