CAN AUDIT QUALITY AND FINANCIAL PERFORMANCE AFFECT PROFIT MANAGEMENT IN SHARIA COMMERCIAL BANKS IN INDONESIA?

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Abstract

This study aims to determine the effect of Audit Quality and Financial Performance on Earnings Management in Islamic Commercial Banks. The population in this study is 14 Islamic Commercial Banks in Indonesia in 2018-2020. The sample in this study totaled 30 samples from 10 Islamic Commercial Banks with an observation period of 3 years, using a purposive sampling method. This study uses multiple regression analysis techniques to test the hypothesis through the SPSS 25 program. The test results partially show that Audit Quality and Financial Performance variables have no effect on Earnings Management.

Keywords: Audit quality, financial performance, profit management
JEL Classification: M42, H83

INTRODUCTION

One supply of facts from outside events in assessing employer overall performance is monetary reviews. The financial file is a precis of the financial transactions that befell through the relevant monetary 12 months. Economic reviews provide beneficial facts for buyers and creditors in making investment and credit score decisions (Hery, 2016a). Every entity that does enterprise generally has monetary reports and financial institution financial institutions (Hery, 2016b).

Bank monetary establishments are enterprise entities that accumulate price ranges from the general public in the form of financial savings and distribute them to the general public in the shape of credit scores or different kinds on the way to enhance the standard of dwelling of the common human beings (UU No. 10 of 1998 concerning Banking) (Kasmir, 2016). Financial institution monetary institutions consist of Islamic business Banks and conventional commercial Banks. Islamic commercial Banks (BUS) are Islamic banks which, in their activities, provide

offerings in price visitors, in assessment to Islamic humans's Financing Banks which do now not provide offerings in fee site visitors (Muhammad, 2020).

The birthday party directly associated with the recording of monetary statements is the manager. There are fundamental motives why managers do income management. The marketplace price of a enterprise's stock is notably inspired by means of earnings, threat, and speculation. therefore, groups whose income constantly boom from length to period constantly will result in the risk of this employer experiencing a greater lower than the share increase in income. income control is the moves of managers to boom (lower) contemporary length profits of a enterprise they control without inflicting an growth (decrease) in the agency's lengthy-term monetary earnings (Kasmir, 2016).

The aspect that may be the cause of income control is audit satisfactory. Audit first-rate is the mixed chance of an auditor detecting and reporting material errors in the client's accounting gadget. The final aspect affecting income control is monetary performance. economic performance is a method of significantly assessing monetary overall performance, which includes reviewing financial records, calculating, measuring, decoding, and presenting solutions to a agency's financial issues in a certain duration.

Earnings management practices can occur in various companies, including banking companies. An example of a related case is PT. Bank Muamalat Indonesia Tbk in 2019, where the profit of PT. Bank Muamalat Indonesia Tbk increased dramatically last year compared to the previous year, the oldest Islamic bank in Indonesia experienced a decline in its main business. Dwhere third party funds (DPK) in 2017 amounted to 48.6 million, decreased to 45.6 million, income from fund management by banks as mudharib in 2017 amounted to 3.7 million decreased to 3.2 million and profit sharing rights belonged to the bank from the previous year 1.1 million fell to 1.05 million. Meanwhile, based on the monthly financial report released on its official website, as of December 2018 Bank Muamalat posted a profit of Rp. 112.6 billion, this figure has doubled compared to 2017's achievement of Rp. 50.3 billion. This created an awkwardness where from the business side (company performance) Bank Muamalat Indonesia experienced a decline from the previous year however, Muamalat Syariah's profits doubled from the previous year (Khadafi, 2019).

From the above cases it can be seen that the existence of earnings management practices does not rule out the possibility of reducing the quality of financial reports so that it erodes public

confidence in general towards the external financial reports of a company. In addition, earnings management practices can also be detrimental to investors because they do not get correct information about the company's financial position.

LITERATURE REVIEW

Agency Theory

Employer principle worries the contractual relationship amongst individuals inside the enterprise organisation. Jensen and Meckling (1976) offer an cause of that business enterprise relationships occur while one or greater humans (most important) lease any other person (agent) to provide a carrier and then delegate authority for choice making. Principals are shareholders or traders, at the identical time as marketers are management who manipulate corporations or managers (Arnianti, 2018). It may be concluded that the employer dating is the separation of features between investor ownership and management manage.

Profit Management

Preferred exercise of earnings management is interference in the manner of making ready outside financial reporting, with the purpose of acquiring personal gain. profits management is the actions of managers to growth (decrease) cutting-edge length earnings of a agency they manage without causing an boom (lower) inside the enterprise's lengthy-time period financial income (Kasmir, 2018; Sulistyanto, 2018). This have a look at makes use of the modified Jones (1991) model with discretionary accruals as a proxy. The changed Jones version is used on this have a look at because it's far considered the best in detecting income control. the subsequent are the steps within the calculation to find the fee of discretionary accruals:

1. Calculating the total value of accruals using the cash flow approach:

   TACit　　　　　= NIit - CFOit

   Information:

   TACit　　　　= Total Accruals of company i in year t.

   NIit　　　　　= net profit after tax of company I in year t.

   CFOit　　　　= Operational Cash Flow of company i in year t.

2. Finding the coefficient value of the total accrual regression:

   To find the value of the coefficients β1, β2 and β3 is done by using the regression technique. This regression is to detect the presence of discretionary accruals and non-discretionary accruals.

$$\text{TACit/TAit-1} = \beta1 (1 / \text{TAit-1}) + \beta2 ((\Delta\text{REVit} - \Delta\text{RECit}) / \text{TAit-1}) + \beta3 (\text{PPEit} / \text{TAit-1}) + \varepsilon\text{it}$$

Information:

TACit   = Total company accruals in year t.

TAit-1   = Total assets of the company at the end of year t-1.

ΔREVit   = Change in total revenue in year t.

ΔRECit   = Change in total net receivables in year t.

ppEit   = Company Property, Plant, and Equipment in year t.

Eit   = Error items

3. Calculating Nondiscretionary Accruals (NDAC)

    PeNondiscretionary accruals (NDAC) calculations are performed by entering the value of the coefficient β1. B2, β3 obtained from the regression. Calculations are made for all sample companies in each period.

$$\text{NDACit} = \beta1 (1 / \text{TAit-1}) + \beta2 ((\Delta\text{REVit} - \Delta\text{RECit}) / \text{TAit-1}) + \beta3 (\text{PPEit} / \text{TAit-1}) + \varepsilon\text{it}$$

    Information:

    NDACit = Nondiscretionary accruals of company i in year t.

4. Determining Discretionary Accruals

    Sehas obtained the value of non-discretionary accruals, calculating discretonary accruals can be done using the following equation:

$$\text{DAC} = (\text{TAC} / \text{TAit-1}) - \text{NDA}$$

Audit Quality

Audit quality is closely related to the performance of the auditor in carrying out auditing activities on a financial statement of a corporate entity. De Angelo (1981) defines audit satisfactory because the opportunity that an auditor reveals and reviews a violation in his patron's accounting machine (Abdul Nasser Hasibuan, Rahmad Annam, 2020).

Audit quality can be measured via a proxy for the scale of a public accounting company (KAP). the general public Accounting company (KAP) is a form of public accounting employer that obtains licenses in accordance with legal guidelines and guidelines that perform within the discipline of supplying expert offerings in public accounting practices (Agoes, 2017). The proxy length of KAP in which the auditor works which is assessed into big four KAP and Non big 4

KAP is used to decide audit best in this take a look at. The dummy variable is used to evaluate audit satisfactory on a nominal scale, in which the number one represents a employer audited by way of a big four KAP, at the same time as the variety zero represents a business enterprise audited by using a Non-big 4 KAP.

Financial Performance

The bank's financial overall performance is an illustration of the bank's monetary condition in a certain year, each protecting aspects of raising budget and channeling finances, monetary performance as a prospect or destiny boom and capacity for correct development for the enterprise. monetary overall performance is likewise the result of many man or woman selections that are made continuously by way of management (Syaifullah, 2020).

In this study, financial performance is measured using the Capital Adequacy Ratio (CAR), the Capital Adequacy Ratio (CAR) is a reflection of capital in generating profits. Low CAR can reduce the opportunity for banks to invest (Abdul Nasser Hasibuan, Rahmad Annam, 2020). The formula for finding the CAR is as follows:

$$\text{CAR} = \frac{\text{Modal Capita}}{\text{Risk Weighted Assets}} \times 100\%$$

RESEARCH METHODS

Research used in this study, using quantitative research. Quantitative studies is a form of research that produces discoveries that may be completed (acquired) the use of statistical procedures or different methods of quantification (size) or statistics inside the form of numbers (Sujarweni, 2019). Source of facts used in this studies is secondary facts. Secondary records is records acquired from information, books and magazines within the shape of organisation posted monetary reports, authorities reports, articles, books as concept, magazines and so forth (Sujarweni, 2019).

Population is the full variety which include gadgets or subjects who have positive traits or traits determined by way of the researcher to be studied and then conclusions drawn (Sugiyono, 2016). The population in this study are 14 Islamic Commercial Banks registered with the Financial Services Authority for 2018-2020. The pattern is a part of the population whose characteristics are to be investigated and is considered to represent the complete population (Sujarweni, 2019). The sample choice technique uses a non-possibility sampling method with a purposive sampling

approach. The pattern used in this look at is 10 Islamic Commercial Banks registered with the financial services Authority for 2018-2020.

RESULTS AND DISCUSSION

Descriptive Statistics Test

Descriptive statistics are statistics that are used to analyze data by describing or describing data related to the independent variables and the dependent variable. Independent variables in the form of Audit Quality and Financial Performance.

Table 1. Descriptive Statistical

	N	Minimum	Maximum	Mean	Std. Deviation
Audit Quality	30	.00	1.00	.4000	.49827
Financial Performance	30	12.34	44.57	221.912	786.046
Profit management	30	22.54	29.79	254.905	261.083
Valid N (listwise)	30				

Source: Data Processed

Table 1 shows that the number of research samples (N) totaled 30 data and is explained as follows:

1. Based on the results of descriptive statistical analysis, that Audit Quality produces a minimum value of 0.00 and a maximum value of 1.00 with a standard deviation of 0.49827 while the average (mean) is 0.4000. This means that from all samples, the average audit quality is 0.4000.

2. Based on the results of descriptive statistical analysis, that Financial Performance produces a minimum value of 12.34 and a maximum of 44.57 with a standard deviation of 7.86046 while the average (mean) is around 22.1912. This means that from all samples, the average financial performance is 22.1912.

3. Based on the results of descriptive statistical analysis, that Profit Management produces a minimum value of 22.54 and a maximum of 29.79 with a standard deviation of 2.61083 while the average (mean) is around 25.4905. This means that from all samples, the average financial performance is 25.4905.

Normality test

The normality test aims to test whether the data in the study are normally distributed. in this study, using the one-way Kolmogrov Smirnov test. If it is significant > 0.05 then the variable is

normally distributed and vice versa if it is significant < 0.05 then the variable is not normally distributed.

Table 2. One-Sample Kolmogorov-Smirnov Test

		Standardized Residual
N		30
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.94686415
Most Extreme Differences	Absolute	.111
	Positive	.085
	Negative	-.111
Test Statistic		.111
Asymp. Sig. (2-tailed)		.200[c,d]

Source: Data Processed

Based on the results of the table above, it shows that the Asymp. Sig (2-tailed) of 0.200 > 0.05. So it can be stated that the data is normally distributed.

Multicollinearity Test

The multicollinearity test in this study used the TOL (Tolerance) and Variance Inflation Factor (VIF) methods. The limit of the tolerance value > 0.1 or the VIF value is less than 10, so multicollinearity does not occur. The following table shows the results of the multicollinearity test using the TOL (Tolerance) and Variance Inflation Factor (VIF) methods.

Tabel 3. Multicollinearity Test Result

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	29.014	2.964		9.788	.000		
Kualitas Audit	-.330	1.118	-.063	-.295	.770	.543	1.841
Kinerja Keuangan	-.003	.086	-.008	-.032	.975	.371	2.695

Source: Data Processed

Based on the results of the table above, it can be obtained that the Tolerance value for the Audit Quality variable has a Tolerance value of 0.543. Financial Performance has a Tolerance value of 0.371. Of the three Tolerance values > 0.1, it means that the regression model does not have multicollinearity. The VIF value for the Audit Quality variable is 1.841. Financial Performance of 2.695. From the two data, the value of VIF <10 means that the regression model does not show symptoms of multicollinearity.

Heteroscedasticity Test

The heteroscedasticity test in this study used the White method. Symptoms of heteroscedasticity can be detected by: if the chi-square value ($X2$) shows a number that is greater than the chi-square value then there is a symptom of heteroscedasticity, otherwise if the chi-square value ($X2$) shows a number that is smaller than the chi-square value then There are no symptoms of heteroscedasticity.

Table 4. Heteroscedasticity Test Result

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.607ᵃ	.368	.203	505.546

Source: Data Processed

Based on the results of the table above, an R square value of 0.368 can be obtained with a total of 30 data, then the calculated $X2 = 30 \times 0.368 = 11.040$, while the $X2$ table value with calculated df is (nk) = 30-3 = 27 and the significance level 0.05 then the value of $X2$ table is 40.113. Thus the heteroscedasticity test obtained with the White method was 11.040 ($X2$ count) <40.113 ($X2$ table), which means that there were no symptoms of heteroscedasticity.

Autocorrelation Test

The autocorrelation test in this study used the Lagrange Multiplier (LM Test) method. Where if the calculated $X2$ value < $X2$ table then the regression equation model does not contain autocorrelation problems. The following table shows the results of the autocorrelation test.

Table 5. Autocorrelation Test Result

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.459ᵃ	.210	.079	204.223.029

Source: Data Processed

Based on the results of the table above, an R square value of 0.210 can be obtained with a total of 30 data, so the amount of $X2$ count = $30 \times 0.210 = 6.300$. While the value of $X2$ table with a calculated df of (nk) = 30-3 = 27 and a significance level of 0.05, the value of $X2$ table is 40.113. Thus the autocorrelation test value obtained with the LM method 6.300 ($X2$ count) <40.113 ($X2$ table), which means it does not contain autocorrelation problems.

Linearity Test

The linearity test in this study used the Ramsey Test. The results of the linearity test can be concluded in the following table:

Table 6. Linearity Test with Ramsey Old Method

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.598a	.358	.283	221.013

Source: Data Processed

Table 7. Linearity Test with the Ramsey New Method

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.892a	.795	.763	127.174

Source: Data Processed

Based on the results of the linearity test in table 6 using the Ramsey Old Method, an R Square old value of 0.358 is obtained and in table 7 above an R Square New Method value of 0.795 is obtained. And based on the calculation results of the Ramsey Test, it can be obtained that the value of Fcount is 54.625 > Ftable 3.369, it can be concluded that the correct regression model is linear.

Hypothesis Testing

Multiple Linear Regression Analysis

Table 8. Multiple Linear Regression Result

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	29.014	2.964		9.788	.000
Kualitas Audit	-.330	1.118	-.063	-.295	.770
Kinerja Keuangan	-.003	.086	-.008	-.032	.975

Source: Data Processed

Based on table 8 above, the regression equation can be obtained as follows:

$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e$

$Y = 29,014 + (-0,330X_1) + (-2,312X_2) + (-0,003X_3) + e$

Y	: Profit management
a	: Constant
b1,b2,b3	: Variable Regression Coefficient
X1	: Audit Quality
X2	: Financial Performance
e	: Error rate, error rate

Based on the above equation it can be concluded that:

A constant value of 29.014 indicates the magnitude of Earnings Management is 29.014 if the variable Audit Quality (X1) and Financial Performance (X2) is 0 (zero).

1. Based on the regression coefficient equation, it shows that the Audit Quality variable (X1) has a negative regression direction with Earnings Management, namely B = -0.330, which means that if Audit Quality increases by 1%, earnings management will increase by -33% assuming other independent variables. constant.

2. Based on the regression coefficient equation, it shows that the financial performance variable (X3) has a negative regression direction with earnings management, namely B = -0.003, which means that if financial performance increases by 1%, earnings management will increase by -3% assuming other independent variables. constant.

t-Test

The t test is used to test the effect of each independent variable on the dependent variable.

Table 9. t-Test Result

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	29.014	2.964		9.788	.000
Kualitas Audit	-.330	1.118	-.063	-.295	.770
Kinerja Keuangan	-.003	.086	-.008	-.032	.975

Source: Data Processed

Based on the information in the table above, it can be stated that t is calculated as follows:

1. Effect of Audit Quality on Earnings Management.

   The tcount value is -0.295 and the ttable is 1.703. Because the value is -0.295 <1.703 and a significant value of 0.770 > 0.05. So that Ho1 is accepted and Ha1 is rejected. This shows that Audit Quality has no effect and is not significant on Earnings Management.

2. Financial Performance on Earnings Management.

   The tcount value is -0.032 and the ttable is 1.703. Because the value is -0.032 <1.703 and a significant value of 0.975 > 0.05. So that Ho3 is accepted and Ha3 is rejected. This shows that Financial Performance has no effect and is not significant on Earnings Management.

CONCLUSION

Based at the studies, the results display that audit high-quality has no impact on profits control in Islamic commercial banks. This is because the majority of companies do not pay much

attention to audit quality. As for what the company needs is how the external auditor can produce a quality audit report not to detect earnings management practices. In addition, the companies being audited have no influence on investor confidence to invest their capital. Companies only see financial statements that reflect the state of the bank to make investment decisions. Banks that have good performance will attract third parties for investors to invest.

As for the results of other studies, it was found that financial performance also had no effect and was not significant on earnings management at Islamic commercial banks. This shows that the high or low return on assets, which is a measure of a company's ability to manage company assets, has no effect on earnings management. Good or bad performance of a company does not trigger management to act opportunistically in dismantling policies related to company profits. The results of this study offer facts approximately audit high-quality and economic overall performance to groups so that they may be used as material for attention in making selections before making an investment their capital. The results of this look at also can help traders who will make investments their budget in the company.

Future researchers who are interested in research in the capital market sector are advised to consider other technical and fundamental factors that influence earnings management. it's also expected to boom the number of research variables and the research duration. with the aid of doing this, it is hoped that future studies could be able to provide additional records in predicting income management.

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