THE IMPACT OF AUDIT FEE AND AUDIT QUALITY TOWARDS EARNINGS' MANAGEMENT : DATA RETRIEVE FROM S&P CAPITAL IQ.

Tanggor Sihombing[1], Windy Veronica[2]
[1]Universitas Pelita Harapan
email: tanggor.sihombing@uph.edu
[2]Universitas Pelita Harapan
email: wv80002@student.uph.edu

Abstract

The purpose of this study is to examine the impact of audit fee and audit quality towards earning management. Earning management is measured by discretionary accruals (DA), audit fee will be taken annually from the fee of auditors in each company, and audit quality indicate by big 4 or non-big 4 public accounting firm. The population being used in this study are the countries in ASEAN which are listed in S&P Capital IQ on 2017-2020. Purposive sampling in this study using a total of 80 companies in consumer discretionary and consumer staples who publicized their annual report annually and disclose their external auditors. Data in this study are tested with the approach of multiple regression using SPSS IBM 25. Study in this study show the following result: the impact of audit fee and audit quality towards earning management are insignificant. However, as a control variable, return on asset (ROA) and leverage are significant, but firm size is insignificant.

Keywords: earning management, audit fee, audit quality

INTRODUCTION

Earning management is an act of someone who use either legal or illegal ways to modify their earnings to reach a certain amount (Tang et al., 2015). When companies deliberately reporting a false statement, especially when it is material, they are considered as violating the law. There is always a consequence for a company when they manipulate their financial information. According to Cupertino, Martinez & Costa Jr (2016), applying earning management to financial information could lead a distortion which affect future outcomes, company's performance will not be match with the forecast made by stakeholders. Based on that information, the authors are very interested to do research regarding earning management in ASEAN. Based on the most previous study, topics about earning management are mostly cover in one single country. Thus, the authors are very interested to do research about the impact of audit fee and audit quality towards earning management in ASEAN countries.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory could be explained as a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent (Jensen & Meckling, 1976). In a company, the agents will act according to the principal's interest when both parties have the same goals. On the contrary, Brown Johnson and Droege (2004) perceive theory of agency differently. Employees and employers have distinct goals, behave in their own self-interest, and are ready to take various levels of risk. The reason

Universitas Pelita Harapan
MH Thamrin Boulevard 1100
Klp. Dua, Kec. Klp. Dua
Kota Tangerang
Banten 15811

(021) 5460901 / (021) 5470901   kia9@uph.edu   https://kia9.uph.edu/

why both parties have different goals is because of various culture, background and a certain preference which is different from one and another.

Financial Statement

Financial statement is a collection of records used by companies to documents their business activities. Usually, financial statements are used by either internal or external users to analyze company's performance, cash flow, decision making, investments, etc. As mentioned by Bragg (2021), there are advantages and disadvantages from using financial statements. The advantages are a capability of the company to earn cash, understand the information of a company's cash liquidity, the condition of the business, and any types of issues. As of the disadvantages, the possibility of a fraudulent from manipulation of a financial statement, such as earning management.

Audit

Auditing is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria (Arens, Elder, Beasley & Hogan, 2014). Also, auditing is a systematic process to obtain and evaluate objectively towards the evidence regarding statements about economics activities, with the goals to discover the degree of correspondence between statements and established criteria (Mulyadi & Puradiredja, 1998). In another word, Audit is an activity which gather and evaluate information that will be used as evidence, it is also gathered to make sure the accurate presentation of transactions within financial records.

Audit Fee

Audit fee is the cost from company used to hire public accounting firm to assess their financial statements. According to Kusharyanti (2013), audit fee is the amount of compensation for services provided by the client for the independent auditor. Its amount is due to some factors such as the size of the client company, the complexity of audit services imposed on auditors. And according to Francis (1984), an auditor charges higher when they are from the independent audit firm which provide an extra service that could bring out the better result. So, audit fee could be comprehended as the indicator of effort and complexity that auditors bring out to their client.
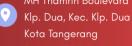
Audit Quality

According to De Angelo (1981), audit quality by two-dimensional definition: first, detecting misstatements and errors in financial statement and second, reporting these material misstatements and errors. Which means that auditor, whether internal or external will doing a series of examination to detect errors in company's report. It is an important element to ensure the quality and users will not distrust the information on financial reports.

Earning Management

Earning management could be explained as the preference of a company to use a specific financial policy on their accounting report to influence the outcomes of their report. Earning management happened when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company, or to influence contractual outcomes that depend on reported accounting numbers (Healy & Wahlen,1999). Also, earnings management describe from Schipper (1989) are the business's or its management's purposeful participation in the figures stated in its financial statements with the goal of realizing special interests for the firm or its management.

Universitas Pelita Harapan
MH Thamrin Boulevard 1100
Klp. Dua, Kec. Klp. Dua
Kota Tangerang
Banten 15811

(021) 5460901 / (021) 5470901   kia9@uph.edu   https://kia9.uph.edu/

ROA And Leverage

ROA (Return on Assets) is an indicator which are used to measure how much a company earn. It compares a company's total net income to its total assets. It is more favorable to have a high ROA percentage in a company. Considering that a high amount of ROA indicates that a company have a better performance. Leverage is the level of debt in a company. It is the effect brought out by the method of obtaining cash by loan. The company will use those funds to invest or support any types of assets they owned. Hence, when company debt is high, the amount of their leverage will also increase.

The Influence Of Audit Fee Towards Earning Management

According to Dewinta and Mita (2020), there is a significant impact between both audit service fee and earning management. According to their research, Audit fee are determined on how involved the auditor and the client's size, risk, and complexity. So, when the probability of earning management is higher in a company, the audit fee will be charged higher because auditor need to spend more time to perform an audit in that company. Also, according from a study by Salehi, Shiri and Hossini (2019), the fee for audit is higher in a company who has a weakness in their internal control. When the internal control in a company very weak, the use of earning management increase due to managerial opportunism. Contrarily, according to Gandia and Huguet (2019), Voluntary audit and audit fee has negative impact on earning management. Because in mandatory audit, the quality comes from fee and the type of their auditor. But in voluntary audit, company voluntarily requesting their financial statement to be audited and thus, their fee would be slightly different from the mandatory audit. Companies with mandatory audit with high accounting quality will prefer high quality auditor with higher fee. The practice of earning management will be higher for a company who choose lower audit fee. However, on voluntary audit, fee is not affected.

When the risk from earning management is very high, especially in a huge company with low internal control, an auditor will consume a long time to detect misstatement in their client's financial report. A high risk will also affect auditor's reputation. Thus, high auditor fee is used to compensate their effort, and for the risk they bear. Also, the advantage for company from higher audit fee will affect in their quality of financial report and as a guarantee for the independent of an auditor, avoid from taking any bribes from either management, employees, or any external factors. But, the main disadvantage will be the high expenses, which will affect company's investment portfolio. Therefore, this study will assume audit fee has significant impact towards earning management.

H1: The audit fee has a significant effect towards earning management

The Influence Of Audit Quality Towards Earning Management

According to Desi Frida Priyanti and Nurul Hasanah Uswati Dewi (2019), firm of the public accounting has no impact towards audit quality. Also, the findings from Eka Lestari and Murtanto (2018) proven that audit quality does not affect earning management. The audit quality in a company could be measured in several way, this study will be measuring the quality of an audit by the public accounting firm. From both previous study, it is proven that public accounting firm does not affecting audit quality seeing that companies still perform earning management despite the existence of Big four. As an example, Enron as a huge company who use Arthur Andersen as an auditor from the previous big five public accounting firm, still caused a scandal by having applying mark-to-market in their financial statement. Other than Enron, there are also several company with renowned auditor who caused this type of scandals. So, despite on the audit quality in a company, managers will still perform earning management to enhance financial statement when they have enough pressure and chances. Thus, this study will assume audit quality has insignificant affect towards earning management.

H2: The audit quality has insignificant affect towards earning management

The Influence Of ROA, Leverage, And Firm Size Towards Earning Management

ROA is the indicator to know how much a company earn profit when it is compared with company's asset. A high percentage of ROA indicates a company generate high earnings. Alongside, instead of using company's equity, leverage use debt to purchase asset. The correlation between these two variables towards earning management has a great impact. According to Handoko and Ahmar (2015), as the independent variable, earning management are affecting the performance in the company. this theory indicated by ROA. Also, a study from Octavia (2017) proven that leverage, as the variable of control, it has a significant and positive effect towards earning management and a high leverage will be resulting on higher cost which are used to preserve the company's financial performance on long-term. According, Desi Frida Priyanti and Nurul Hasanah Uswati Dewi (2019), and Evi Octavia (2017) have proven that firm size has positive and significant effect towards earning management. According to Octavia, this study has proven that the chance of earning management happened in a large sized company are smaller. Which indicates that firm size is influenced by the earning management that are carried out by a company. On the other hand, the study by Novia Fitri Kusumawardani and R. Rosiyana Dewi (2018) proven that as a control variable, the firm size has an effect towards earning management because it motivates managers. Owing to the fact that in a large company there is a higher chance for them to receive more income from their business activities. Although there are some contrary, such as the study research by Desri Kristianti Panjaitan, Muhamad Muslih (2019), proven that the variable of firm size has a negative and significant effect towards earning management. Which is result from investor's perspective where high assets are more attractive. Besides, big company gets more attention and supervision from different parties which resulting a smaller chance of earning management to happen. Also, the study Result from Eka Lestari and Murtanto (2018) have proven that firm size has negative effect to earning management since study shows larger company (which calculated by their total assets) will reduce the act of earning management.

Despite the fact there are some studies have proven that there is negative influence, this author will presume that the size of the company has a substantial impact on earnings management. Owning that there are more references that have proven the positive and significant correlation between both and other aspect which could define the firm size such as assets, sales income, market value, etc. which could influence the decision to do earning management. Also, it is because a larger company tends to have more pressure to have good financial report compared to a normal firm size. Manager are forced to generate a good quality of financial report to reach target or satisfy their stakeholders.

H3: The ROA, leverage, and firm size has significant affect towards earning management

RESEARCH METHOD

Population And Sample

Obtained data population are going to be the companies which have been listed in S&P Capital IQ. websites on the year from 2017 until 2020. With these techniques, the study research that are being conducted will be needed some criteria, which are:

1. The sample are taken from S&P Capital IQ on 2017-2020.
2. Company issues a yearly financial report with a public accounting firm in their annual report, begin from 31 December 2017 until 31 December 2020.
3. This study will be taking samples from the industries of consumer discretionary and consumer staples that are listed on the S&P Capital IQ.

Universitas Pelita Harapan
MH Thamrin Boulevard 1100
Klp. Dua, Kec. Klp. Dua
Kota Tangerang
Banten 15811

(021) 5460901 / (021) 5470901   kia9@uph.edu   https://kia9.uph.edu/

4. Samples will be taken from the ASEAN countries who fulfil the requirement of owning a minimal of 30 companies in both industries.

5. Country who had fulfil the criteria will be used as a sample for 20 companies each, 10 for each industry.

6. Published financial statements and annual reports of each company will be converted into USD.

Empirical Model

Following study use a formula which introduce audit fee or audit quality. The following is the model's function:

$$EM = \alpha + \beta_1 AF + \beta_2 AQ + \beta_3 ROA + \beta_4 LEV + \beta_5 FS + \text{€}$$

Descriptions:

EM = Earning Management
α = Alpha
FS = Firm size
AQ = Audit quality
ROA = Return on asset
LEV = Leverage
FS = Firm size
€ = Residual Error

Audit Fee

Previous study from Dewinta and Mita (2020), measure the variable of audit fee by using the natural logarithm of the total actual audit service fees paid by the company. In this study, audit fees are from the annual report in each company, converted their local currency into USD. Then, results are used to find the natural logarithm of the audit fee.

Audit Quality

To measure the audit quality through public accounting firm, this study will be using the theory according to Lu and Ma (2016), The size of the audit firm, typically measured by whether it is Big 4 or non-Big 4, is often used as a proxy for audit quality, with this variable equaling 1 whereas if auditor comes from one of the Big Four audit companies and 0 otherwise.

Earning Management

To determine the existence level of earning management, this study will be using formula from Modified Jones Model

$$TAcc_{it} = NI_{it} - CFO_{it}$$

Descriptions :

$TAcc_{it}$: Total Accrual of a company (i) on t year

NI_{it} : Net Income of a company (i) on t year

CFO_{it} : Cash Flow from Operating of a company (i) on t year

$$TA_{it} / A_{it-1} = \alpha_1(1/ A_{it-1}) + \alpha_2(\Delta REV_{it} / A_{it-1}) + \alpha_3(PPE_{it} / A_{it-1}) + e$$

Descriptions :

A_{it-1} : Total asset for the sample of a company (i) on t-1 year

ΔREV_{it} : Comparison of revenue between a company (i) on t year and t-1 year

PPE_{it} : Property, Plant and Equipment of a company (i) on t year

$$NDA_{it} = \alpha_1(1/ A_{it-1}) + \alpha_2((\Delta REV_{it} - \Delta REC_{it}) / A_{it-1}) + \alpha_3(PPE_{it} / A_{it-1}) + e$$

Descriptions :

NDA_{it} : Non-Discretionary Accrual of a company (i) on t year

Universitas Pelita Harapan
MH Thamrin Boulevard 1100
Klp. Dua, Kec. Klp. Dua
Kota Tangerang
Banten 15811

(021) 5460901 / (021) 5470901   kia9@uph.edu   https://kia9.uph.edu/

ΔRECit : Changes in account receivable of a company (i) on t year and t-1 year

α : Fitted coefficient which are obtained from the regression result from total accrual

DAit = (TAit / Ait-1) – NDAit

Descriptions :

DAit : Discretionary accrual of a company (i) on t year

Control Variable

The control variable will be used are the ROA and leverage.

Return on Asset (ROA) = Total Asset (TA) / Net Income (NI)

Leverage (LEV) = Total Debt (TD) / Net Income (NI)

Calculate Firm Size by using total asset turnover ratio (TATO). Total asset and total sales which are obtained by each company's annual report.

a) Calculate average total asset

AvgTAit = (TAit + TAit-1)/2

Descriptions :

AvgTAit = Average total asset of a company (i) on t year

TAit = Total asset of a company (i) on t year

TAit-1 = Total asset of a company (i) on t-1 year

b) Using average total asset, calculate the total asset turnover ratio:

TATO = NSit/AvgTAit

Descriptions :

TATO = Total asset turnover ratio

NSit = Net sales / Revenue of a company (i) on t year

RESULT AND DISCUSSION

Table 1. Table of Research Overview

Descriptions	Total Companies
Total ASEAN companies in consumer discretionary and consumer staples industries listed on S&P Capital IQ 2017-2020	692
Companies that only use their local language in annual report Thailand Viet Nam	(124)
Excluded countries (did not fulfill the requirement) Brunei Cambodia Lao PDR Myanmar Philippines	(28)
Companies that did not issue a complete annual report within the financial year of 2017-2020 Indonesia Malaysia Singapore	

Universitas Pelita Harapan
MH Thamrin Boulevard 1100
Klp. Dua, Kec. Klp. Dua
Kota Tangerang
Banten 15811

(021) 5460901 / (021) 5470901   kia9@uph.edu   https://kia9.uph.edu/

Thailand	(138)
Total Companies that fulfill the criteria	402
Total companies that are taken as a sample in this study	80
Total samples taken within the financial year of 2017-2020	320

Descriptive Statistics

Table 2. Table of Descriptive Statistics

	N	Maximum	Minimum	Mean	Std. Deviation
EM	320	-.52	.17	-.0024	.03313
AF	320	877.00	2020.00	1296.2375	318.07671
AQ	320	0	1	.48	.500
ROA	320	-2640401836.00	716023322.00	26367265.8594	186598024.31077
LEV	320	-7010843517.00	6643278989.00	316369418.7125	820800148.46350
FS	320	2.00	576.00	92.6594	80.18360
Valid N (listwise)	320				

Descriptive statistics test yields information from 320 for over 4 years, which means a total of 80 observations data are taken annually. Dependent variable, earning management has a minimum value of -0.52 that belongs to Japan Foods Holding Ltd. on 2020, from Singapore's consumer discretionary industry. With the maximum value of 0.17 that belongs to PT FKS Food Sejahtera Tbk on 2019, from Indonesia's consumer staples industry. Independent variable, audit fee has a total sample of 320, with a minimum value of 877 that belongs to Olam International Limited on the financial year of 2019, from Singapore's consumer staples industry. On the other hand, the maximum value of 2020 that belongs to Sri Trang Agro-Industry Public Company Limited on the financial year of 2017, from Thailand's consumer discretionary industry. Additionally, there is an average value of 1296.2375 and standard deviation of 318.07671. Independent variable, audit quality has minimum value of 0 mean the company hire a non-big 4, a maximum number of 1 mean the company hire a big 4 public accounting office. Control variable, ROA has a minimum value of -2.64E+9 that belongs to PT FKS Food Sejahtera Tbk in 2017, from Indonesia's consumer staples industry . With the maximum value of 716023322 that belongs to PT Multi Prima Sejahtera Tbk on 2017, from Indonesia's consumer discretionary industry. Leverage has a minimum value of -7.01E+9 that belongs to PT Bakrie Sumatera Plantations Tbk in 2017, from Indonesia's consumer staples industry. On the other hand, the maximum value of 6.64+9E that belongs to PT Matahari Department Store Tbk on 2020, from Indonesia's consumer discretionary industry. Firm size has a minimum value of 2 that belongs to Sungei Bagan Rubber Company (Malaya) Berhad on 2019, from Malaysia's consumer staples industry. With the maximum value of 576 that belongs to PTG Energy Public Company Limited on 2017, from Thailand's consumer discretionary industry, average value of 92.6594 and standard deviation of 80.18360.

Test Of Classical Assumptions

Table 3. Table of Normality

	Kolmogorov-Smirnov			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
EM	.381	320	.000	.184	320	.000
AF	.266	320	.000	.786	320	.000
AQ	.354	320	.000	.636	320	.000

Universitas Pelita Harapan
MH Thamrin Boulevard 1100
Klp. Dua, Kec. Klp. Dua
Kota Tangerang
Banten 15811

(021) 5460901 / (021) 5470901   kia9@uph.edu   https://kia9.uph.edu/

ROA	.268	320	.000	.418	320	.000
LEV	.316	320	.000	.642	320	.000
FS	.129	320	.000	.824	320	.000

By comparing both table, result show a significance 0.000 on every variable. To have a normal distributed data, p-value should be higher than α (0.05). According to the result, both kolmogorov-smirnov test and shapiro-wilk test will reject the null hypothesis.

Table 4. Table of Normality, After Treatment

	Kolmogorov-Smirnov			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
EM	.325	236	.000	.484	236	.000
AF	.269	236	.000	.758	236	.000
AQ	.345	236	.000	.636	236	.000
ROA	.136	236	.000	.933	236	.000
LEV	.207	236	.000	.795	236	.000
FS	.079	236	.001	.950	236	.000

Additionally, the authors have done a treatment by removing outliers in the extreme data with a partial case by the value of 4. Altogether, the result rejects the null-hypothesis or data are still abnormally distributed. So, this study will be using the data before the treatment whilst null hypothesis has been rejected.

Table 5. Table of Multicollinearity

	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Model	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
(Constant)	-.008	.008		-.949	.343		
AF	3.215E-6	.000	.031	.473	.636	.726	1.377
AQ	.005	.004	.077	1.216	.225	.772	1.295
ROA	2.011E-11	.000	.113	1.982	.048	.945	1.058
LEV	-4.193E-12	.000	-.104	-1.825	.069	.953	1.049
FS	-5.881E-6	.000	-.014	-.240	.810	.881	1.135

To indicate whether the problem in multicollinearity exist, the value on VIF should be between 1 and 10. According to the result, the problem of multicollinearity does not exist in this study.

Table 6. Table of Heteroscedasticity

	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Model	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
(Constant)	.016	.008		2.119	.035		
AF	-3.191E-6	.000	.032	-.494	.622	.726	1.377
AQ	-.009	.004	-.145	-2.299	.022	.772	1.295
ROA	-3.400E-12	.000	-.020	-.352	.725	.945	1.058
LEV	2.735E-12	.000	.071	1.251	.212	.953	1.049
FS	-6.645E-7	.000	-.002	-.029	.977	.881	1.135

To decide whether data are normally distributed, the value from t should be not significant (t > α). Earning management and leverage shown a result of 2.119 and 1.251 respectively. Each variable has a value higher than 0.05, which means they have a normal distribution. Contrarily, audit fee, audit quality,

Universitas Pelita Harapan
MH Thamrin Boulevard 1100
Klp. Dua, Kec. Klp. Dua
Kota Tangerang
Banten 15811

(021) 5460901 / (021) 5470901   kia9@uph.edu   https://kia9.uph.edu/

ROA and firm size show a result of -0.494, -2.299, -0.352, and -0.029. The value on those variables is lower than 0.05, which indicates that they are distributed abnormally.

Table 7. Table of Autocorrelation

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.175[a]	.030	.015	.03288	2.004

According to the durbin watson table, α = 5% by using the number of variable (k) = 5, number of sample (n) = 320, resulting a value of dL = 1.79139 and dU = 1.84199. From the provided information, we can assume that 4-dL = 2.20861 and 4-dU = 2.15801. . By using dU < d < 4-du, result show there is no positive or negative autocorrelation. Thus, null hypothesis (Ho) in this study has no positive or negative autocorrelation, Ho is accepted.

Hypothesis Test

Table 8. Table of ANOVA for F-test

Model		Sum of Square	df	Mean Square	F	Sig
1	Regression	.011	5	.002	1.973	.082[b]
	Residual	.340	314	.001		
	Total	.350	319			

ANOVA test or F-test used to check whether the variables in this test could be approximated by using the distribution. The result from observation has shown a F value of 1.973 with significance value of 0.082 which are lower than 10% which means the data in this study are fit.

Table 9. Table of Partial Significance for t-test

Model	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
(Constant)	-.008	.008		-.949	.343		
AF	3.215E-6	.000	.031	.473	.636	.726	1.377
AQ	.005	.004	.077	1.216	.225	.772	1.295
ROA	2.011E-11	.000	.113	1.982	.048	.945	1.058
LEV	-4.193E-12	.000	-.104	-1.825	.069	.953	1.049
FS	-5.881E-6	.000	-.014	-.240	.810	.881	1.135

This study is using a significant value of 10%. Audit fee, audit quality and firm size are not significant. ROA has a positive significant impact and leverage has a negative significant impact towards earning management.

Regression Analysis And Hypothesis Testing

The value of every independent variable, which are audit fee and audit quality and the influence towards dependent variable, earning management were shown using the analysis of multiple linear regression. As stated from table 9, result has shown a result that earning management are significantly affected by 2 variables, which are the control variable ROA with the significance value of 0.048 with an unstandardized positive value and the control variable, leverage with the significance value of 0.069 with an unstandardized negative value. On the other hand, earning management are insignificantly affected by both independent variable, audit fee and audit quality. Also insignificantly affected by control variable, firm size.

Universitas Pelita Harapan
MH Thamrin Boulevard 1100
Klp. Dua, Kec. Klp. Dua
Kota Tangerang
Banten 15811

(021) 5460901 / (021) 5470901   kia9@uph.edu   https://kia9.uph.edu/

According to H1, this study assumed audit fee significantly affecting earning management. However, result from t-test show the result of 0.636 which is higher than 10%. So, this study rejects the first hypothesis. Even when audit fee could enhance company's financial statement quality, it does not fully avoid the risk of earning management happened in a company. There will be several ways for manager to practice earning management when they have enough motive and pressure to it. The proof could be seen from several companies which pay their auditor in a high fee as the way to let the auditor feel they are being paid enough so professionalism and independent from them will increase. However, some of the high payment from the company are actually the bribing itself which cause earning management still happened. So, according to this study, audit fee does not significantly affect earning management. According to H2, this study assumed audit quality are not significantly affecting earning management. In agreement, result from table (9) shown a significance value of 0.225. According from the outcome from H2 and the significance value of the second independent variable, this study accepts H2, which is the impact of audit quality towards earning management are not significance. Accepting second hypothesis means that this research had proven that audit quality does not affect earning management because most of the company, although they had hired Big 4 public accounting firm, most of them are still preferred a financial performance that would appeal future investors. So, despite of the public accounting firm, there are still a probability of a manager to do earning management.

According to H3, this study assume that ROA and leverage has a significant affect towards earning management. However, the third control variable, firm size has insignificant affect towards earning management. ROA and leverage are accepted in this study because there is a smaller gap of difference from earning management. However, firm size is rejected because the sample company used in this study are public company from several countries, they have a high asset, and it could be because they are a large firm, they have a good internal control, and a high supervision not only from the government, but also from several external parties such as bank, investors, or other legal entities.

CONCLUSION, IMPLICATION, LIMITATION

The purpose of this research is to have evidence to proof the impact of audit fee and audit quality towards earnings management with ROA, leverage, and firm size as the control variables. This topic does not frequently appear as research in ASEAN , which adds to the rationale for conducting research in it. Audit fee could be the indicator to examine on how company paid their auditor. Audit qualities are used to indicate the public accounting office hired by each company, whether they are hiring a big four audit firm. Companies that are observed comes from S&P Capital IQ on 2 different industries, which are consumer discretionary industry and consumer staples industry on the financial year of 2017-2020. After the screening, the countries that are observed in this study are Indonesia, Malaysia, Singapore, and Thailand with an observation of 20 companies each. Thus, a total of 80 companies are being observed in this study.

Authors discovered the following results based on the outcome of a method of test performed on this present study:

a. First independent variable, audit fee shows an insignificant impact towards earning management. Resulting on the rejection on H1. It is rejected because the hypothesis is not aligned with the result which assumed audit fee is significantly affecting earning management. In this study, audit fees are indicated from their natural logarithm. Fees from each company are taken annually from their annual report then converted into USD. It is also proven that earning management still happened whether company pay their auditor in either higher or lower fee. Thus, audit fee does not significantly affect the earning management.

b. Second independent variable, audit quality shows an insignificant impact towards earning management. Resulting on the acceptation on the second hypothesis. H2 are accepted because the hypothesis is aligned with the result which assumed audit quality is not significantly affecting earning management. In this study, audit quality is indicated from the big 4 or non-big 4 public accounting office and big 4 accounting firm consists of Deloitte, PwC, Ernst & Young (EY), and KPMG. It is also proven from the previous study that companies prefer financial performance that would appeal future investors. Thus, the type of public accounting office does not significantly affect the decision of a manager.

c. Control variable, ROA has positive and significant impact towards earning management. Leverage has negative and significant impact towards earning management. As a control variable, both ROA and leverage are accepted because they have smaller gap of difference with earning management. However, firm size, shows an insignificant impact towards earning management because of the company that are being observed are the public companies from several countries. Also, a large public company have a good internal control, high supervision from government, bank, or other legal entities which made a lesser chance for managers to do earning management. Because not all control variables have significant impact towards earning management, this study reject the third hypothesis.

Limitation exists in this study, and they are the data obtain are limited to the company listed from the S&P Capital IQ on the financial year of 2017-2020, observation in countries of ASEAN is limited to some countries that have an abundance of companies listed on consumer discretionary and consumer staples industry. Additionally, researcher in the future might add more companies to observe, increase the sample size, broaden the samples to other industry

REFERENCE

A. Prasetyantoko, A., & Parmono, R. (2009). Does Firm Size Matter? an empirical Study of Firm Performance in Indonesia. *Jurnal Manajemen Bisnis*, *2*(2).

Arens, A., Elder, R., Beasley, M., & Hogan, C. (2014). *Auditing and assurance services* (16th ed.). Pearson Education Limited.

Bragg, S. (2021). Financial statements definition — AccountingTools. Retrieved 16 September 2021, from https://www.accountingtools.com/articles/2017/5/10/financial-statements

Brown Johnson, N., & Droege, S. (2004). Reflections on the generalization of agency theory: Cross-cultural considerations. *Human Resource Management Review*, *14*(3), 325-335. doi: 10.1016/j.hrmr.2004.06.003

Cupertino, C., Martinez, A., & Costa Jr, N. (2016). Consequences for Future Return with Earnings Management through Real Operating Activities. Revista Contabilidade & Finanças, 27(71), 232-242. Doi: 10.1590/1808-057x201602520

Handoko, M., & Ahmar, N. (2015). The effect of accrual earnings management, using Khotari Model Approach, on the performance of manufacturing companies listed in Indonesia Stock Exchange. *The Indonesian Accounting Review*, *5*(1), 11-22. doi: 10.14414/tiar.15.050102

Healy, P. M. & Wahlen, J. M. (1999). A Review of The Earnings Management Literature And Its Implications For Standard Setting. Accounting Horizons, 13 (4), 365-383.

Jensen, M., & Meckling, W. (1976). Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure. *SSRN Electronic Journal*. doi: 10.2139/ssrn.94043

Khanh, H., & Khuong, N. (2018). Audit Quality, Firm Characteristics and Real Earnings Management: The Case of Listed Vietnamese Firms. *International Journal Of Economics And Financial Issues*, *8*(4), 243-249. doi: 2146-4138

Kusumawardani, N., & dewi, R. (2018). Motivasi Bonus, Pajak, Dan Utang Dalam Tindakan Manajemen Laba (Studi Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia Periode 2013-2015). *Media Riset Akuntansi, Auditing & Informasi, 16*(1), 79-90. doi:http://dx.doi.org/10.25105/mraai.v16i1.2072

Lestari, E., & Murtanto, M. (2018). Pengaruh Efektivitas Dewan Komisaris Dan Komite Audit, Struktur Kepemilikan, Dan Kualitas Audit Terhadap Manajemen Laba. *Media Riset Akuntansi, Auditing & Informasi, 17*(2), 97-116. doi:http://dx.doi.org/10.25105/mraai.v17i2.2063

Lu, Y., & Ma, D. (2016). Audit quality and financial distress: Evidence from China. WSEAS Transactions on Business and Economics, 13 (31), 330-340.

Mulyadi, & Puradiredja, K. (1998). *Auditing* (5th ed.). Jakarta: Salemba Empat.

Octavia, E. (2017). Implikasi Corporate Governance Dan Ukuran Perusahaan Pada Manajemen Laba. *Jurnal Akuntansi Multiparadigma, 8*(1), 126-136. doi:http://dx.doi.org/10.18202/jamal.2017.04.7044

Pandoyo (2016). The Effect Of Auditor Competence, Independence, Audit Experience, Organizational Culture And Leadership Against Auditor Professionalism And Its Implication On Audit Quality. *International Journal Of Advanced Research*, *4*(5), 1632-1646. doi: 10.21474/ijar01/592

Panjaitan, D. K., Muslih, M. (2019). Manajemen Laba: Ukuran Perusahaan, Kepemilikan Manajerial dan Kompensasi. *Jurnal ASET (Akuntansi Riset)*, 11 (1), 1-20. Doi : 10.17509/jaset.v11i1.15726

Priyanti, D., & Uswati Dewi, N. (2019). The effect of audit tenure, audit rotation, accounting firm size, and client's company size on audit quality. *The Indonesian Accounting Review*, *9*(1), 1. doi: 10.14414/tiar.v9i1.1528

Schipper, K. (1989). Earnings management. Accounting horizons, 3 (4), 91.

Tang, H. W., Chang, C. C., Gunny, K. A., Ge, W., Kim, J.B., Mahdavi Ardekani, A., Ngo,T. (2015) Real Earning Management and Future Profitability : Measurement of Real Earning Management's Current Net Income Impact, Cross-Sectional Variation in Real Earnings Management's Effect on Future Profitability, and market participant response by Eric. Journal of Banking and Finance, 34(1), 317-33