



CURRENT
Jurnal Kajian Akuntansi dan Bisnis Terkini
<https://current.ejournal.unri.ac.id>



AUDIT QUALITY, AUDIT COMMITTEE, AND EARNINGS MANAGEMENT PRE-POST IFRS IMPLEMENTATION: EVIDENCE FROM INDONESIAN CONSUMER GOODS COMPANIES

Adya Adimudra¹, Doddy Setiawan^{2*}

^{1,2}*Accounting Department, Faculty of Economics and Business, Sebelas Maret University, Surakarta*

*Email: doddy.setiawan@staff.uns.ac.id

Keywords

Audit quality, Audit committee, Accrual Earnings Management, Real Earnings Management, IFRS Implementation

Article informations

Received:
2025-02-06
Accepted:
2025-03-05
Available Online:
2025-03-24

Abstract

IFRS is an effort to standardise reporting mechanisms and recording transactions that are viewed using principal bases. This study examines audit quality and the audit committee's association with earnings management through the IFRS implementation phases. The sample of this study consists of consumer goods companies with 237 firm-year observations from 2008 – 2018 from the Indonesian Stock Exchange. This study shows that audit quality can diminish accrual earnings management rather than real earnings management. The audit committee works well on accrual earnings management rather than real earnings management. This study is limited to Indonesian Consumer Goods companies only. Future researchers might expand the sample and consider qualitative methods to provide valuable insights into the minds of the managers and stakeholders and explanations regarding managers' incentives.

INTRODUCTION

The existence of accounting scandals at several large companies in the US causes regulator confidence in the financial statements to decrease. The scandal was related to the existence of earnings management practices (Martin & Sayrak, 2003) The information asymmetry in financial reports becomes an essential issue for various parties interested in decision-making. Information asymmetry between managers and shareholders can lead to adverse selection. As the key party responsible for the financial statement formulation, managers tend to discharge their accountability due to the conflict of interest between managers and shareholders (Arens & Beasley, 2010)

The implementation of standardized accounting principles in a company's financial reporting guarantees the comparability of information for economic analysis. A standardized language for financial statements is necessary to address the problem of disparate and non-comparable financial statements governed by local norms globally (Nobes & Parker, 2016). The primary rationale for adopting IFRS as a unified set of standards is to guarantee consistency and harmonization in accounting principles and legislation. This can increase trustworthiness, simplify financial statements, and increase accounting information's value. As the comparability of financial statements increases, managers' intention to manage earnings declines (Jeanjean & Stolowy, 2008)

The adoption of IFRS has emerged as a focal point in accounting literature concerning the achievements and implications of its implementation, owing to its internationalization characteristics (Nijam & Athambawa, 2016). IFRS establishes superior reporting standards to mitigate information asymmetries, as it mandates a greater degree of disclosure in financial reporting compared to the majority of national accounting standards. An elevated degree of disclosure correlates with enhanced accounting quality and reduced knowledge asymmetry between controlling shareholders and external capital providers (Cai et al., 2014). IFRS are anticipated to mitigate information asymmetries through two mechanisms: augmenting financial information disclosures and improving the comparability of cross-border financial information generated under a unified set of standards (Baig & Khan, 2016). Furthermore, the implementation of IFRS diminishes information asymmetry and curtails earnings management in the context of enhanced audit quality. The quality of audits is a crucial element affecting the correlation between IFRS implementation and earnings management (Ahmed & Zijl, 2017).

The financial reporting landscape in Indonesia has seen substantial and unparalleled transformations owing to the Indonesian Financial Accounting Standard Board's (DSAK) dedication to the complete adoption of IFRS. The decision was reached in 2008, and the strategy employed was a gradual transition rather than an abrupt implementation. This primarily aims to resolve interpretation and implementation concerns. The initial phase of the IFRS convergence project has been finalized, and the Indonesian Financial Accounting Standard (PSAK) effective 1 January 2012 is mostly aligned with IFRS as of 1 January 2009. There exists a three-year disparity between Indonesian Financial Accounting Standards (PSAK) and International Financial Reporting Standards (IFRS). The Indonesian Financial Accounting Standard Board (DSAK) is advancing with the second phase of IFRS convergence to reduce the disparity between PSAK and IFRS from three years to one year. Consequently, PSAK has undergone continuous modifications over the past three years and will persist in doing so in the future (Hamidah, 2017; Juniarti et al., 2018))

Doukakis (2014), in his cross-country analysis of European public companies, he demonstrates that enterprises adhering to the IFRS framework engage in less earnings management compared to those following local GAAP. IFRS mandates a greater degree of disclosure in financial reporting compared to the majority of national accounting standards, and this heightened disclosure correlates with enhanced accounting quality and reduced knowledge asymmetry between controlling shareholders and external capital providers (Juniarti et al., 2018). Furthermore, the application of IFRS diminishes information asymmetry and curtails earnings management in the context of enhanced audit quality. The quality of audits is a crucial element affecting the correlation between IFRS implementation and earnings management (Ahmed & Zijl, 2017) The enhancement of the financial reporting environment due to the implementation of IFRS may augment the efficacy of international financial intermediaries' oversight and market discipline.

Indonesia appears to endorse the globalization of accounting standards. As a developing nation, Indonesia is encompassed by many institutional frameworks and variations in social, political, economic, and cultural contexts. Although the majority of countries have embraced the IFRS to supplant their domestic accounting standards, the transition has been fraught with challenges, as the rhetoric surrounding the global standard continues to provoke ongoing debate among scholars. De George et al. (2016) state that some countries have seen an improvement in financial report quality after adopting IFRS, but within those countries cannot ensure the quality of the financial report is only due to the adoption of IFRS. Eng & Lin (2019) mentions that adopting IFRS in Brazil has not significantly changed the quality of the report information but has gradually moved in the right direction. Wawo (2021) proves that adopting IFRS increases the relevance of accounting information, with some exceptions in some countries. In some countries, certain accounting information does not contain relevant value, although the

information in other accounting has an increase in relevant value. For example, in Saudi Arabia, there has been no increase.

The objective of this study is twofold. First, it examines the association between audit quality, audit committees, and earnings management. Second, it explores the role of IFRS implementation in the association of audit quality and audit committees on earnings management. The next part of the study comprises a literature review, hypotheses development, methodology, results and data analysis, and conclusion, limitations, and future research.

HYPOTHESIS DEVELOPMENT

Audit Quality and Earnings Management

Competent auditors are auditors who are “able” to find out violations, but an independent auditor is an auditor who “wants” to reveal the violation (DeFond et al., 2024). Audit firms such as the Big 4 have higher audit quality than others due to superior knowledge, technical experience, capacity, and reputation, which smaller audit firms do not have to prevent profit management (Cao et al., 2020; Lawrence et al., 2011). Companies audited by Big 4 audit firms and affiliates have lower discretionary accruals and tend to report low-income growth in revenue from the previous year (Almomani, 2015; Alzeban, 2019). Previous research in Big 4 audit firms as a proxy of audit quality is inconclusive. A financial statement that a Big Four audit firm has audited is not guaranteed to be free from both real and accrual earnings management (Christiani & Nugrahanti, 2014). In contrast, a study by Alzoubi (2017) shows that audit quality significantly diminishes earnings management in Jordanian companies. Moreover, using a sample of Nigerian firms, Ajekwe & Ibiamke (2017) analyze the correlation between audit quality and earnings management by differentiating between Big Four and non-Big Four auditors. Their findings indicate that superior audit quality diminishes earnings management. In a nationwide research, (Tendeloo & Vanstraelen, 2008) examined the effect of audit quality (auditor size as proxy) on accruals earnings management. A study of 1,022 Dutch private companies revealed that audits conducted by the Big Four audit firms led to a reduction in earnings management. Congruent with previous studies, some studies conducted in Indonesia also show that audit quality positively and significantly affects earnings quality (Martani et al., 2021; Partono & Purwanto, 2015; Yushita et al., 2013). In contrast, Chowdhury & Eliwa (2021) demonstrate a substantial positive correlation between the Big Four and the enhancement of sales and discretionary spending manipulation in actual earnings management. The proposed hypothesis is:

H₁: Audit quality diminishes accruals and real earnings management

Audit Committee and Earnings Management

The Audit Committee is established by the Board of Commissioners to assist in fulfilling the responsibilities and activities of the Board of Commissioners (OJK, 2015). The Audit Committee (AC) is tasked with establishing effective internal controls, adhering to regulations and legal obligations, adopting accounting policies and standards, and guaranteeing the proper execution of corporate governance systems. The Indonesian Financial Services Authority issued rule POJK No. 55 / Pojk.04/2015, which delineates the formation and guidelines for work, member requirements, and the tasks of the audit committee. POJK No. 55 stipulates that each listed business must have a minimum of three audit committee members. A comprehensive audit committee enhances the quality of financial reporting through two primary mechanisms. DeZoort et al. (2002) recognized resources as a critical element influencing the efficacy of audit committees in supervising the financial reporting process. They assert that, to possess necessary resources, an audit committee must comprise a sufficient number of members to facilitate meaningful discussions and address emergent concerns, particularly those highlighted by external auditors, during audit committee sessions.



Conversely, Zadeh et al. (2023) discovered that the size of the audit committee had a minimal effect on reducing accrual and real earnings management. A comprehensive audit committee functions more effectively as an intermediary between managers and external auditors than a smaller committee, as a larger audit committee possesses superior organizational stature and greater efficacy in resolving conflicts between managers and external auditors (Koutoupis & Bekiaris, 2019). Consequently, the probability of managers engaging in earnings management can be reduced. Zgarni and Halioui (2016) demonstrate that the correlation between committee audits and audit quality can enhance the quality of financial statements disseminated to external stakeholders. When the company's audit committee functions successfully and the external auditor maintains high audit quality, it will influence the likelihood of actual earnings management.

A study of 3080 French firms found that audit committee financial acumen negatively impacts earnings management, with a significant number of female independent financial specialists significantly reducing this (Amar & Sayadi, 2022). The minimal number of audit committee members may influence the quality of financial reporting. Lin and Hwang (2010) demonstrate that a minimum number of audit committee members can mitigate earnings management. (Anisa et al., 2012) similarly indicate that the number of audit committee members significantly diminishes earnings management. With more audit committee members above the minimum number stipulated in POJK No.55, the manipulation of financial statements is detected significantly. The proposed hypothesis is:

H₂: Audit committee diminishes accruals and real earnings management.

Audit Quality, IFRS Implementation, and Earnings Management

The quality of the audit is significantly influenced by the proficiency and autonomy of the external auditors, which may correlate with the size of the audit firm (Baig & Khan, 2016). The rigorous audit of financial accounts and diminished earnings management via discretionary accruals (DeAngelo, 1981). The efficacy of an auditor hinges on their capacity to identify errors or misstatements in financial statements, which may be affected by external factors such as corporate goodwill, independent auditing practices, and litigation risk (Pelucio-Grecco, 2014).

IFRS complexity produces good accounting information that affects audit quality and obstructs earnings management practices (Ahalik & Hardy, 2015). Mandatory IFRS implementation positively influences audit fees, where the increase in audit fees has implications for increasing audit quality. Big four audit firms make fewer mistakes than low-quality auditors, so they charge a higher audit fee than low-quality auditors (Kim et al., 2012). Flexibility in the principles-based IFRS standard will affect the type and the amount of professional expertise the auditor possesses. The adoption of IFRS into standards Accounting requires auditors to understand the financial accounting standards adopted to ensure that management applies them precisely when making company financial statements. In their study, (El-Guindy & Keasey, 2010) demonstrate that audit quality, as shown by the Big 4 firms, is crucial for achieving high accounting quality under the IFRS framework. Furthermore, earnings management methods are shaped by financial reporting standards and their implementation (Tendeloo & Vanstraelen, 2008). The proposed hypothesis is:

H₃: IFRS implementation moderating audit quality diminishes earnings management in both accruals and Real.

Audit Committee, IFRS Implementation, and Earnings Management

The board of commissioners' delegates monitoring of the financial reporting process to audit committees. The Audit Committee (AC) is responsible for implementing reasonable internal control, assuring financial statement accuracy, and dealing with external and internal auditors.

Peasnell et al. (2005) found no significant association between the existence of an audit committee and the direct increase or decrease of earnings manipulation on a company in Canada. In contrast, some studies prove that audit committee characteristics (size, education background) significantly lower earnings management (Dzikrullah et al., 2020; Klein, 2006) Wan & Shaista (2019) showed that earnings management aggressiveness decreases with the proportion of financial expertise from audit committee members and their presence in audit committee independence indicators. In connection with using IFRS, the company shows a change in reporting quality in earnings management, recognition of timely loss, and value relevance (Armstrong et al., 2009; Barth et al., 2008; Wawo, 2021). The adoption of IFRS in accounting standards affects the company's audit committee. The company's audit committee must understand IFRS in order to carry out its role as supervisor of its financial reporting process. The audit committee is responsible for ensuring and preparing management to do financial reporting according to the accounting standards that IFRS has adopted. The proposed hypothesis is:

H4: IFRS implementation moderating audit committee diminishes earnings management in both accruals and Real.

RESEARCH METHOD

Research Model

This quantitative study uses secondary data derived from IDX and other resources. It uses statistical analysis with panel data to examine whether or not one variable has a relationship with the other variable (Ghozali, 2017) A logical and statistical explanation of the reason is vital to provide a rational conclusion to discover the causal relationship (Sekaran & Bougie, 2016)

Population and Sample

This study's population comprises consumer goods companies listed in the Indonesia Stock Exchange (IDX) from 2006 to 2018. The final sample consists of 237 firm-year observations. Earnings management is the dependent variable in this study, which examines both accruals and real earnings management.

Operational Definition and Variable Measurement

The variables of this study consist of three main variables and other control variables. The following is the definition and measurement of each variable proposed in this study:

Table 1

Operational Definition and Variable Measurement

Variable	Definition	Indicator	Measurement
EM_DACC	Accrual Earnings Management that detects earnings management through accrual activity (Jones, 1991)	$TAC_{it} = NI_{it} - CFO_{it}$ $TA_{it}/A_{it} = \beta_1 (1/ A_{it-1}) + \beta_2 (REV_{it}/ A_{it-1}) + \beta_3 (PPE_{it}/ A_{it-1})$ $NDA_{it} = \beta_1 (1/ A_{it-1}) + \beta_2 ((REV_{it}/ A_{it-1}) - (REC_{it}/ A_{it-1}) + \beta_3 (PPE_{it} / A_{it-1}))$ $DAC_{it} = (TAC_{it} / A_{it-1}) - NDA_{it}$	Nominal
REM_PROD	Real earnings management from production cost	$PROD_{it} / A_{it-1} = \alpha_0 + \alpha_1 (1/ A_{it-1}) + \beta_1 (Sales_{it}/ A_{it-1}) + \beta_2 (\Delta Sales_{it}/ A_{it-1}) + \beta_3 (\Delta Sales_{it-1}/ A_{it-1})$	Nominal
REM_CFO	Real earnings management from cash flow operation	$CFO_{it} / A_{it-1} = \alpha_0 + \alpha_1 (1/ A_{it-1}) + \beta_1 (Sales_{it}/ A_{it-1}) + \beta_2 (\Delta Sales_{it}/ A_{it-1})$	Nominal
REM_DISEXP	Real earnings management from discretionary expenses	$DISEXP_{it} / A_{it-1} = \alpha_0 + \alpha_1 (1/ A_{it-1}) + \beta_1 (Sales_{it-1}/ A_{it-1})$	Nominal



Variable	Definition	Indicator	Measurement
AQ	Audit quality proxied by Big 4	1 = audited by Big 4 0 = not audited by Big 4	Dummy
AC	Audit committee member	AC = total audit committee member	Dummy
IFRS	IFRS implementation stages: pre-implementation, implementation, and post-implementation	0 = pre-implementation period (2008-2010) 1 = implementation period (2011-2015) 2 = post-implementation period (2016-2018)	Dummy
FS	Firm size to know how big or small the company	FS = Ln(Total assets)	Nominal
FAT	Fixed assets turnover	FAT = Sales/Total Fixed Assets	Ratio
LEV	Leverage	LEV = Total debt/Total assets	Ratio
ROA	Return on Assets	ROA = Net Income/Total Assets	Ratio

RESEARCH RESULTS AND DISCUSSION

Descriptive Statistics

Descriptive analysis of this study based on data obtained from samples can be seen in:

Table 2

Descriptive and Statistics

	<i>Mean</i>	<i>Median</i>	<i>Maximum</i>	<i>Minimum</i>	<i>Std.Dev</i>
EM_DACC	0.062992	0.040294	0.70931657	-0.2610855	0.130888
REM_CFO	0.114292	0.102389	0.90939818	-0.3932503	0.171048
REM_PROD	0.863962	0.795913	2.94912112	-0.1759785	0.447289
REM_DISEXP	0.1122451	0.096582	0.36429038	0.0485471	0.055702
AQ	0.472574	0	1	0	0.500304
AC	3.118143	3	5	3	0.360626
IFRS	2.029706	2	3	1	0.788605
FS	14.46744	14.2407	18.3854452	11.293245	1.702944
LEV	0.704451	0.688202	0.99753846	0.44472643	0.105235
FAT	4.675593	3.840347	19.0103099	0.01806888	3.503499
ROA	0.092599	0.072894	0.65720075	-0.2080423	0.128465

EM_DACC: Accrual Earnings Management; REM_CFO: Real earnings management from cash flow operation; REM_PROD: Real earnings management from production cost; REM_DISEXP: Real earnings management from discretionary expenses; AQ: Audit quality; AC: Audit committee; IFRS: IFRS implementation period; FS: Firm size; LEV: leverage; FAT: Fixed assets turnover; ROA: Return on assets

The mean of accrual earnings management, as determined by the Modified Jones model, is 0.063. The median of accrual earnings management is 0.040. The findings indicate that the majority of organizations in our study participate in income-enhancing earnings management. Companies practice earnings management to enhance their earnings. Nonetheless, actual earnings management across all three metrics is positive. The average numbers for actual earnings management are as follows: CFO at 0.114, production costs at 0.863, and discretionary spending at 0.112. The medians for real earnings management CFO, production costs, and discretionary expenses are 0.102, 0.795, and 0.096, respectively. The descriptive analysis indicates that corporations participate in income-reducing real earnings management. The maximum value of accruals profits management is 0.709, attributed to KICI in 2018, whereas the minimum value of -0.261 is associated with MLBI in 2008. The standard deviation of accruals earnings management is 0.13, indicating that the value for the consumer goods business is 13%. The proportions of real earnings management for this industry are 17% for CFO, 44% for production costs, and 5% for discretionary spending.

Correlation Matrix

Table 3
Correlation Matrix

	EM_DAC C	AQ	AC	IFRS	FS	FAT	LEV	ROA	REM_ CFO	REM_D ISEXP	REM_ PR OD
EM_DACC	1										
AQ	0.0862	1									
AC	0.0340	0.0415	1								
IFRS	0.4030	0.0121	-0.0405	1							
FS	0.0279	0.4160	0.2544	0.2069	1						
FAT	0.1106	0.2139	-0.0455	-0.1342	0.1774	1					
LEV	0.0861	-0.0987	-0.2018	-0.0695	0.1418	0.1004	1				
ROA	0.8607	0.3895	-0.0397	-0.0489	0.2421	0.0950	0.0621	1			
REM_CFO	-0.3854	0.1479	-0.0367	-0.2834	0.0650	0.1253	-0.0945	0.2169	1		
REM_DIXES P	0.1034	-0.2851	-0.1296	-0.2110	0.6344	0.0155	0.1613	-	-0.2186	1	
REM_PROD	0.0261	0.3660	-0.1037	0.0893	0.1452	0.4697	-0.1591	0.3531	0.0701	-0.2527	1

Table 3 showed a positive correlation between audit quality and accruals earnings management. Audit quality positively correlates with real earnings management: CFO and production cost, while audit quality has no significant correlation with real earnings management discretionary expenses. Audit committee has no significant correlation with accruals earnings management. However, the audit committee negatively correlates production cost and discretionary expenses with real earnings management. IFRS has a significant positive correlation with accrual earnings management. IFRS has a substantial correlation with actual earnings management production costs. However, IFRS has no significant correlation with real earnings management, such as CFO and discretionary expenses. Accruals earnings management has a significant negative correlation with real earnings management CFO, a significant positive correlation with real earnings management discretionary expenses, and no significant correlation with real earnings management production cost.

Hypothesis Testing

The table below provides information on hypothesis testing results on the effect of Audit Quality, Audit Committee, and IFRS implementation on accrual earnings management.

Table 4
Hypothesis Testing

	EM_DACC	EM_DACC	EM_DACC
C	0.10997**	0.03112**	0.04931**
AQ	-0.19667**	-0.0150**	-0.05424**
AC	-0.22667**	-0.0506**	-0.01835**
IFRS		-0.0664*	0.09386***
AQ*IFRS			0.01896***
AC*IFRS			-0.0117***
FS	0.05564**	-0.0023	-0.0023
FAT	-0.02278	-0.0018	-0.0021
LEV	-0.04155**	-0.0171***	-0.0172
ROA	-0.06917	-0.0323	-0.0345
R-squared	0.02593	0.1743	0.1778
Adj. R-squared	0.01971	0.1491	0.1452
Prob(F-statistics)	0.04128	0.0000	0.0000
*,**,*** Significant	level of 1%, 5%, 10%	respectively	

Table 4 shows the effect of audit quality, audit committee, and IFRS implementation on accrual earnings management using modified Jones models. There is a negative effect of audit



quality, audit committee, and IFRS implementation on accrual earnings management. This result shows that audit quality, audit committee, and IFRS implementation diminish accrual earnings management. The results failed to support the argument that IFRS implementation could negatively moderate audit quality and diminish accruals earnings management. In contrast, the results support the argument that IFRS implementation could moderate that more prominent audit committees diminish accruals earnings management. The control variables negatively affect accruals earnings management using the modified Jones model.

RESEARCH RESULTS AND DISCUSSION

Audit Quality and Earnings Management

Table 5 shows that audit quality measured negatively significant diminishes accrual earnings management while, on the other hand, it significantly increases real earnings management in all aspects. These results are insignificant to previous study from Ajekwe & Ibiamke (2017) which finds that high audit quality reduces earnings management. This study is partially related to the research from Sitanggang et al. (2020) which finds that audit quality is positively and significantly related to abnormal discretionary expenses. Insignificant coherence between the impact in accrual and real earnings management can be caused by the fact that audit quality proxied by Big 4 cannot regulate all forms of earnings management, as real earnings management entails business judgement and managerial decisions that extend outside the auditors' jurisdiction. The primary role of the auditor is to identify and report any significant misstatements in finance (Hakimi et al., 2023). Insufficient understanding of the client's business sector diminishes audit effectiveness, but auditors possessing industry knowledge enhance the auditing process, aiding clients in elevating the quality of their financial reports (Jamil. M et al., 2022).

Audit Committee and Earnings Management

The audit committee shows a significant adverse effect on both accrual and real earnings management, which means that the more audit committee members, the lower the earnings management. It is coherent with stakeholder theory and agency theory that individuals can influence or be influenced by achieving a goal, while opportunistic managers manipulate financial reports to enrich themselves, potentially causing investor losses (Bridoux & Stoelhorst, 2022; Panda & Leepsa, 2017). This study is inherent with previous studies that prove audit quality can diminish earnings management both in accrual and real (Abbott et al., 2004; Anisa et al., 2012; H. A. Krishnan & Park, 2005; G. V Krishnan, 2003; Lin & Hwang, 2010).

Audit Quality, IFRS Implementation and Earnings Management

IFRS implementation shows a negative coefficient at a significant level of 1% if treated as an independent variable in real earnings management CFO and DISEXP, but it shows a positive coefficient in real earnings management PROD. The moderating effect of IFRS implementation is significantly positive in the association of audit quality and accrual earnings management. Audit quality shows a significant negative effect in terms of real earnings management production cost. It means that more audit committee members lower the real earnings management production cost. IFRS implementation shows a positive coefficient in a significant level of 1% if treated as an independent variable. This means that IFRS implementation leads the company to increase real earnings management production costs. The moderating effect of IFRS implementation is significantly negative in the association of audit quality and real earnings management production cost, but failed to moderate the negative impact of audit committee and real earnings management production cost.

Table 5
Regression Model of Audit Quality, Audit Committee Size, IFRS Implementation, and Control Variables on Accruals Earnings Management

Variable	REM_CFO	REM_CFO	REM_CFO	REM_PROD	REM_PROD	REM_PROD	REM_DISEXP	REM_DISEXP	REM_DISEXP
C	0.2492**	0.3523**	0.4003**	0.3120**	0.7111**	0.8528**	0.5085*	0.4941*	0.4385*
AQ	0.0950**	0.0488**	0.0934**	0.1685**	0.2122***	0.2741**	0.0788**	0.00612	0.00107
AC	-0.0264***	-0.0434***	-0.0734**	-0.1552**	-0.1364***	-0.1747***	-0.0699**	-0.0799**	0.0124***
IFRS		-0.0643*	-0.00899**		0.0621*	-0.02338***		-0.0283**	-0.035***
AQ*IFRS			0.0425			0.0346***			0.017
AC*IFRS			-0.0174***			-0.018***			-0.0118
FS	0.0245	0.010	0.011	0.0616**	0.0188**	0.018	-0.0284*	-0.0268*	-0.0275*
FAT	0.0561***	0.0045	0.0056***	0.0448*	0.0469	0,0491*	-0.0173***	-0.0018***	-0.0208**
LEV	-0.2005***	-0.2241**	-0.2227**	-0.2162***	-0.2532	-0.336	0.0601***	0.0611***	0.0624***
ROA	0.2567	0.2245*	0.22257*	0.3311***	0.4133	0.4755***	0.0612	0.0028	0.0048
R-squared	0.0772	0.1574	0.167	0.2004	0.2203	0.2430	0.307	0.309	0.3133
Adj. R-squared	0.0584	0.1316	0.134	0.1796	0.1965	0.2130	0.289	0.287	0.2861
Prob(F-statistics)	0.0005	0.0000	0.0000	0.0000	0.0000	0.0000	0.0003	0.0000	0.0000
***, ** Significant	Level of	1%, 5%, 10, %	respectively						

Audit Committee, IFRS Implementation and Earnings Management

If IFRS implementation is treated as an independent variable, its coefficient shows a significant negative level of 1%. The moderating effect of IFRS implementation is significantly negative in the association of the audit committee and real earnings management CFO but fails to moderate the negative effect of the audit committee and real earnings management CFO.

Regarding real earnings management production cost, audit committee shows significant negative effect. It means that more member of audit committee the lower the real earnings management production cost. IFRS implementation shows a positive coefficient in a significant level of 1%, if treated as an independent variable. It means that IFRS implementation as independent variable leads company to increase real earnings management production cost. The moderating effect of IFRS implementation is significantly negative in the association of audit committee and real earnings management production cost, but failed to moderate the negative effect of audit committee and real earnings management production cost.

Control variables

The control variables influence actual earnings management, CFO, production expenses, and discretionary accruals. The size of the firm exerts a positive albeit negligible influence on real earnings management concerning CFO and production costs, while it significantly negatively impacts real earnings management related to discretionary accruals. Fixed assets turnover positively affects real earnings management CFO and production cost, but significantly negative on the real earnings management discretionary accruals.

Leverage has a negative significant effect on real earnings management CFO, a positive significant impact on real earnings management discretionary accruals, and a positive insignificant effect on real earnings management production cost. Return on assets has a significant positive impact on real earnings management CFO and production cost, but it is insignificantly positive on the real earnings management discretionary.

CONCLUSION

This study aims to determine the relationship between audit quality and audit committee on earnings management and the role of IFRS implementation as a moderation variable on the relationship between audit quality and audit committee on earnings management. The Modified Accrual Earnings Management Model Jones (1991) and real earnings management Roychowdhury (2006) were used as earnings management proxies. Through regression analysis processes to test the hypothesis, this study highlights some points regarding the topic.

This study discovered that audit quality, as indicated by Big 4 audit firms, reduces accrual earnings management more than real earnings management, and the audit committee is more effective in addressing accrual earnings management than real earnings management. The audit committee substantially reduces accrual earnings management. The audit committee exerts a substantial detrimental influence on actual earnings management, CFO, and production costs, while having an insignificantly favorable impact on discretionary expenses. The application of IFRS reveals varying outcomes between independent factors concerning accrual earnings management and real earnings management. The application of IFRS often enhances accrual earnings management as measured by the modified Jones model, while concurrently reducing real earnings management.

This study's focus on Indonesian consumer goods companies renders its results inadequate for generalization. Subsequent study may explore the inter-industry non-financial aspects of audit quality, audit committees, IFRS implementation, and earnings management. Secondly, alternative proxies for profits management, encompassing both accruals and real activities, ought to yield more valid outcomes. Qualitative approaches may yield significant insights into the perspectives of managers and stakeholders, as well as elucidate the motivations

of managers. This may highlight individuals' perceptions of audit quality and its perceived impact on the degree of earnings management. This may also facilitate the acquisition of insights pertaining to genuine earnings management.

REFERENCES

- Abbott, L. J., Parker, S., & Peters, G. F. (2004). The Effects of Audit Committee Characteristics and Restatements. *Auditing: A Journal of Practice and Theory*, 23, 69–87.
- Ahalik, A., & Hardy, Y. (2015). The impact of IFRS implementation, leverage, audit quality, institutional ownership, and managerial ownership towards earnings quality of Indonesian listed companies in LQ-45 index. *Journal of Modern Accounting and Auditing*, 13(1), 183–199.
- Ahmed, M. N., & Zijl, T. (2017). Audit Quality, Earnings Management, and Cost of Equity Capital: Evidence from India. *International Journal of Auditing*, 1(1).
- Ajekwe, C. M., & Ibiame, A. (2017). The association between audit quality and earnings management by listed firms in Nigeria. *European Journal of Accounting, Auditing and Finance Research*, 5(4), 1–11.
- Almomani, M. A. (2015). The Impact of Audit Quality Features on Enhancing Earnings Quality: The Evidence of Listed Manufacturing Firms at Amman Stock Exchange. *Asian Journal of Finance and Accounting*, 7(2).
- Alzeban, A. (2019). The Impact of Audit Committee, CEO, and External Auditor Quality of Financial Reporting. *Corporate Governance*, 20(2), 263–279.
- Alzoubi, E. S. S. (2017). Audit Quality, Debt Financing, and Earnings Management: Evidence from Jordan. *Journal of International Accounting, Auditing and Taxation*, 1(1), 1.
- Amar, A. Ben, & Sayadi, N. (2022). Independent financial expert members on audit committees, earnings management and the role of female directors. *Journal of Accounting and Management Information Systems*, 21(1), 5–24.
- Anisa, A., Widya, N., & Andri, P. (2012). Pengaruh Financial Expertise of Committee Audit Members, Kepemilikan Manajerial, Ukuran Perusahaan, dan Leverage terhadap Terjadinya Kecurangan Pelaporan Keuangan. *Journal Accounting*, 1(1), 128–191.
- Arens, A. A., & Beasley, M. S. (2010). *Auditing and Assurance services: An Integrated Approach* (15th ed.). Prentice Hall.
- Armstrong, C., Barth, M. E., & Jagolinzer, A. D. (2009). Market Reaction to the Adoption of IFRS in Europe. *The Accounting Review*, 85.
- Baig, M., & Khan, S. A. (2016). Impact of IFRS on Earnings Management: Comparison of Pre-Post IFRS Era in Pakistan. *Social and Behavioral Sciences*, 30(1), 343–350.
- Barth, M. E., Landsman, W. R., & Lang, M. H. (2008). International accounting standards and accounting quality. *Journal of Accounting Research*, 46(3), 467–498.
- Bridoux, F., & Stoelhorst, J. W. (2022). Stakeholder theory, strategy, and organization: Past, present, and future. *Strategic Organization*, 20(4).
- Cai, L., Rahman, A., & Courtenay, S. (2014). The Effect of IFRS Adoption Conditional Upon the Level of Pre-adoption Divergence. *The International Journal of Accounting*, 49(2), 147–178.
- Cao, Y., Guan, F., Li, Z., & George Yang, Y. (2020). Analysts' beauty and performance. *Management Science*, 66(9), 4315–4335.
- Chowdhury, S. N., & Eliwa, Y. (2021). The impact of audit quality on real earnings management in the UK context. *International Journal of Accounting & Information Management*, 29(3).
- Christiani, I., & Nugrahanti, Y. W. (2014). Pengaruh Kualitas Audit terhadap Manajemen Laba. *Jurnal Akuntansi Dan Keuangan*, 16(1), 52–62.
- De George, E. T., Li, X., & Shivakumar, L. (2016). A review of the IFRS adoption literature.



- Review of Accounting Studies*, 21(3), 898–1004.
- DeAngelo, L. E. (1981). Auditor Size and Audit Quality. *Journal of Accounting and Economics*, 3(3), 183–199.
- DeFond, M., Li, Z., Wong, T. J., & Wu, K. (2024). Competence vs. Independence: Auditors' connections with members of their clients' business community. *Journal of Accounting and Economics*, 78(1).
- DeZoort, T., Hermanson, D. R., Archambeault, D. S., & Reed, S. A. (2002). Audit Committee Effectiveness: A Synthesis of the Empirical Audit Committee Literature. *Journal of Accounting Literature*, 21(1), 38–75.
- Doukakis, L. (2014). The Effect of Mandatory IFRS Adoption on Real and Accrual-Based Earnings Management Activities. *Journal of Accounting and Public Policy*, 33(6), 551–572.
- Dzikrullah, A. D., Harymawan, I., & Melinda, C. R. (2020). Internal Audit Functions and Audit Outcomes: Evidence from Indonesia. *Cogent Business and Management*, 7(1).
- El-Guindy, M., & Keasey, K. (2010). IFRS reporting, audit quality and earnings management: UK evidence. *Leeds University of Business Schol.*
- Eng, L., & Lin, J. (2019). International Financial Reporting Standards adoption and information quality: Evidence from Brazil. *Journal of International Financial Management & Accounting*, 30(1), 5–29.
- Ghozali, I. (2017). *Multivariate Analysis And Econometrics, Theories, Concepts And Applications With Eviews 8*. Badan Penerbit Universitas Diponegoro.
- Hakimi, N., Zolkafil, S., & Khalid, N. H. (2023). THE ROLE OF INTERNAL AUDIT, INTERNAL CONTROL SYSTEMS, AND CORPORATE GOVERNANCE PRACTICES TOWARD FINANCIAL REPORT QUALITY. *MAHSA International Journal of Business and Social Sciences*, 3(2), 24–36.
- Hamidah. (2017). IFRS Adoption in Indonesia: Accounting Ecology PERSpective. *International Journal of Economics and Management*, 11(S1), 121–132.
- Jamil. M, Abidin, N. H. Z., & Alwi, N. M. (2022). The governance structure on the role of internal auditors in environmental auditing practices: Cases of Malaysian local organisations. *Environmental Challenges*, 9(5).
- Jeanjean, T., & Stolowy, H. (2008). Do Accounting Standards Matter? An Exploratory Analysis of Earnings Management Before and After IFRS Adoption. *Journal of Accounting and Public Policy*, 27(6), 480–494.
- Jones, J. J. (1991). Earnings Management During Important Relief Investigations. *Journal of Accounting Research*, 29(2), 193–228.
- Juniarti, Helena, F., Novitasari, K., & Tjamdinata, W. (2018). The Value Relevance of IFRS Adoption in Indonesia. *Jurnal Akuntansi Dan Keuangan*, 20(1), 13–19.
- Kim, J.-B., Liu, X., & Zheng, L. (2012). The Impact of Mandatory IFRS Adoption on Audit Fees: Theory and Evidence. *Accounting Review Forthcoming*.
- Klein, A. (2006). Audit Committee, Board of Director Characteristics, and Earnings Management. *Law and Economics Research Paper*, 1(1), 6–42.
- Koutoupis, A. G., & Bekiaris, M. (2019). Audit Committees Impact on Company Performance: The Greek and Italian Experience. *International Journal of Auditing and Accounting Studies*, 1(1).
- Krishnan, H. A., & Park, D. (2005). A few good women—on top management teams. *Journal of Business Research*, 58(12).
- Krishnan, G. V. (2003). Does Big 6 Auditor Industry Expertise Constrain Earnings Management? *Accounting Horizons*, 1(1), 1–16.
- Lawrence, A., Minutti-Meza, M., & Zhang, P. (2011). Can Big 4 versus non-big 4 differences in audit-quality proxies be attributed to client characteristics? *The Accounting*

- Review*, 86(1), 259–286.
- Lin, J. W., & Hwang, M. I. (2010). Audit Quality, Corporate Governance, and Earnings Management: A meta-analysis. *International Journal of Auditing*, 14(1), 57–77.
- Martani, D., Rahmah, N. A., Fitriany, F., & Anggraita, V. (2021). Impact of audit tenure and audit rotation on the audit quality: Big 4 vs non big 4. *Cogent Economics & Finance*, 9(1).
- Martin, J. D., & Sayrak, A. (2003). Did Earnings Management Contribute to the Overvaluation of ENRON stock? *Advances in Financial Economics*, 8, 127–145.
- Nijam, H. M., & Athambawa, J. (2016). IFRS Adoption and Value Relevance of Accounting Information: Evidence from a Developing Country. *International Letters of Social and Humanistics Science*, 69(1).
- Nobes, C., & Parker, R. H. (2016). *Comparative International Accounting* (13th ed.). Pearson.
- OJK, O. J. K. (2015). *POJK Nomor 55*. OJK. <https://www.ojk.go.id/id/kanal/pasar-modal/regulasi/peraturan-ojk/Pages/POJK-Nomor-55.POJK.04.2015.aspx>
- Panda, B., & Leepsa, N. M. (2017). Agency theory: Review of Theory and Evidence on Problems and Perspectives. *SAGE Publications*, 10(1). <https://doi.org/https://doi.org/10.1177/0974686217701467>
- Partono, A. A., & Purwanto, A. (2015). Pengaruh Karakteristik Komite Audit dan Audit Eksternal sebagai Mekanisme Pengawasan pada Manajemen Laba. *Diponegoro Journal of Accounting*, 4(2), 10–23.
- Peasnell, K. V, Pope, P. F., & Young, S. (2005). Board Monitoring and Earnings Management: Do Outside Directors Influence Abnormal Accruals? *Journal of Business Finance and Accounting*, 32(7), 1311–1346.
- Pelucio-Grecco, M. C. (2014). The effect of IFRS on earnings management in Brazilian nonfinancial public companies. *Emerging Markets Review*, 21(1), 42–66.
- Roychowdhury, S. (2006). Earnings management through real activities manipulation. *Journal of Accounting and Economics*, 42(3), 335–370. <https://doi.org/10.1016/j.jacceco.2006.01.002>
- Sekaran, U., & Bougie, R. (2016). *Research Methods for Business A Skill-building Approach* (7th ed.). John Wiley and Sons.
- Sitanggang, R. P., Karbhari, Y., Matemilola, B. T., & Ariff, M. (2020). Audit quality and real earnings management: evidence from the UK manufacturing sector. *International Journal of Managerial Finance*, 16(2), 165–181.
- Tendeloo, B., & Vanstraelen, A. (2008). Earnings management and audit quality in Europe: Evidence from the private client segment market. *European Accounting Review*, 17(3), 447–460.
- Wan, M. W. M., & Shaista, W. (2019). Effect of audit committee independence, board ethnicity and family ownership on earnings management in Malaysia. *Journal of Accounting in Emerging Economies*, 10(1), 74–99.
- Wawo, A. (2021). Value relevant adopsi IFRS; bukti empiris dari seluruh dunia. *Journal of Management & Business*, 4(1), 244–255.
- Yushita, A. N., Triatmoko, H., & Rahmawati, R. (2013). Pengaruh Mekanisme Corporate Governance, Kualitas Auditor Eksternal dan Likuiditas terhadap Kualitas Laba. *Jurnal Economica*, 9(2), 141–155.
- Zadeh, F. N., Askarany, D., Shirzad, A., & Faghani, M. (2023). Audit committee features and earnings management. *Heliyon*, 9(10).
- Zgarni, I., & Halioui, K. (2016). Audit Committee Effectiveness, Audit Quality and Earnings Management: a Meta-Analysis. *International Journal of Law and Management*, 58(2), 179–196.

