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**С.Д. ЛЕСТАРІ\***

Університет Шривіджая, Палембанг, Індонезія

**А. АЗВАРДІ\*\***

Університет Шривіджая, Палембанг, Індонезія

**Т. ВАХИЙДІ\*\*\***

Університет Шривіджая, Палембанг, Індонезія

## Вплив іноземної власності та управлінських навиків на якість доходів при використанні аудиторського комітету як змінної модератора

Метою дослідження є оцінка впливу іноземної власності та управлінських здібностей на якість доходів шляхом використання аудиторського комітету як змінної модератора. Змінна модератора – це змінна, яка використовується в кореляційному аналізі для оцінки сили зв'язку між залежною та незалежною змінною. Інформаційною базою для аналізу є дані, які взяті авторами з річних звітів компаній. Вибірку, яка використовується в цьому дослідженні, склали компанії-виробники, що мали лістинг акцій на Індонезійській фондовій біржі у 2014-2018 роках. Зокрема, авторами було відібрано цільовим методом 28 компаній. Якість доходів розглядається як залежна змінна і вимірюється через модель дискреційного нарахування Джонса (*Discretionary accrual Jones Model*). Ця модель здатна розкласти нарахування на дискреційні та недискреційні нарахування. Якість доходів у бухгалтерському обліку – це здатність на основі доходів звітного періоду передбачати майбутні доходи компанії. Тобто це критерій оцінки того, наскільки «повторюваний, контрольований і кредитоспроможний» прибуток компанії серед інших факторів. Іноземна власність вимірюється часткою іноземної власності у структурі власності компанії. Здатність менеджерів до управління виражається через ефективність, визначену за допомогою аналізу середовища функціонування (*Data envelopment analysis / DEA*) – методології порівняльного аналізу діяльності складних технічних, економічних і соціальних систем. Під ефективністю в даному випадку мається на увазі ефективність діяльності компанії, яка виражається управлінськими здібностями щодо управління всіма вхідними ресурсами компанії (кошти, запаси, знання, робоча сила та ін.) та випуском кінцевого продукту – товарів, робіт, послуг. Аудиторський комітет як змінна модератора вимірюється кількістю аудиторських комітетів, які мають досвід в сфері бухгалтерського обліку / аудиту / фінансів порівняно із загальною кількістю аудиторських комітетів у компаніях. Для тестування гіпотези дослідження автори використовують метод панельної регресії. Щоб з'ясувати, як іноземна власність та управлінські здібності впливають на якість доходів, при розгляді аудиторського комітету як змінної модератора, використовується модерований регресійний аналіз (*Moderated regression analysis / MRA*). Як свідчать результати дослідження, іноземна власність та управлінські здібності одночасно мають значний вплив на якість доходів. Хоча варто зауважити, що в окремих випадках вплив іноземної власності на якість доходів не є істотним, в той час як управлінські здібності завжди суттєво та позитивно впливають на якість доходів. При цьому аудиторський комітет може модерувати вплив іноземної власності та управлінських здібностей на якість доходів.

**Ключові слова:** іноземна власність, управлінські здібності, аудиторський комітет, якість доходів, управління прибутком.

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\* Лестарі Сільвія Двай (LESTARI Sylvia Dwi), магістрант, бакалавр з економіки, Університет Шривіджая, Палембанг, Індонезія.

\*\* Азварді Азварді (AZWARDI Azwardi), викладач, доктор економіки, Університет Шривіджая, Палембанг, Індонезія.

\*\*\* Вахийді Тертіарто (WAHYUDI Tertiarito), викладач, доктор з бухгалтерського обліку, Університет Шривіджая, Палембанг, Індонезія.

## The Effect of Foreign Ownership and Managerial Ability on Earning Quality with Committee Audit as Moderating Variable

*This study aims to investigate the effect of foreign ownership and managerial ability on earning quality with committee audit as moderating variable. The authors used secondary data that was obtained from annual report. The sample used in this study contains 28 manufacturing companies listed on Indonesian Stock Exchange from 2014 to 2018. The sample was selected using purposive sampling. Earning quality as dependent variable is measured by discretionary accrual Jones Model. Foreign ownership is measured by the number of foreign ownership compared with the number of ownership structure. Managerial ability is measured by efficiency using data envelopment analysis (DEA). Efficiency is used for knowing the managerial ability on manage output and input of the companies. Committee audit as moderating variable is measured by the number of committee audit who has accounting / auditing / finance background / experience compared with the number of committee audit of companies. Data analysis method use panel data regression analysis for testing hypothesis. To find out how the effect of foreign ownership and managerial ability on earning quality is moderated by committee audit using moderated regression analysis (MRA). The result of this study showed that foreign ownership and managerial ability simultaneously have significant effect on earning quality. Partially, foreign ownership has no significant effect on earning quality. While, managerial ability has positive and significant effect on earning quality. Meanwhile, committee audit can moderated the effect of foreign ownership on earning quality, and the effect of managerial ability on earning quality.*

**Keywords:** *foreign ownership, managerial ability, committee audit, earning quality, earning management.*

### Introduction

Financial statement is one of the company's information for stakeholders as basic for measurement and performance assessment for decision making. Earning is usually used by stakeholders for decision making. The quality of financial statement is reflected by earning quality. According to (Nasution & Jonnergård (2016) earning quality is very important for shareholder, especially shareholder potential because their trust will affected by it when they have to evaluate company and make an investment decision.

However, some cases that related to earning where companies give a company earning information, but found several things that make earnings must be reviewed. Toshiba Corp. cases, on 5<sup>th</sup> May 2015, company earning were calculated for three years before, and from the investigation found that company was difficult to fulfill the target of earning since 2008, so Toshiba made their earning superior than the fact (Sari, 2017). The phenomenon of earning is not only happened in overseas but also in Indonesia. In 2015, PT InovisiInfracom Tbk was suspended by Indonesian Stock Exchange because many of accounts were removed, so financial statement was judged asynchronous, and also another cases in Indonesia, such as PT Kimia Farma, PT Indofarma, PT Katarina Utama, PT Lippo Tbk, PT Bumi Resources Tbk,

danPT AdesAlfindo (Vajriyanti, Subekti, & Ghofar, 2016).

According to Wicaksono & Yuyetta (2013) manager Managers who have skills, experience, and expertise along understand the company's condition can influence the determination of the company's accounting policies and also he can see the opportunities of existing accrual components for earning management. It supported by Yulianda & Sebrina (2015), they said that accrual quality was affected by managerial ability if only manager can estimate accrual well, so the difference of accrual and cash flow could be minimalize. The importance of manager role was regulated by law of the Republic of Indonesia Number 40 of 2007 concerning Limited Liability Company chapter four, it talked about the responsibility of director such as arrange company policy, make a selection, determine, and monitoring the employee of company, as a budgeter, and give information about the performance of company to stakeholders (UU No. 40, 2007)

Demerjian, Lev, Lewis, & McVay (2013) said that managerial ability is a condition where manager can take a decision and implemented it, so it will produce maximum efficiency for company by used the minimum resources. The process of decision making of manager must be monitor, because it can affect the quality of financial statement. According to Jensen & Meckling

(1976) foreign ownership is one of the mechanism which can monitor the decision making of manager effectively. In Indonesia, foreign ownership was regulated by president policy number 39, years 2014, it said that, in order to improve economic growth foreign investor get an opportunity to invest in Indonesia, and the monitoring of decision making hopefully more effective because they have more other knowledge and experience, and the obedience to regulation is higher than other, also the quality of financial statement is important for them.

Usually, shareholders is not involved directly in company, so it needs internal monitoring, they are audit committee. According to Forum for Corporate Governance in Indonesia (2001), in order to realize the best quality of financial statement, audit committee can supervise and ensure that financial reporting practices have appropriate with accounting standard, ensure that financial statement was reported as real condition, and they also supervise to agency problem and fraud effectively.

Demerjian et al., (2013), Sales, Baybordi, Aydenlu, & Asaldoost (2015), Ng, Pahlevi, & Habbe (2015), and Ojaghi, Nejad, Talebvand, & Mosavi (2016), in their research found that managerial ability has positive effect significantly to earning quality. However, Edi & Suyadi (2018) found that management board has negative effect to earning quality. The difference result was founded by Fitriana & Islami (2018), where their research show that managerial ability has no effect to earning quality.

The study about the effect of foreign ownership to earning quality was researched by Ben-Nasr, Boubakri, & Cosset (2015), Farouk & Bashir (2017), and Sitorus, Firli, & Ramadhan (2017), and the result show that foreign ownership has positive effect significantly to earning quality. However, Ng et al., (2015) and Maswadeh (2018) found the different result, their result show that foreign ownership has no effect to earning quality.

The other research, Hamdan, Mushtaha, & Al-Sartawi (2013), Mutmainnah & Wardhani (2013), and Bilal, Chen, & Komal (2018) research the effect of audit committee to earning quality, the result show that audit committee has positive significant effect to earning quality. The difference result was founded by Amin (2016), where the result show that audit committee has negative effect to earning quality. Piyawiboon (2015) and Razani & Xia (2017) also has different result, their study found that audit committee has no effect to earning quality. Meanwhile Setin & Murwaningsari (2018) use audit committee as moderating variable moderate the effect of managerial ability to earning quality, and they found that managerial ability has positive effect to earning quality, and audit committee was able to moderate the effect.

This research aims to investigate the effect of foreign ownership and managerial ability on earning quality with committee audit as moderating variable. Discretionary accrual was used to measure earning quality. Foreign ownership was reflecting as ownership structure, and it was proxied by the number of foreign ownership compare to the number of shareholders. Then, managerial ability

was proxied by efficiency; meanwhile audit committee was proxied by audit committee expertise and/or experience.

### **Theoretical Framework**

#### **Agency Theory**

According to Jensen & Meckling (1976), there is a contract between agent and principal, this contract is an agreement that describe how should manager manage the company, but because there is an interest from each other so, conflict of interest will be happen. Yulianda & Sebrina (2015) said that the responsibility of manager as an agent to principal is decision making, a policy to manager company, financial reporting, and all of them can be described as their ability to manage company. Meanwhile, Gautama, Daromes, & Ng, (2017) explain about the opportunistic attitude of manager which can cause agent conflict, and it can be solved by monitoring mechanism by foreign ownership.

#### **Signaling Theory**

Signaling theory explain about the important of information from company for Investor, assumed that manager has more accurate information about company condition, so asymmetry information will be happen between manager and stakeholders (Soegiarto & Deviesa, 2017). Meanwhile, Spence (1973) said that cost of signal from bad information is higher than good information, bad information send a signal which is not credible, so it will motivate manager to give private information to reduce asymmetry information.

#### **Earning Quality**

Investor predicted earning for decision making through earning information, to ensure that their expectation about company performance was realized (Suwardjono, 2014). While, according to Dichev, Graham, Harvey, & Rajgopal (2017), there isn't gap or small gap between cash and accrual showed that earning quality, it means that accrual reflect as cash realization was right, and also the consistency of the accounting policy choices.

#### **Audit Committee**

According to Kusnadi, Leong, Suwardy, & Wang (2015), audit committee has a significant role, such as financial reporting monitoring, financial statement integrity, ensure the effectiveness of internal control, mediator between external auditor and management, and balancing the difference opinion and assessment of the management and external auditor, so financial statement will be quality.

#### **Foreign Ownership**

Foreign ownership is shareholder who has foreign status, both individual, government, institutional, or other which is not from Indonesia (Gautama et al., 2017). Sitorus et al., (2017) explain that foreign investment is an activity investment in Indonesia which was did by foreign investor, the capital was full managed by foreign, or foreign capital and domestic capital with certain percentage.

#### **Managerial Ability**

Manager can be told superior manager if they have more knowledge about company, can estimate and evaluate better than other (Demerjian et al., 2013).

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While, according to Kirana, Hasan, & Hardi (2016), managerial ability can be seen from their ability, experience, and integrity in decision making, and how their ability to do responsibility to inform company performance to stakeholders.

### Hypothesis

- H1: Foreign Ownership affects earning quality positively significant  
 H2: Managerial ability affects earning quality positively significant  
 H3: Audit committee moderate the effect of foreign ownership to earning quality  
 H4: Audit committee moderate the effect of managerial ability to earning quality

### Methodology

This purposed of this study is to analyze the effect of foreign ownership and managerial ability to earning quality with audit committee as moderating variable. The object of this study is the listed company in Indonesian Stock Exchange in 2014 – 2018. The sample was chosen by purposive sampling with a lot of criteria, and the number of sample is 28 companies.

This study used panel data with any estimation method. The panel data model was used for this study is random effect model. Hypothesis test in this study used two models of regression analysis. First, to test the effect of independent variable to dependent variable used multiple regression analysis with the following equation:

$$KL = \alpha + \beta_1.KA + \beta_2.KM + e$$

Second, to test moderating variable used moderated regression analysis with the following equation:

$$KL = \alpha + \beta_1.KA + \beta_2.KM + \beta_3.KA.KD + \beta_4.KM.KD + e$$

Note:

- KI: Earning quality  
 KA: Foreign Ownership  
 KM: Managerial ability  
 KD: Audit Committee

In this study, earning quality was proxied by discretionary accrual model Jones(1991). There is any step to get the value of discretionary accrual. The form is:

$$TAit / (Ait - 1) = \alpha_0(1 / Ait - 1) + \alpha_1(\Delta Revit / Ait - 1) + \alpha_2 (PPEit / Ait - 1)$$

3. Calculate nondiscretionary accrual used regression coefficient from the OLS regression

$$NDA = \alpha_0 (1 / (Ait - 1)) + \alpha_1 \{(\Delta Revit / Ait - 1) - (\Delta Recit / Ait - 1)\} + \alpha_2 (PPEit / Ait - 1)$$

4. The last, Calculate discretionary accrual

$$DAit = \{(Tait / (Ait - 1)) - NDAit\}$$

Note:

- DAit: Discretionary accrual company i period t  
 NDAit: non-discretionary accrual company i period t  
 Ait-1: Asset total company i period t  
 ΔRevit: The change of revenue company i period t  
 ΔRecit: The change of receivable company i period t  
 PPEit: Fix asset company i period t

Foreign ownership is a condition where a company share was owned by individual, government, institutional, and other which has foreign status. Foreign ownership was measured by formula as follows:

$$\text{Foreign Ownership} = \frac{\text{The number of foreign ownership}}{\text{Outstanding shares total}} \times 100\%$$

Managerial ability is show that how far that manager can manage company in order to increase company efficiency which is showed by the ability to earn revenue, manage resources and company operational. Managerial ability was proxied as efficiency, and calculates by use Data Envelopment Analysis (DEA). Efficiency was formed as follow:

$$\text{maxv}\theta = \frac{\text{Sales}}{\text{COGS} + \text{SG\&A} + \text{FA} + \text{OpsLease} + \text{R\&D} + \text{Goodwill} + \text{Otherinthan}}$$

Note:

- COGS: Cos of Good Sold  
 SG&A: General and Administration Expenses  
 FA: Fixed Asset  
 OpsLease: Lease Operating  
 R&D: Research and Development Cost  
 Otherinthan: Other in than

While, audit committee is a part of company consist of 2 or more people that has accounting / finance / auditing background or experience. The formula for measure audit committee is:

$$KD = \frac{\text{The number of audit committee that has accounting / finance / auditing background or experience}}{\text{Audit committee total}} \times 100\%$$

**Result and Discussion**

**Descriptive Statistic**

According to Sanusi (2011), descriptive statistic is statistic that use to analyze data by representation as

collected data, where the descriptive means are mean, maximum-minimum values, and standard deviation. Based on descriptive statistic test, obtained the result as table 1.

Table 1

**Descriptive Statistic Test**

	Foreign Ownership	Managerial Ability	Audit Committee	Earning Quality
Mean	58.02000	0.823864	78.52857	-0.183500
Median	59.00000	0.827500	75.00000	-0.155000
Maximum	96.30000	1.000000	100.0000	0.910000
Minimum	8.500000	0.587000	25.00000	-2.070000
Std. Dev.	28.02299	0.121038	23.73458	0.345749
Observations (N)	140	140	140	140

Source: Data was processed by E-Views 10.

Based on the result with 28 sample and 140 observation data, obtained that the average value for foreign ownership is 58.02, maximum value is 96.3 which had by PT Sepatu Bata Tbk in 2014, minimum value is 8.5 which had by PT Duta Pertiwi Nusantara Tbk in 2014, and standard deviation is 28.022. The average value for managerial ability is 0.823864, maximum value is 1 which had by PT Delta Djakarta Tbk, PT Champion Pacific Indonesia, PT KMI Wire and Cable Indonesia Tbk, PT MultiBintang Indonesia, PT Supreme Cable Manufacturing & Commerce, PT Surya Toto Indonesia Tbk, and PT Nusantara Inti Corpora, minimum value is 0.587 which had by PT Nippon IndosariCorpindo Tbk, and standard deviation is 0.121038. Then, the average value for audit committee is 78.52857, maximum value is 100, minimum value is 25, and standard deviation is

23.73458. The last, earning quality has average value 0.1835, maximum value is 0.91 which had by PT Ricky Putra Globalindo Tbk, minimum value is -2.07 which had by PT KMI wire and cable Tbk, and standard deviation is 0.345749.

**Hypothesis Test**

**Multiple Analysis Regression**

This study used multiple regression analysis to test the effect of foreign ownership and managerial ability to earning quality, to choice the estimate model, it through any process, such as chow test, and hausman test. Based on the choices of the model, random effect model used for multiple regression analysis.

The result of the model was showed by table 2.

Table 2

**Random Effect Model**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.856113	0.439897	-1.946170	0.0537
KA	0.080456	0.069404	1.159249	0.2484
KM	0.891437	0.351930	2.532993	0.0124

Source: Data was processed by E-Views 10.

Based on the result from table 2, the regression equation as follow:

$$KL = -0.856113 + 0.080456KA + 0.891437KM$$

**The Effect of Foreign Ownership to Earning Quality**

Based on table 2, foreign ownership has positive coefficient with score 0.080456, and the probability score is 0.2484 higher than significant level 0.05 (0.2484 > 0.05). So, it can say that foreign ownership has no significant effect to earning quality.

Foreign ownership is the proportion of common stock which can be had by individual, government,

institutional, and other which is not from Indonesia or lives in abroad, so the constraint about geographic, language, the political problem, asymmetry Information, and law protection will be happened for them. Furthermore, according to Azwari (2016) ownership structure will determined the character of agency problem, the conflict happened between manager and shareholders, or the between minority shareholders and majority shareholders.

This result isn't consistent with the research from Ben-Nasr et al., (2015) and Farouk & Bashir (2017), they founded that foreign ownership has positive effect to earning quality. However, this study has same result with the research from Ng et al. (2015) and Maswadeh (2018) who have a result that foreign ownership has no effect to earning quality.

**The Effect of Managerial Ability to Earning Quality**

Based on table 2, managerial ability has coefficient score 0.891437, and the probability score is 0.0124 smaller than significance score 0.05 (0.0124 < 0.05). It showed that managerial ability has positive significant effect to earning quality.

It consistent with agency theory Jensen & Meckling (1976), they said that accounting judgement and policy that made by manager during they manage company, and present financial statement are the responsibility of agent

to principal, and everything about it show their ability as manager.

Managerial ability consist of knowledge and experience of company activities process, such as the process of solving problem, and find the alternative to earn and increase revenue in the future with minimum input. This result of this study consistent with the study from Ng et al. (2015), Sales et al. (2015), Ojaghi et al. (2016), and Setin & Murwaningsari (2018), they found that managerial ability has positive effect to earning quality.

**Moderated Regression Analysis**

Model for moderated regression analysis also can be obtained through any step, Chow test and hausman test. Based on the process of model estimation choices, random effect model is the best model that used for this study. The result of random effect model test is showed to table 3.

Table 3

**The Result of Moderated Regression Analysis Test**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
KA	-1.182912	0.643539	-1.838135	0.0682
KM	2.933195	2.364374	1.240580	0.2169
KA.KD	0.000527	0.000197	2.675061	0.0084
KM.KD	-0.040975	0.017271	-2.372545	0.0191
C	5.942178	2.446220	2.429127	0.0165

Source: Data was processed by E-Views 10.

Based on table 3, the equation for Moderated Regression Analysis as follows:

$$KL = 5.942178 - 1.182912KA + 2.933195KM + 0.000527KA.KD - 0.040975KM.KD$$

**The Moderating of Audit Committee on the Effect of Foreign Ownership to Earning Quality**

Based on the result of moderate regression analysis, the interaction between foreign ownership and audit committee has probability score 0.0084 smaller than significance score 0.05 (0.0084 < 0.05). So, it can be explained that audit committee moderate the effect of foreign ownership to earning quality.

The result of this study consistent with signaling theory from Spence (1973), he explained that audit committee can be internal party to reduce the problem of asymmetry information, where management know more about the information of company than shareholders, especially foreign ownership. This study also has same result of the research from Gautama et al. (2017) who founded that audit committee can moderate the effect of foreign ownership to financial statement quality.

Although foreign ownership isn't controller shareholders or they aren't in Indonesia so they can't monitor company practice and policy, but the existence of audit committee help them to monitor company management especially about financial reporting practice, and also they can get earning information more accurate.

**The Moderating of Audit Committee on the Effect of Managerial Ability to Earning Quality**

Based on the result of moderate regression analysis, the interaction between managerial ability and audit committee has probability score is 0.0191 smaller than significance score 0.05 (0.0191 < 0.05). So, it can be

explained that audit committee moderate the effect of managerial ability to earning quality.

The result of this study consistent with agency theory from Jensen & Meckling (1976) who said that the agency problem can be minimalized by monitoring mechanism by audit committee, audit committee can control manager opportunistic behavior. The existence of audit committee is expected can increase internal monitoring of company especially to management policy so, it can achieve transparence of management responsibility. The study also has the same result with the research from Setin & Murwaningsari(2018) who founded that audit committee can moderate the effect of managerial ability to earning quality.

**Conclusions**

Based on the result of this study, it can conclude that foreign ownership has no significant effect to earning quality. Foreign ownership is the proportion of common stock which can be had by individual, government, institutional, and other which is not from Indonesia or lives in abroad, so the constraint about geographic, language, the political problem, asymmetry Information, and law protection will be happened for them. While, managerial ability has positive significant effect to earning quality. The higher managerial ability in company, so it can increase earning quality more, because manager will use their ability to manage resource effectively to earn optimal profit than they must to manipulate earning. Then, audit committee can moderate

the effect of foreign ownership to earning quality. Although foreign ownership isn't controller shareholders or they aren't in Indonesia so they can't monitor company practice and policy, but the existence of audit committee help them to monitor company management especially about financial reporting practice, and also they can get earning information more accurate. The last, audit committee can moderate the effect of managerial ability to earning quality. The existence of audit committee is expected can increase internal monitoring of company especially to management policy so, it can achieve transparency of management responsibility.

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