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The Effect of Firm Size, Audit Committee, Leverage and Institutional Ownership on Earnings Quality

Bambang Leo Handoko, Ronaldo Horison

Abstract: Management understands that earnings information is very important for the company's future. Sometimes management does everything to maintain the company's profit trends, even by manipulating financial information. Some methods use by management can be divided into earning management and fraud. One of the common method uses is income smoothing. Income smoothing is a management action in reducing fluctuations in corporate profits. The purpose of this research is to examine factors influencing income smoothing. Populations in this research are companies in the sector of: property, real estate and building construction listed in Indonesia Stock Exchange period 2014-2018. The sampling method used was purposive sampling. Selected samples were 33 companies for 5 years, in total, there are 165 research data. The income smoothing variable is measured by eckel index. The result shows that all independent variables: audit firm size, firm size, audit committee, leverage and managerial ownership do not influence income smoothing

***Keywords** : internal, control, leadership, compensation, system, fraud, prevention*

I. INTRODUCTION

In this modern era, the credibility of financial statements released to listed companies is one thing that should be considered by investors and creditors in investing in a company. The reason is in a company there are differences in interests between the principal (investors and creditors) with the agency (management) to allow for information asymmetry based on the performance of management or the agent.

In general, all parts of the financial statements consisting of statements of financial position, profit and loss, statement of retained earnings, statements of cash flows, notes to the financial statements are all reports that are presented. But there is a tendency for users of financial statements to only pay attention to the profits contained in the income statement. This situation is based on management, especially from among managers whose performance is measured based on this information.

Financial statements are a means for investors to see the company's performance. According to [1] the parameters used by investors in measuring management performance are earnings information contained in the income statement. It is because generally; companies when they were experiencing profits, the company is experiencing good performance. So that attracts investors to invest in these companies. One of the most important information for decision making is profit. The importance of earnings information is realized by management so that management tends to do dysfunctional behavior (undue behavior). This functional behavior is influenced by the information asymmetry in the agency theory concept. Agency conflict will arise if each party, both principal and agent has different interests and wants to fight for their respective interests.

Management understands that earnings information is very important for the company's future. Sometimes management does everything to maintain the company's profit trends, even by manipulating financial information. According to [2], earnings information is often the target of management opportunist manipulation to maximize their interests, so that it can harm investors. The behavior of managing corporate profits in accordance with the wishes of management is known as earnings management.

There was a case regarding the issue of financial statement presentation where the company (INVS) indicated that there was a misstatement of financial statements in the period September 2014. There were financial statement items that needed to be corrected including revising the value of fixed assets, net income per share, business segment reports, category of financial instruments, and total liabilities in business segment information. In addition, cash payment items to employees and net receipts (payments) of related party debt in the cash flow statement also need to be improved. In the first semester of 2014 salary payments to employees were Rp1.9 trillion. However, in the third quarter of 2014 the salary payment rate for employees dropped to Rp59 billion. Previously, the management of INVS revised its financial statements for the period January to September 2014. In the revision, several values in the financial statements experienced a change in value, one example was the decline in the value of fixed assets to Rp1.16 trillion after a revision from previously recognized at Rp1.45 trillion.

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* Correspondence Author
Bambang Leo Handoko*, Accounting Department, Faculty of Economics and Communication, Bina Nusantara University, Jakarta, Indonesia, 11480 Email: bambang.handoko@binus.edu
Ronaldo Horison, Accounting Department, Faculty of Economics and Communication, Bina Nusantara University, Jakarta, Indonesia, 11480 Email: ronaldomanalu@yahoo.com

INVS also recognizes net income per share based on current period earnings. This practice makes INVS's net profit per share appear larger. In fact, the company should use the current period profit attributable to the owner of the parent entity [3]. Therefore IDX has taken a cessation action against INVS on the Indonesia Stock Exchange since 2015 and in 2017 IDX erased the INVS listing.

Entering the era of the industrial revolution 4.0; many changes faced by the community. One of them is with the Internet of things. This interconnection network makes everything we do easier, faster and more efficient. On the other hand there are adverse effects in terms of security and privacy. This is related to the practice of income smoothing carried out by management. With the internet, stakeholders can easily get information including financial reports so they can monitor company performance. This may make management do income smoothing, to maintain the stability of the company's profits and can maintain investors to invest their capital in the company.

II. LITERATURE REVIEW AND HYPOTHESIS

A. Earnings Quality

Earnings quality which proxies by income smoothing is part of earnings management [4], income smoothing is a management action taken intentionally by using accounting policies to reduce the ups and downs of profits. Management tends to take action to increase reported profits when the actual profit obtained is relatively low and to reduce reported profits if the actual profit generated is relatively high. In leveling the amount of profit reported by management, time is determined in the recognition of income and expenses carefully [5]. This was done to make it easier for management to get loans from external parties.

The difference between earnings management and income smoothing is earnings management is a management action in making deliberate mistakes in making financial reports so that information becomes misleading for users of reports [1]. So there is an intervention from management to change the information. While income smoothing is a management pattern in intervening in the information, by leveling profits in the financial statements in order to reduce fluctuations in earnings. Income smoothing is one of earnings management patterns [6].

Basically, management does income smoothing due to several things, including [6]:

1. Reducing corporate tax payable
   The amount of profit reported by management will affect the tax that must be paid by the company. By practicing profit, the management will benefit because management does not pay the tax that should be paid
2. Increasing manager's confidence and supporting a stable dividend policy
   Positive trends in the financial statements make management trusted by investors or creditors, so investors or creditors will be interested in investing or making loans because of a steady increase in profits
3. Maintaining management relations with employees
   A steady increase in corporate profits makes employees likely to demand salary increases so that employees will continue to work with the company
4. The cycle of increasing and decreasing profit can be compared so that the wave of optimism and pessimism can be softened

The smoothing of profits made by the management, convinced stakeholders optimistic about the progress of the company will increase stable profits and fade pessimism

B. Audit Firm Size

With the differences in interests between the principal and the agency, where the principal wants to get accurate information, especially on the company's financial statements as a tool to find out the financial condition and financial performance of the company, so investors can make decisions through the financial statements. This makes the principals use audit services from qualified accounting firms to obtain more accurate information and avoid the practice of income smoothing. Currently, there are 4 best audit firms which are Big Four groups that have good performance and reputation, namely PricewaterhouseCoopers, Ersnt & Young, Deloitte and KPMG.

So the hypothesis that the compiler developed is that the size of the Public Accounting Firm influences income smoothing, because the Public Accounting Firm included in the Big Four has high audit quality and has a good reputation, so the risk of disclosure of fraud committed by the company's management is greater than that of the Non Big Four Public Accountant Firm who audited the company. Based on research conducted by [7] that audit quality significantly influences income smoothing. However, different from the research conducted by [8] that the auditor's reputation has no effect but tends to be positive towards income smoothing. This shows that there is no guarantee that Big Four Audit Firm will reduce the practice of income smoothing.

Audit firm size in this study, measured by audit firm size included in the category of Big Four or Non Big Four

H1: Audit firm size influences earnings quality

C. Firm Size

Big or small a company can be seen from the total assets owned by the company, the number of sales obtained or the value of the company's shares. The interests of the principal in terms of investing capital to get the profit that will be obtained, seen from the company he wants to invest. Large companies are likely to get more attention from stakeholders, including investors, and help avoid drastic earnings fluctuations [9]. In addition, the total amount of assets owned by the company is directly proportional to the amount of tax that must be paid by the company and makes management opportunities to practice income smoothing.

So the hypothesis that the compiler developed is that the size of the company affects income smoothing because the size of the company will affect management's actions to make income smoothing, especially if the company wants to reduce fluctuations in profits so that it can still maintain investors in investing. In a study conducted by [10] that company size has an influence on income smoothing practices.

However, it is different from research conducted by [11] which states that company size has no effect on income smoothing. According to him, the practice of income smoothing can occur in several companies not triggered by the size of the company but the desire of the company to make large investments.

The size of company in this study is measured by total assets owned by the company.

H2: Firm size influences earnings quality

D. Audit Committee

The audit committee is a supporting committee of the board of commissioners in overseeing corporate governance to protect external parties, namely the principal (shareholders, creditors) from fraud committed by the company's management and encourage management in conducting sound business management. So the principal must consider his decision in terms of appointing a board of commissioners, choosing a board of commissioners who are able to oversee the company's operations by appointing an audit committee that can also carry out its duties effectively. One of them is by appointing an audit committee which is from an independent commissioner so that they will carry out their duties objectively. This is possible to reduce the practice of income smoothing carried out by management.

Then the hypothesis that the compiler developed is that the audit committee influences income smoothing, because in its implementation the audit committee also has the duty to review the company's financial information that can reduce the income smoothing practices carried out by management. In a study conducted by [12], the audit committee had a negative effect on income smoothing practices. According to him, the audit committee in its implementation, the proportion of internal audit from external and knowledge and experience related to the company can reduce the practice of income smoothing. Inversely related to research conducted by [13] that the audit committee does not significantly influence income smoothing. According to him, there are several factors, among others, when the board of commissioners is not independent, the independence of the auditor is also questionable and the other factor is that the audit committee only has limited authority so that there is a possibility that the audit committee does not carry out the supervisory function.

Audit Committee in this study, measured by the number of audit committees outside the independent commissioners divided by the number of audit committees in the company.

H3: Audit committee influences earnings quality

E. Leverage

Leverage is debt that is used to finance assets originating from creditors and shows the risk of the company in paying these obligations. The principal, in this case the investor, will consider his decision to invest in the company that will be invested by him. Investors tend to invest their capital in companies with low financial leverage ratios so that the risk that investors get is also low [14]. This can affect the agency that is management practices income smoothing.

So the hypothesis that the compiler developed is leverage affects the income smoothing, because the size of a financial ratio of corporate leverage will affect investors' actions in investing their capital in the company related to the risk of corporate leverage so that management can make income smoothing in order to keep investors in investing their capital in the company [14]. In a study conducted by [11] states that financial leverage has a negative and significant effect on income smoothing. According to him, the more companies lend borrower fund, the company is also closely monitored by creditors. But on the contrary, the research conducted by [1] financial leverage does not have a positive influence on income smoothing. According to him, the cause of the risk received by the company's internal parties is also getting smaller, thus with the smaller risk, making the company does not do income smoothing.

Leverage in this study, measured by the total debt owned by the company divided by the total assets of the company.

H4: Leverage influences earnings quality

F. Managerial Ownership

Managerial ownership is a company stock owned by management. Both the principal (investor) and the agency (management) have their respective interests. But if a person is an investor and on the other hand is also a management party this can affect the company's performance. Like a commissioner or board of directors who own shares in a company, as well as working for that company, they have the opportunity to manipulate information including income smoothing.

So the hypothesis that the compilers develop is that managerial ownership influences income smoothing because the existence of some shareholdings owned by management can encourage management to increase the value of company shares by smoothing earnings. In a study conducted by [15] states that managerial ownership affects income smoothing. According to [16] management share ownership has more information than other non-institutional shareholders, this gives management the opportunity to do income smoothing to improve the company's stock performance. In contrast, research conducted by [15] states that managerial ownership does not significantly influence income smoothing. According to him, even though management owns some of the company's shares and runs the company, management share ownership does not have a big impact on decision making.

Variable of managerial ownership in this study is measured by the ownership of shares owned by company management divided by the number of shares outstanding.

H5: Managerial ownership influences earnings quality

III. RESEARCH METHODOLOGY

A. Research Object

The object of research examined is the company's annual financial statements listed on the Indonesia Stock Exchange for the period 2014-2018. This research is focuses on using the object of research in the property sector, real estate and building construction because in this period these companies have a profit trend and this supports the criteria set in the sampling of research data.

B. Data Type and Sources

The type of data used is secondary data where the source of the data to be used comes from the Indonesia Stock Exchange through the official website of the Indonesia Stock Exchange, http://www.idx.co.id/ and downloads the financial statements of the company to be investigated, namely the property company , real estate and building construction on the site. Secondary data is data obtained by researchers from sources obtained indirectly.

The use of secondary data due to the following reasons:

1. Financial reports that have been published have been audited by a public accountant so that the information can be trusted.

2. The data obtained is more easily accessed and efficient because it does not need to go to the center of the object of the research company where it can drain time and energy

In addition to financial statement data sources that are used as research objects, other sources that support this research include theories taken from scientific books, journals or previous research as well as online media as a foundation and support research analysis

C. Determination of Sample Amount

The population that used in this study is property, real estate and building construction companies listed on the Indonesia Stock Exchange (IDX) in the 2014-2018 period. Determination of the sample is using purposive sampling which is a non random sampling technique by setting criteria in accordance with research objectives. The following sampling criteria in this study are as follows:

1. The company was listed on the Indonesia Stock Exchange (IDX) from 1 January 2014 to 31 December 2018 and was not delisted during the study period.
2. Publish audited financial statements for the period ending December 31 each year in a row in the 2013-2018 period (2013, used as an eckel index calculation with the 2018 period)
3. The company did not merge in the study period 2014-2018
4. The company did not experience losses during the period under study.
5. Have data about the variables to be studied

D. Operation of Dependent and Independent Variables

The dependent variable used in this study is earnings management which represented by income smoothing. Income smoothing is a management action in reducing earnings fluctuations either by conducting real transactions or by accounting methods.

The independent variables used in this study are audit firm size, company size, audit committee, leverage and managerial ownership. The operation of independent variables is stated on table- I

Table- I: Operation of Variables

Variables	Dimension
Earnings quality (Y) [17]	Dummy Variable, proxies by income smoothing. If discretionally accrual detected then given value of 1, if no discretionally accrual detected then given value of 0
Audit firm size (X1) [18]	Dummy Variable, if KAP Big Four, then given a value of 1, and if KAP Non Big Four, then given a value of 0
Company size (X2) [9]	Total Company Assets with natural logarithms
Audit Committee (X3) [19]	Total audit committee outside the independent commissioner / Total Audit Committee
Leverage (X4) [20]	Total Liabilities / Total Asset
Managerial Ownership (X5) [15]	Shareholding from management / Outstanding shares

IV. RESEARCH RESULT

A. Feasibility Test Regression Model

Assess the feasibility of the model using the Goodness of Fit Test as measured by the Chi-Square value at the bottom of the Hosmer and Lameshow test [21].

Table- II: Hosmer and Lemeshow Test

Hosmer and Lemeshow Test

Step	Chi-square	Df	Sig.
1	11,165	8	,193

Based on the Regression Model Feasibility Testing Table, the significance probability value is above 0.05, which is 0.193. Therefore, H0 is acceptable which means there is no real difference between the predicted classification and the observed classification so that the model is feasible to use.

B. Classification Table

The test aims to provide information about the predictive power of the regression model with true and false estimation values of the dependent variable tested with a classification table that displays the predicted value of the dependent variable in the column numbers and displays the observed value of the dependent variable in the row numbers [21].

The Prediction Accuracy Testing Table shows the results of testing the strength of the prediction accuracy of income smoothing variables, both those that will not do income smoothing or companies that will do income smoothing.

Table- II: Sample Distribution of Respondents

Classification Table[a,b]

			Predicted		
			Income smoothing		Percentage Correct
	Observed		Do not do income smoothing	Do income smoothing	
Step 1	Income smoothing	Do not do income smoothing	5	45	10,0
		Do income smoothing	0	115	100,0
	Overall Percentage				72,7

a. Constant is included in the model.
b. The cut value is ,500

Based on observations that have been made, as many as 115 research objects data that do income smoothing, with the accuracy of predictions that do income smoothing amounted to 115 research data.

So that the correct percentage of observations obtained with the accuracy of predictions of 100%, where there is no type 1 error, where companies that do income smoothing but are predicted not to do income smoothing. Based on observations that have been made, we conclude that as many as 45 research object data that do not do income smoothing, with the accuracy of predictions that do not do income smoothing by 5 research data. So that the true percentage between the observations obtained with the accuracy of predictions of 10% where there is a type 2 error of 40 research data, where companies that do not do income smoothing but are predicted to do income smoothing.

So based on table-III, the overall classification accuracy between the observations obtained with the accuracy of the research data prediction (118 research data) to the total research data (165 research data) is 72.7%.

C. Overall Model Fit

Assess the overall feasibility of the model by comparing the value of -2 Log Likelihood (-2LL) at the beginning (Block = 0) when the independent variable has not been entered into the model with 2 Log Likelihood (-2LL) at the end (Block = 1) when the independent variable is already put in a model. If in testing the value of -2LL has decreased, shows a better regression model and vice versa [22].

Table- III: Beginning Block

Block 0: Beginning Block

Iteration History[a,b,c]

Iteration		-2 Log likelihood	Coefficients Constant
Step 0	1	121,498	,788
	2	121,455	,833
	3	121,455	,833

a. Constant is included in the model.
b. Initial -2 Log Likelihood: 121,455
c. Estimation terminated at iteration number 3 because parameter estimates changed by less than ,001.

Table- IV: Block 1

Block 1: Method = Enter

Iteration History[a,b,c,d]

Iteration		-2 Log likelihood	Coefficients Constant	X1	X2	X3	X4	X5
Step 1	1	118,935	4,931	-,376	-,143	-,612	1,407	-11,612
	2	118,778	6,115	-,425	-,182	-,771	1,707	-13,888
	3	118,778	6,179	-,427	-,184	-,778	1,720	-13,984
	4	118,778	6,179	-,427	-,184	-,778	1,720	-13,984

a. Method: Enter
b. Constant is included in the model.
c. Initial -2 Log Likelihood: 121,455
d. Estimation terminated at iteration number 4 because parameter estimates changed by less than ,001.

Based on the Testing Table of All Block 0 Models, when the independent variable has not been included in the model, the Log Likelihood value is 121,455 while in the Testing Table of All Block 1 Models, when the independent variable has been included in the model, the Log Likelihood value is 118,778. So that there is a decrease of 2.667 and a decrease from block number 0 to block number 1 shows a good regression model.

D. Coefficient Determination

The coefficient test aims to test the ability of the independent variable in explaining the dependent variable with values 0 to 1. The smaller the coefficient value or close to 0, the ability of the independent variable in explaining the dependent variable is very limited and vice versa [21].

Based on the Determination Coefficient Testing on Table-V, it shows the results of Nagelkerke R Square of 0.038. Can be interpreted that the independent variables studied include firm size, firm size, audit committee, leverage and managerial ownership can explain the variation of the dependent variable in this study is earnings management by 3.8% while 96.2% is explained by other independent variables that are not used in this research.

Table- V: Nagelkerke R Square

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	118,778[a]	,027	,038

a. Estimation terminated at iteration number 5 because parameter estimates changed by less than ,001.

E. Logistic Regression

The logistic regression test was carried out aimed at making a regression model to predict the size of the dependent variable in the form of a binary variable using the data of the independent variable that was already known for its magnitude. Binary Variables are nominal scale data with 2 criteria [23].

Table- VI: Variables in the Equation

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	X1	-,427	,558	,584	1	,445	,653
	X2	-,184	,224	,674	1	,412	,832
	X3	-,778	2,754	,080	1	,777	,459
	X4	1,720	1,455	1,396	1	,237	5,583
	X5	-13,984	14,800	,893	1	,345	,000
	Constant	6,179	6,563	,886	1	,346	482,558

a. Variable(s) entered on step 1: X1, X2, X3, X4, X5.

Tests carried out to determine whether the influence of independent variables on the dependent. Judging from the results of logistic regression which has been tested on the equation model, hypothesis decisions can be accepted or rejected based on the probabilities tested.

Here is the table VII which contain the summary of research result in tabular form

Table- VII: Research Result

Variable	P Value	Result
Audit Firm (X1)	0.445	H1 Rejected
Company Size (X2)	0.412	H2 Rejected
Audit Committee (X3)	0.777	H3 Rejected
Leverage (X4)	0.237	H4 Rejected
Managerial Ownership (X5)	0.345	H5 Rejected

F. Effect of Audit Firm Size to Earnings Quality

The absence of influence on income smoothing, may be due to the main function of external auditors, both Big Four or Non Big Four audit firm, namely auditing whether the company's financial statements have been fairly presented based on the audit materiality that has been set and giving opinions or opinions about the fairness of the financial statements that have been presented, it is not designed to find allegations of income smoothing practices by company management. Determination of materiality can provide management opportunities to make income smoothing from period to period next. So the principal does not merely see the external auditor as a guarantee to detect or avoid management in terms of income smoothing but from the other side, such as giving advice to management that the importance of all information disclosed in the financial statements is not only important for the principal but also the agency itself.

This study is in line with research conducted by [24] that audit firm size does not affect income smoothing. According to him, the company audited by a public accounting firm included in the Big Four does not guarantee that it will reduce the manager's chance of making income smoothing.

G. Effect of Company Size to Earnings Quality

There is no influence on income smoothing, maybe because the practice of income smoothing occurs not because of the size of the company, but in terms of the behavior of the manager, the intention of the management who will practice income smoothing or not.

So that the size of a company does not have the influence of management so that managers have the same opportunity to practice income smoothing. The manager's behavior that might be carried out in order to run the company going forward, either from improving financial statements to attract investors to invest or for the personal interests of the agent. Then the principal should consider investing in a good and healthy company operation. So it is not just looking at the size of a company and seeing that the company guarantees the information disclosed. But the principal needs to comprehensively review the performance and behavior of the agency regardless of the size of the company. This study is in line with research conducted by [10] and [1] that company size has no effect on income smoothing. According to him, income smoothing by several companies was not triggered by the size of the company but based on the goal of a greater investment desire.

H. Effect of Audit Committee to Earnings Quality

The absence of influence on income smoothing, may be due to the absence of a guarantee of the amount or number of audit committees of the independent commissioner that can reduce the practice of income smoothing. Although the audit committee of the independent commissioner is objective in supervising the company and is considered to be able to minimize the risk of conflicting interests of management, the audit committee lacks experience in handling complex issues including the practice of income smoothing. So the principal, not only sees that the audit committee which comes from an independent commissioner will guarantee income smoothing will decrease, but chooses an audit committee that not only has integrity but also has more experience in carrying out its duties as an audit committee. So the principals need to communicate this to the board of commissioners to appoint a competent audit committee in order to reduce the practice of income smoothing by the agency.

This study is in line with [25] that the audit committee has no effect on income smoothing. According to him, the limited authority of the audit committee in carrying out their duties is only by giving advice to the company and making the audit committee not carry out the supervisory function. In addition, he also stated that if the independence of the board of commissioners could influence the independence of the audit committee, so the independence of the audit committee was questionable. The two reasons he stated make the practice of income smoothing.

I. Effect of Leverage to Earnings Quality

The absence of influence on income smoothing, this may be due to the high or low ability of the company to bear the burden of debt is not only the responsibility of management, but also investors or shareholders who also need to think about it. And allows it does not encourage company management to continue to do income smoothing or not do income smoothing. So the principal as the party that provides investment in the company, not only sees the leverage ratio as a benchmark to see whether or not management is doing leveling practices. But the principals need to look at the ability of management in terms of reducing financial risk by optimizing the company's operations.

This study is in line with [20] that leverage does not affect income smoothing. According to him, the risk that is received by the internal companies is small so that management does not do income smoothing.

J. Effect of Managerial Ownership to Earnings Quality

There is no influence on income smoothing, this may refer to the amount of managerial ownership that has little or no ownership of shares in the company, company policies and rules will be governed by all shareholders of the company through the General Meeting of Shareholders, so it is not only managerial who has shares in the company in regulating company policy. Then the principal does not need to consider deeper if there are shares owned by the agency, because it does not have a big impact there is the agency. If managerial ownership has a majority of the company's shares, it also has no effect because if the practice of income smoothing is carried out, then the risk that bears is the agency, which is simultaneously the principal, so there is no influence of managerial ownership with income smoothing.

This study is in line with [15] that managerial ownership has no effect on income smoothing. According to their research, management who has share ownership actively participates in making decisions with other shareholders, even though ownership of shares owned by management does not have a major impact on the votes that will be raised in decision making, including in the practice of income smoothing.

V. CONCLUSION AND SUGGESTION

A. Conclusion

Based on the results of data analysis the significance value of the audit firm size variable on income smoothing is 0.445 which means it is greater than 0.05 then H1 is rejected and shows that the audit firm size variable has no effect on the income smoothing practice. The results of the analysis of company size data on income smoothing, the significance value of 0.412 which means greater than 0.05 then H2 is rejected and indicates that the variable size of the company has no effect on income smoothing practices. The results of the analysis of audit committee variable data on income smoothing, the significance value of 0.777 which means greater than 0.05 then H3 is rejected and shows that the audit committee variable has no effect on income smoothing practices. The results of the analysis of leverage variable data on income smoothing, the significance value of 0.237, which means greater than 0.05, H4 is rejected and shows that the leverage variable has no effect on income smoothing practices.

The results of the analysis of managerial ownership variables on income smoothing, a significance value of 0.345 which means greater than 0.05 then H5 is rejected and shows that managerial ownership variables have no effect on income smoothing practices.

B. Suggestion

There are several suggestions from researchers after conducting research for further research, as follows:

1. For further researchers, to expand the object of research used by adding companies in other sectors or making changes to the research object under study so that research can be compared with previous studies.

Take a longer period of time so that the results of further research become more accurate. As well as using other variables outside the variables that have been studied in this study such as dividend payout ratio, public ownership, bonus plans, and others. In addition, using other proxies in calculating income smoothing variables apart from the calculations in this study is using the eckel index as using the discretionary accruals model.

2. For investors, henceforth be more careful in making corporate investments. Investors need to carefully examine the financial information that has been disclosed by the company in order to make the right decision. Read the company's complete financial statements not only on the income statement and examine the company's financial statements historically in order to know the growth and overall condition of the company, because stable company profits do not guarantee the true state of performance.

3. For the Company, to continue to improve performance well in conducting business to be more effective and efficient and to remain compliant with PSAK standards in preparing the company's financial statements. That way management tends not to manipulate financial information, including in the practice of income smoothing, which can be detrimental to stakeholders as users of financial statements.

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AUTHORS PROFILE

Bambang Leo Handoko, Assistant Professor, he holds double master degrees, Master Degree of Accounting from Trisakti University and Master of Management form Kalbis Institute, both in Jakarta, Indonesia. His research field is in the scope of financial and fraud auditing. He was expert in forensic accounting and fraud examination. He has become reviewer and keynote speech in some international conference. He is member of Indonesian Accounting Council. Currently work as faculty member and subject content coordinator in Bina Nusantara University. He earns best sit in peer review coordinator from Bina Nusantara University in 2016, and then won best teaching award from Bina Nusantara University in 2018.

Ronaldo Horison, he was born in 1997, on 2018 he graduated and became alumni of accounting in bachelor program in Bina Nusantara University. He took major in auditing studies. He was notably one of the most talented students in his audit field. He often represent the university in various competition inside and abroad the country in national and international tournament. He won several competitions in accounting and auditing. Other than that, he is often engaged in non profit activity such as community development, he develop the community around campus by teaching entrepreneurship. The communities were micro entrepreneurship business owner. He is also doing research in data driven audit