THE EFFECT OF AUDIT QUALITY AND DEGREE OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) CONVERGENCE ON THE ACCRUAL EARNINGS MANAGEMENT IN ASEAN COUNTRIES

Zahratun Nadhir[1], **Ratna Wardhani[2]**

[1,2] *Accounting Department, Faculty of Economics and Business, Universitas Indonesia, Depok, 16424, Indonesia*

E-mails:[1] zahratun.nadhir@ui.ac.id; [2]ratna.wardhani@ui.ac.id

Abstract. The purpose of this research is to analyze the effect of the degree of convergence of International Financial Reporting Standards (IFRS) and Audit Quality on company's accrual earnings management. In addition, this research also aims to investigate the moderation role of the degree of convergence of IFRS on the relationship between audit quality and company's accrual earnings management. This research covers several Association of Southeast Asian Nations (ASEAN) countries, consists of Philippines, Indonesia, Malaysia, Singapore, Thailand, and Vietnam. The methodology used in this research is the multiple regressions by using Least Square method. This study finds that the higher the degree of convergence of IFRS, the lower discretionary accruals, which means the higher quality of earnings. Meanwhile, the size and specialization of the auditor are not significantly effecting accrual earnings management which is described by the value of discretionary accruals. The results imply that being audited by Big-4 or specialized accounting firm, does not guarantee the lower discretionary accruals, which means do not guarantee that the accrual earnings management will be better. On the other hand, the degree of convergence of IFRS did not have a moderating role that influence the effect of audit quality on the accrual earnings management.

Keywords: accrual earnings management; audit quality; ASEAN; convergence; International Financial Reporting Standards (IFRS)

1. Introduction

Financial reports are required by various parties, such as investors and creditors for decision making. One of the first factors considered for decision-making is the company's ability to generate earnings. Companies with earnings that tend to remain stable and increasing are considered a company with good performance so that it is considered attractive to investors who will invest their capital or for the management to do business development. Given the importance of the income statement in the performance appraisal, the quality of the earnings reported in

the income statement of the firm is always a concern. Dichev et al. (2016) states that earnings are said to be in high quality when earnings meet certain characteristics such as consistent, sustainable and predictable, reflects cash flow, has no one-time or special item, neutral, presented in a timely manner, clearly presented, and putting forward the principle of conservatism. On the other hand, to meet investor expectations and optimized benefits received, management has a tendency to perform treatment on earnings known as earnings management so that earnings submitted to company owners appear relatively stable (Gerayli, et al., 2011; Narkunienė, Ulbinaitė, 2018; Zemguliene, Valukonis, 2018).

One of the most widely adopted accounting standards is the International Financial Reporting Standards (IFRS). IFRS requires full disclosure of each component of the financial statements. With this standard, the information disclosed by the company will be more complete, so users of financial statements can assess the company's performance with comprehensive and accurate. In addition, a standard used by all parties can improve comparability so that users of financial statements can make decisions more precisely. Thus, the adoption of IFRS is expected to improve the quality of financial statements, and the quality of earnings in particular. Prior studies, as stated by Anggraeni and Wardhani (2017), state that the use of international accounting standards has a mixed impact on various financial aspects of firms such as price reaction (Beatty, Chamberlain, & Magliolo, 1996), cost of capital (Karamanou & Nishiotis, 2009), information asymmetry (Cuijpers & Buijink, 2005) and accounting quality (Ashbaugh & Pincus, 2001; Barth et al., 2008).

To ensure that financial statements are presented in accordance with applicable accounting standards, independent external verification is required. Therefore, companies need the services of independent external auditors. An auditor provides audit services to the client's financial statements to provide assurance to the users of financial statements that the financial statements have been prepared in accordance with applicable accounting standards so that the financial statements are reliable in decision making. Auditing services also serve as a monitoring tool for potential conflicts of interest between owners and managers and shareholders with different amounts of ownership, and can reduce asymmetrical information between managers and corporate stakeholders by allowing outsiders to check the validity of financial statements (Jensen and Meckling, 1976).

As the information becomes more complete, users of financial statements will be increasingly critical in demanding the quality of earnings reported in the financial statements. These circumstances create pressure for auditors to improve the quality of audits conducted so as to ensure that reported earnings and financial statements produced are of high quality (Barth et al., 2008). Thus, it appears that IFRS convergence conducted by each country not only affects the quality of earnings directly, but also has an influence on the relationship between audit quality and earnings quality.

Previous studies have done a lot of research on the effect of IFRS convergence with earnings quality, for example Daske and Gunther (2006) state that IFRS convergence improves the quality of financial statements and Barth et al. (2008) examining accounting quality before and after the introduction of IFRS by using a sample of 327 companies in 21 countries that have voluntarily adopted IAS between 1994 and 2003. On the other hand, many studies have examined the effect of audit quality on earnings quality, eg research Gerayli et al. (2011). However, no research has been found to examine the effect of moderation of IFRS convergence on the relationship between audit quality and earnings quality. This research will try to fill the gap and complete the results from previous studies. This study aims to examine the effect of IFRS convergence and audit quality on the earnings quality measured by accrual earnings management. This study also aims to examine whether the IFRS convergence can strengthen the effect of audit quality on earnings management.

This study contributes the literature in several ways. First, this study examines the impact of IFRS and audit quality on earnings management in the context of countries in ASEAN that have high variations in the financial reporting environment. Previous research examined this in the context of developed countries or regions that have more homogeneous reporting environment characteristics. Second, in contrast to previous studies which mostly examined the impact of IFRS on the quality of financial reports by using a dummy variable by classifying a

country adopting or not adopting IFRS, this study measures IFRS convergence by scoring against the prevailing standards in a country by using adoption levels scores. Third, this study examines the moderating effect of IFRS on the relationship between audit quality and earnings management which based on our knowledge has not been examined by previous research.

This study will take samples from six ASEAN countries: Philippines, Indonesia, Malaysia, Singapore, Thailand and Vietnam. The ASEAN region is chosen because it is an emerging region with a growing economy, so that the characteristics of the existing companies in ASEAN may be different from the companies in Europe or America that have been studied in previous research. In addition, IFRS convergence in the ASEAN region is conducted with different approaches in accordance with the policies of each country so that the degree of convergence of IFRS in ASEAN countries becomes diverse. It is an interesting phenomenon to be studied.

2. Theory, Literatures Review and Hypothesis Development

2.1. Agency Theory

Jensen & Meckling (1976) define agency relations as contracts where one or more people acting as principals (ie shareholders / shareholders) appoint other people as agents (ie managers) to perform services for the interests of principals, including delegating power in decision making to agent. The agency relationship will cause conflict if the agent tries to maximize his/her personal utility and at the same time they sacrifice the intrest of the principals. Agents that have more information regarding companies are vulnerable to taking opportunistic actions which aim to increase wealth for the agent itself that can be detrimental to investors. To minimize this risk, the principal pays the cost to control and monitor the performance of the managers (agents) which is called the agency cost.

One way to minimize the risk of expropriation is to minimize the possibility of asymmetric information. High quality of financial reports are one mechanism to minimize asymmetric information. Agent's personal interest and probabilities of the information asymmetries can lead to the question about the reliability of information and the quality of earnings, which impacts on the impairment of trust of the principals to the agent. Several mechanisms that oftenly used by the company to align the interests of agents with principals. The mechanisms can be at country level such as investor protection, legal quality, and also accounting standard adopted by a country or at firm level such as remuneration package, firm level corporate governance, and also audit quality. Accounting standard adopted in a country can be a mechanism to improve the reporting environment. Moreover, audits also serve a vital economic purpose in the monitoring mechanism and also play an important role in increasing the quality of financial reporting.

2.2. Hypothesis Development

Referring to the research of Dichev et al. (2016), the earnings are said to be in a high quality if it meets certain characteristics such as consistent, sustainable and predictable, reflects cash flow, lacks one-time or special items, is neutral, presented in a timely manner, presented clearly, and put forward the principle of conservatism. The quality of corporate earningss is influenced by external factors and internal factors of the company, among others: (i) the convergence level of countries' standards with IFRS; and (ii) audit quality.

The accounting standards is one of the country level monitoring mechanism for the company. The applicable accounting standards in a country will determine the quality of financial information, especially with regard to earnings information, generated by companies in that country. The use of different accounting standards leads to variations in recording and reporting that allow for more variety of gaps and variations that management can perform in the framework of earnings management that will reduce earnings quality (Dichev et al., 2016). IFRS adoption as an international accounting standard guarantees high reporting quality, because it is based on international standards supported by the IASB as a competent world-class standard setter. With the adoption of

IFRS, the variety across countries in the accounting procedure and accounting practices can be reduced so that the possibility of management manipulating records and reporting can also be reduced. Moreover, IFRS also have more disclosure requirement compare to local accounting standards in many countries (Pirzada, K., 2016).

Several studies related to the role of accounting standards on the processes and results of financial reporting (Cohen, 2003; Daske and Gunther, 2007; Enomoto et al., 2015; Halabi & Zakaria, 2013) show that international accounting standards positively affects financial reporting quality by increasing the comparability and reliability of the financial statements. The study proves that IFRS adoption decreases the level of discretionary accruals, which has a positive effect on earnings quality. In Asian context, Wardhani et al. (2015) also show that the adoption of IFRS positively affect the financial reporting quality. This study use accrual earnings management to proxy earnings quality, the lower earnings management reflect higher earnings quality. Thus, it can be proposed the following hypothesis:

Hypothesis 1: The degree of IFRS convergence to local accounting standards has a negative effect on the accrual earnings management.

In addition to accounting standards, audit quality also plays a role in the financial reporting process is to encourage the application of accounting standards. Based on agency theory by Jensen and Meckling (1976), audit process is one of the mechanism in the monitoring process. Auditor provide independent verification services on the financial statement so that creadibility of information is increased. In order to monitor the agent, the principals require high quality set of information. An audit process can provide the principal a verification of the information disclosed by management.

DeAngelo (1981) defines audit quality as a market assessment of the likelihood that the auditor will find an offense in the client's accounting system and report the violation. He argues that audit quality increases with audit firm size because large audit firms possess higher ability to do specialization and innovation through technology. Thus, the likelihood of a large audit firm to find violations in the corporate accounting system is greater than that of a small audit firm. Given the resources and comparative advantages possessed by large auditors, the detection and correction of corporate financial reporting mistakes can be done better.

According to Gerayli et al. (2011), audit quality has several dimensions of audit firm size (Big-4 audit firm and non Big-4 audit firm), independence and specialization of auditor industry. According to Craswell et al. (1995), large audit firms provide more human resources for staff training and skills development in certain industries than small audit firms, and also have a better position to negotiate with clients. Therefore, Big-4 auditors has good audit quality (Gerayli et al., 2011). The industry specialization of the auditor was originally defined as an auditor auditing more than 10 percent of the company's revenue in one industry (Craswell et al., 1995). After the consolidation of the Big-8 became the Big-6, the specialization measure became 15 percent as a threshold (Krishnan 2003) to 20 percent (Dunn et al. 2000). According to (Solikhah, B., Della Firmansyah, N. and Pirzada, K. 2017), the Auditor is said to be a specialist if the auditor audits 15% of the total companies in the industry, according to Craswell et al. (1995). This classification is based on the percentage of the number of companies audited by auditors in an industry (Balsam et al., 2003). Based on the explanation above, the hypotheses are as follow:

Hypothesis 2a: The earnings management of firms audited by auditors of Big-4 is lower than the earnings management of firms audited by auditors of non Big-4.

Hypothesis 2b: The earnings management of firms audited by auditor with industry specialization is lower than the the earnings management of firms audited by auditors without industry specialization.

Auditors provide audit service to the company by providing an assurance to users of financial statements and provide an opinion whether the financial statement is fairly represent in accordance with applicable accounting standards so that financial statements are reliable in decision making. With IFRS characteristics requiring full disclosure, auditors are also required to improve the quality of their audits to ensure the quality of financial

statements. On the other hand, IFRS as a universal accounting standard causes information obtained by users of financial statements more comprehensive and comprehensive.

As the information becomes more complete, users of financial statements will be increasingly critical in demanding the quality of earnings reported in the financial statements. This situation creates pressure for auditors to improve the quality of audits conducted so as to ensure that the resulting financial statements have high quality (Barth et al., 2008). Thus, it appears that IFRS convergence conducted by each country not only affects the quality of earnings directly, but also has an influence on the relationship between audit quality and earnings quality. Thus, it can be proposed the following hypothesis:

Hypothesis 3a: The level of convergence to IFRS will strengthen the negative effect of auditor's size on earnings management

Hypothesis 3b: The level of convergence to IFRS will strengthen the negative effect of auditor's industry specialization on earnings management

3. Research Methodology

The data used in this research is financial report data from companies listed on the stock exchange, obtained from Thomson Reuters EIKON database with sample company selection method used in this research is purposive sampling. The company criteria sampled are listed on the stock exchanges in the ASEAN countries: Philippines, Indonesia, Malaysia, Singapore, Thailand and Vietnam, excluding the financial industry and have complete data in the period 2014-2015. In addition, data on the similarities and differences between local accounting standards of a country and IFRS issued by PricewaterhouseCoopers (2015) and Deloitte (2016) are used. Based on the sample selection procedure, 503 sample companies were obtained. We also treat outlier by delating observations that fall outside the average ± 3 times standard deviation for each variable in all research model.

The dependent variable of this study is the discretionary accruals value which is the residual value of Jones Model with performance-matched discretionary accruals based on the research of Dechow et al. (1995). To obtain the residual value, regression is done by Least Square method for each data group made based on country and industry field which is reflected in the code of Global Industry Classification Standard (GICS) Sector Code that exist in each company. Industrial sectors with at least 20 samples of firms in a country are grouped into one separate group, while industry sectors with samples of less than 20 companies are included in the 'Others' group.

After data grouping, regression is done to find the residual value of the following Jones Model:

$$\frac{ACC}{TA_{-1}} = a_0 \frac{1}{TA_{-1}} + a_1 \frac{PPE}{TA_{-1}} + a_2 \frac{\Delta SALES}{TA_{-1}} + \varepsilon$$

Where:

ACC   = total accrual of firm i in period t

TA_{-1} = total initial asset of period

PPE   = gross property, plant, and equipment.

$\Delta SALES$ = change of company's sales i in period t-1 to t.

The independent variable in this research is the level of IFRS convergence and audit quality. The model used in this research also use control variable that is firm size, financial leverage, operating cash flow ratio, growth prospect, country market capitalization, loss and dummy variable of country with Philippines as reference. In this research, four models are created which each will be regress by using least square method to describe the relationship between independent variable and dependent variable:

Model 1a

$ADAC_i = b_0 + b_1IFRS_i + b_2BIG_i + b_3SIZE_i + b_4LEV_i + b_5OCF_i + b_6GROW_i + b_7LOSS_i + b_8MCAP_i + b_{9-13}CRTY_i + \varepsilon_i$

This model illustrates the relationship between the degree of IFRS convergence and audit quality measured by the auditor's size on company's on discretionary accruals.

Model 1b

$ADAC_i = b_0 + b_1IFRS_i + b_2SPEC_i + b_3SIZE_i + b_4LEV_i + b_5OCF_i + b_6GROW_i + b_7LOSS_i + b_8MCAP_i + b_{9-13}CRTY_i + \varepsilon_i$

This model illustrates the relationship between the degree of IFRS convergence and audit quality as measured by the auditor industry's specialization on company's discretionary accruals.

Model 2a

$ADAC_i = b_0 + b_1IFRS_i + b_2BIG_i + b_3IFRS_i*BIG_i + b_4SIZE_i + b_5LEV_i + b_6OCF_i + b_7GROW_i + b_8LOSS_i + b_9MCAP_i + b_{10-14}CRTY_i + \varepsilon_i$

This model illustrates the role of moderation effect between the degree of IFRS convergence and audit quality as measured by the auditor's size on discretionary accruals.

Model 2b

$ADAC_i = b_0 + b_1IFRS_i + b_2SPEC_i + b_3IFRS_i*SPEC_i + b_4SIZE_i + b_5LEV_i + b_6OCF_i + b_7GROW_i + b_8LOSS_i + b_9MCAP_i + b_{10-14}CRTY_i + \varepsilon$

This model illustrates the role of moderation effect between the degree of IFRS convergence and audit quality as measured by the auditor's industry specialization on discretionary accruals.

The operationalization of the variables of the four models above are as follow:

ADAC = Natural logarithm of absolute discretionary accruals using modified jones model
IFRS = Index of IFRS convergence degree, average score of scoring result of each aspect of IFRS against standard applicable in each country with scoring as follows:
- 1, if no local standard is equivalent to IFRS standard.
- 2, if there are local standards equivalent to IFRS standards but not the same.
- 3, if there are local standards equivalent to IFRS standards and the same but with certain exceptions.
- 4, if there are local standards equivalent to IFRS standards and the same for all material aspects.
BIG = Variable dummy auditor. 1 for companies audited by Big 4 auditors, and a value of 0 for Non-Big 4
SPEC = Dummy variables of auditor specialization. 1 if the company is audited by the auditor industry specialization, and 0 if not.
SIZE = Company size, natural logarithm of total company asset
LEV = Financial Leverage, Total Debt / Total Assets
OCF = Operating Cash Flow Ratio, cash flow from operating activities / total assets
GROW = Growth Prospect, Market-to-book value ratio
LOSS = Dummy variable, 1 for negative net profit and 0 for vice versa.
MCAP = Country Market Capitalization / GDP.
CRTY = Dummy variable, 1 for the country concerned and 0 for other value, by making the Philippines as a reference.

In each model will be tested classical assumptions that include multicollinearity test, heteroscedasticity test, autocorrelation test and data normality test.

4. Analysis of the Result

4.1. Descriptive Statistics

Based on the data that has been obtained, this research has 503 sample of companies. Of the 503 companies there are 103 data which is the outlier so that is removed from the sample. In addition, there are two companies that are excluded from the sample because they have negative equity where the total liability value is greater than the total asset value so that the data used in the regression model is 398 data (Table 1).

Table 1. Descriptive Statistic

Variabel	N	Mean	Median	Max	Min	Stdev
ADAC	398	3.3119	3.3594	4.6600	1.9106	0.5129
IFRS	398	3.3675	3.6905	3.8571	2.3810	0.4958
SIZE	398	20.2696	20.1445	24.8235	16.6766	1.5670
LEV	398	0.0919	0.0878	0.2692	0.0055	0.0594
OCF	398	0.0825	0.0795	0.3373	-0.1561	0.0838
GROW	398	0.5560	0.5493	5.2326	-1.6088	0.8306
MCAP	398	4.4836	4.4801	5.3873	3.2882	0.6009
Variabel	N	% of 0		% of 1		% Total
BIG	398	24.59%		75.41%		100%
SPEC	398	20.37%		79.63%		100%
LOSS	398	90.73%		9.37%		100%

From the above calculations, in IFRS score variables for example, it appears from the score of 1-4 used, the average convergence rate of the six countries ranges in number 3, which means that there is a local standard equivalent to the IFRS standard and the same but with the exception certain. Appear more than 75% of the sample firms are audited by Big-4 auditors and over 79% of companies being sampled are audited by auditors with industry specialization. From the above data, it appears that the percentage of firms audited by auditors with industry specialization is larger than firms audited by Big-4 auditors, which indicates that in the countries sampled this study, the auditor with industry specialization is not always Big-4 auditors.

4.2. Analysis of Regression Result of Model 1a

The regression results of Model 1a is presented in table 2 bellow. In the t test analysis for each variable, the IFRS variable (Degrees of IFRS Convergence) has a significant effect on the quality of earnings described by the discretionary accruals with the direction of the negative relationship. That is, the higher the degree of convergence IFRS, the lower the possibility of discretionary accruals which means the quality of corporate earnings will be better. These results are consistent with the research of Daske and Gunther (2006), Chiu et al. (2013), Dimitropoulos et al. (2013) and Ismail et al. (2013) that examines the effect of standards on the quality of financial statements with the result that in general the universal standard (IFRS) has a positive effect on the quality of financial statements.

Table 2. Regression Result of Model 1a

Model 1a $ADAC_i = b_0 + b_1IFRS_i + b_2BIG_i + b_3SIZE_i + b_4LEV_i + b_5OCF_i + b_6GROW_i + b_7LOSS_i + b_8MCAP_i + b_{9-13}CRTY_i + \varepsilon_i$						
Dependent Variable: ADAC						
Independent Variable	Expected Sign	Coefficient	Std. Error	t-Statistic	Prob.	
C	?	-0.1411	0.6474	-0.4433	0.4079	
IFRS	-	-0.3478	0.1280	-5.2144	0.0046	***
BIG	-	-0.0844	0.0835	-2.0110	0.1497	
SIZE	+/-	0.1529	0.0252	5.9836	0.0000	***
LEV	+/-	-0.2900	0.0855	-3.4080	0.0008	***
OCF	+/-	1.4199	0.4458	3.1011	0.0014	***
GROW	+/-	-0.1104	0.0468	-2.4034	0.0167	**
LOSS	+/-	-0.7802	0.1187	-6.5816	0.0000	***
MCAP	+/-	0.2476	0.1330	1.8388	0.0618	*
D_COUNTRY	+/-	Included				
N				398		
Adjusted R-squared				0.4008		
Prob(F-statistic)				0.0000		

Table Description:
*** Significant at level 1%; ** Significant at the 5% level; * Significant at level 10%
The dependent variable in this model is ADAC. The independent variables in this model are: (i) IFRS: Index of IFRS convergence degree in a country; (ii) BIG: Dummy auditor variable, value 1 for companies audited by Big 4 auditor, and value 0 for Non-Big 4. Big 4 auditors are Ernst & Young, Pricewaterhouse Cooper, Deloitte, and KPMG; (iii) SIZE: Natural logarithm of the total assets of the company; (iv) LEV: Natural logarithm of total debt / total assets; (v) OCF: Natural logarithm of cash flows from operating activities / total assets; (vi) GROW: Natural logarithm of market value / book value; (vii) LOSS: Dummy variable, 1 for negative net profit and 0 for vice versa; (viii) MCAP: Country Market Capitalization / GDP; (ix) CRTY Dummy variables, 1 for the country concerned and 0 for other, the Philippines as country of reference.

The results of this study prove that the adoption of IFRS as an international accounting standard in general ensures high reporting quality. Although the adoption of IFRS in sample countries varies, in general the use of international accounting standards has had a positive impact on financial reporting with increasing comparability and reliability of financial statements. Thus, Hypothesis 1: The degree of IFRS convergence to local accounting standards positively affects the quality of a company's earnings received.

The BIG variable (Auditor Size) has no significant effect on the quality of the earnings described by the discretionary accruals value with the direction of the negative relationship. From the data obtained, visible from the six sample countries, 76.25% of the sample companies were audited by Big-4 auditors. That is, from the companies being sampled, it appears that companies with good earnings quality as well as companies with poor quality earnings turn out to be mostly both audited by auditors of Big-4 auditors and associated. Thus, the level of audit quality impact in this model is measured by auditor's size to be insignificant. From the above results, it can be concluded that auditor size variables have no significant effect on the quality of earnings described by the value of discretionary accruals, so Hypothesis 2a is rejected.

Related to control variables, SIZE (Company Size) and OCF (Operating Cash Flow Ratio) have a significant effect on the quality of earnings described by the value of discretionary accruals with the direction of positive relationship. That is, the larger the size of the company or the ratio of cash flows from operating activities divided by total assets, the higher the possibility of discretionary accruals which means the quality of corporate earnings will decrease. Meanwhile, other control variables such as GROW (Growth Prospect) have a significant effect on the quality of earnings described by the discretionary accruals with the direction of the negative relationship.Variable LEV (Leverage) have a significant effect to the earnings quality which is described with the value of discretionary accruals with the direction of negative relationship. The LOSS (Loss) variable also has a

significant effect on the earnings quality described by the discretionary accruals with the direction of the negative relationship. That is, in companies that experience losses, the higher the possibility of discretionary accruals which means the earnings quality will decrease. The Country Market Capitalization (MCAP) variable has no significant effect on the earnings quality described by the discretionary accruals with the direction of the positive relationship. That is, in countries with well-developed capital markets, it does not guarantee the possibility of discretionary accruals will be lower, which means that in countries with well-developed capital markets, does not guarantee the earnings quality will be higher.

4.3. Analysis of Regression Result of Model 1b

Model 1b is a model without a moderation relationship testing Hypothesis 1 that is the degree of convergence IFRS to local accounting standards have a positive effect on the quality of a company's earnings indicated by the negative impact on discretionary accruals and Hypothesis 2b is the industry specialization auditor positively affect the quality of a company's earnings which is indicated by a negative influence on discretionary accruals. From the regression results, obtained the following information (Table 3):

Table 3. Regression Result of Model 1b

Model 1b $ADAC_i = b_0 + b_1IFRS_i + b_2SPEC_i + b_3SIZE_i + b_4LEV_i + b_5OCF_i + b_6GROW_i + b_7LOSS_i + b_8MCAP_i + b_{9-13}CRTY_i + \varepsilon_i$						
Dependent Variable: ADAC						
Independent Variable	Expected Sign	Coefficient	Std. Error	t-Statistic	Prob.	
C	?	-0.0605	0.6507	-0.1860	0.4689	
IFRS	-	-0.3501	0.1288	-5.2970	0.0044	***
SPEC	-	-0.0011	0.0860	-0.0242	0.4758	
SIZE	+/-	0.1463	0.0249	5.6643	0.0000	***
LEV	+/-	-0.2805	0.0860	-3.2448	0.0009	***
OCF	+/-	1.4083	0.4387	2.9780	0.0022	***
GROW	+/-	-0.1046	0.0466	-2.3003	0.0218	**
LOSS	+/-	-0.8048	0.1160	-6.7766	0.0000	***
MCAP	+/-	0.2486	0.1332	1.8125	0.0624	*
D_COUNTRY	+/-	Included				
N			398			
Adjusted R-squared			0.4914			
Prob(F-statistic)			0.0000			

Table Description:
*** Significant at level 1%; ** Significant at the 5% level; * Significant at level 10%
The dependent variable in this model is ADAC. The independent variables in this model are as follows: (i) IFRS: Index of IFRS convergence degree in a country; (ii) SPEC: Dummy auditor variable, value 1 for companies audited by auditor with industry specialization, and value 0 for other; (iii) SIZE: Natural logarithm of the total assets of the company; (iv) LEV: Natural logarithm of total debt / total assets; (v) OCF: Natural logarithm of cash flows from operating activities / total assets; (vi) GROW: Natural logarithm of market value / book value; (vii) LOSS: Dummy variable, 1 for negative net profit and 0 for vice versa; (viii) MCAP: Country Market Capitalization / GDP; (ix) CRTY Dummy variables, 1 for the country concerned and 0 for other, the Philippines as country of reference

The SPEC (Auditor Specialization) variable has no significant effect on the earnings quality described by the discretionary accruals value despite the negative direction of the relationship. That is, there does not seem to be a link between auditor specialization and earnings quality. This is in line with the conclusions drawn by Gerayli et al. (2011) evaluating the effect of audit quality (judging by the size of audit firm and auditor industry specialization) on earnings quality and the conclusion of Enomoto et al. (2015) comparing the effect of investor protection to earnings management in 38 countries in the world and then drawing the conclusion that in general

audit quality control (in this case indicated by auditor specialization) has no effect on earnings management. In line with the data used for model 1a, on data extracted from public companies in six ASEAN countries sampled, 79.50% of the sample companies have been audited by auditors with industry specializations. That is, most of the companies being sampled have been audited by auditors with industry specializations which show that in general most of the companies that have been sampled have good audit quality. From the sample companies, it appears that companies with good earnings quality as well as companies with poor earnings quality turn out to be mostly audited by a specialist auditor, so the level of audit quality impact in this model is measured by specialization the auditor becomes insignificant. Thus, Hypothesis 2b: Auditor specialization positively affects the earnings quality of a company is rejected.

From the two models above, it appears that the effect of audit quality on earnings quality in sample countries is not significant. This is illustrated in the descriptive statistics which show that the company being sampled, whether the quality of the company's earnings is good or the quality of the company's earnings is not good, most have been audited by a qualified auditor, as measured by association with audit firm The-Big-4 or by auditors who are considered to have specialized in one industry area in each country. Thus, the effect of audit quality on the quality of corporate earnings is not significant.

4.4. Analysis of Regression Result of Model 2a

Model 2a is a model with moderation relation depicting Hypothesis 3a that the level of IFRS convergence to local accounting standard will strengthen the positive influence of audit quality on earnings quality. From the regression results, obtained the following information (Table 4):

Table 4. Regression Result of Model 2a

Model 2a $ADAC_i = b0 + b1IFRS_i + b2BIG_i + b3IFRS_i*BIG_i + b4SIZE_i + b5LEV_i + b6OCF_i + b7GROW_i + b8LOSS_i + b9MCAP_i + b10\text{-}14CRTY_i + \varepsilon_i$						
Dependent Variable: ADAC						
Independen Variable	Expected Sign	Coefficient	Std. Error	t-Statistic	Prob.	
C	?	-0.3125	0.7599	-0.4091	0.6667	
IFRS	-	-0.2828	0.1873	-3.0714	0.0628	*
BIG	-	-0.1590	0.5438	-0.5656	0.3743	
IFRS*BIG	-	-0.0743	0.1570	-0.8956	0.3240	
SIZE	+/-	0.1542	0.0259	5.9131	0.0000	***
LEV	+/-	-0.2926	0.0839	-3.3885	0.0007	***
OCF	+/-	1.4402	0.4561	3.1769	0.0015	***
GROW	+/-	-0.1102	0.0454	-2.3461	0.0169	**
LOSS	+/-	-0.7760	0.1136	-6.5284	0.0000	***
MCAP	+/-	0.2479	0.1334	1.7362	0.0697	*
D_COUNTRY	+/-	Included				
N			398			
Adjusted R-squared			0.4934			
Prob(F-statistic)			0.0000			
Table Description: *** Significant at level 1%; ** Significant at the 5% level; * Significant at level 10% The dependent variable in this model is ADAC. The independent variables in this model are : (i) IFRS: Index of IFRS convergence degree in a country; (ii) SPEC: Dummy auditor variable, value 1 for companies audited by auditor with industry specialization, and value 0 for other; (iii) SIZE: Natural logarithm of the total assets of the company; (iv) LEV: Natural logarithm of total debt / total assets; (v) OCF: Natural logarithm of cash flows from operating activities / total assets; (vi) GROW: Natural logarithm of market value / book value; (vii) LOSS: Dummy variable, 1 for negative net profit and 0 for vice versa; (viii) MCAP: Country Market Capitalization / GDP; (ix) CRTY Dummy variables, 1 for the country concerned and 0 for other, the Philippines as country of reference.						

From the above regression results, the R-squared value of 0,5164, which means the independent variable in this model is able to explain the dependent variable of approximately 51.64%. Thus, the model used can be quite good because it can represent variation of dependent variable by more than 50%. Independent variables have F-statistic significance with significance level less than 5%. Thus the regression results of this model indicate that together independent variables (IFRS, BIG, SIZE, LEV, OCF, GROWTH, LOSS, MCAP and CRTY) affect the earnings quality described by the value of discretionary accruals.

In the t test analysis per variable, the IFRS variable (Degrees of IFRS Convergence) has a significant effect on the earnings quality described by the discretionary accruals with the direction of the negative relationship. This result is in line with the result of the previous model. As for the BIG variable (Auditor Size) as model 1a does not significantly affect the earnings quality described by the discretionary accruals value with the direction of the negative relationship. Similarly, the BIG * IFRS variable which in this model has no significant effect and does not affect the relationship between independent variables with the dependent variable. Thus, in this model, the IFRS variable is simply a Moderator Predictor which means it only has a role as an independent predictor variable in the established relationship model. Thus, it can be concluded that hypothesis 3a which states the level of IFRS convergence to local accounting standards will strengthen the positive effect of auditor size on the quality of earnings is not accepted.

IFRS as a universal accounting standard causes information obtained by users of financial statements more complete and comprehensive. As the information becomes more complete, users of financial statements will be increasingly critical in demanding the quality of earnings reported in the financial statements. These circumstances create pressure for auditors to improve the quality of audits conducted so as to ensure that reported earnings and financial statements produced are of high quality (Barth et al., 2008). However, in ASEAN countries with varying levels of IFRS convergence, there appears to be an adaptation between the audit process of IFRS convergence applied to individual countries. Thus, the varying levels of IFRS convergence provide flexibility for both companies and auditors so that the implementation of IFRS does not fully appear to affect the relationship between audit quality to earnings quality. Thus, hypothesis 3a which states IFRS convergence rate to local accounting standards will reinforce the positive effect of auditor's audit firm measure on earnings quality, not accepted.

4.5. Analysis of Regression Result of Model 2b

Model 2b is a model with a moderation relation depicting Hypothesis 3b ie that IFRS convergence level to local accounting standard strengthens the positive influence of auditor industry's specialization on earnings quality. From the regression results, obtained the following information (Table 5):

Table 5. Regression Result of Model 2b

Model 2b						
ADACi = b0 + b1IFRSi + b2SPECi + b3IFRSi*SPECi + b4SIZEi + b5LEVi + b6OCFi + b7GROWi + b8LOSSi + b9MCAPi + b10-14CRTYi +εi						
Dependent Variable: ADAC						
Independent Variable	Expected Sign	Coefficient	Std. Error	t-Statistic	Prob.	
C	?	0.1321	0.7387	0.1744	0.8366	
IFRS	-	-0.4208	0.2020	-4.2331	0.0161	**
SPEC	-	-0.2815	0.5678	-1.0061	0.2999	
IFRS*SPEC	-	-0.0828	0.1626	-1.0000	0.2971	
SIZE	+/-	0.1450	0.0255	5.7608	0.0000	***
LEV	+/-	-0.2916	0.0862	-3.3587	0.0009	***
OCF	+/-	1.3757	0.4571	3.0238	0.0020	***
GROW	+/-	-0.1078	0.0466	-2.2610	0.0216	**
LOSS	+/-	-0.8011	0.1185	-6.7875	0.0000	***
MCAP	+/-	0.2505	0.1346	1.8896	0.0548	*
C_IND	+/-	0.2374	0.1469	1.6414	0.0906	*
C_MAL	+/-	0.1885	0.1393	1.2891	0.1800	
C_SIN	+/-	-0.0308	0.1847	-0.1723	0.8403	
C_THA	+/-	0.4846	0.0771	6.2714	0.0000	***
C_VIE	+/-	0.3329	0.1016	3.2513	0.0013	***
N				398		
R-squared				0.5279		
Adjusted R-squared				0.5005		
Prob(F-statistic)				0.0000		

Table Description:
*** Significant at level 1%; ** Significant at the 5% level; * Significant at level 10%
The dependent variable in this model is ADAC. The independent variables in this model are: (i) IFRS: Index of IFRS convergence degree in a country; (ii) SPEC: Dummy auditor variable, value 1 for companies audited by auditor with industry specialization, and value 0 for other; (iii) SIZE: Natural logarithm of the total assets of the company; (iv) LEV: Natural logarithm of total debt / total assets; (v) OCF: Natural logarithm of cash flows from operating activities / total assets; (vi) GROW: Natural logarithm of market value / book value; (vii) LOSS: Dummy variable, 1 for negative net profit and 0 for vice versa; (viii) MCAP: Country Market Capitalization / GDP; (ix) CRTY Dummy variables, 1 for the country concerned and 0 for other, the Philippines as country of reference.

In the t test analysis per variable, the IFRS variable (Degrees of IFRS Convergence) has a significant effect on the earnings quality described by the discretionary accruals with the direction of the negative relationship. These results are in line with the results of the previous model. The SPEC (Specialization Auditor) variable has no significant effect on the quality of earnings described by the discretionary accruals value despite having negative relationship direction. That is, there does not seem to be a link between auditor specialization and earnings quality. This is contrary to the conclusions drawn by Gerayli et al. (2011). Nevertheless, the results are similar to the results obtained by the previous model which draw the conclusion that in general audit quality control (in this case indicated by auditor specialization) has no effect on earnings management.

The IFRS * SPEC interaction variable in this model does not show a significant effect, and does not affect the significance of other independent variables as well. Thus, it appears that there is no moderating influence on this model. Thus, it can be concluded that hypothesis 3b which states the level of IFRS convergence to local

accounting standards will reinforce the positive influence of the auditor industry's specialization on the quality of earnings is not accepted.

4.6. Additional Test

From the descriptive statistics that have been obtained, there appears to be a considerable difference between the countries sampled. Singapore, for example, which is the country with the highest GDP per capita among sample countries, has a per capita GDP of more than 50,000 USD by 2015, almost 25 times the GDP per capita in Vietnam, which is around 2,000 USD. Due to such a large difference, in addition regression is made for all four models and excluding data from Singapore. Thus, the remaining 348 sample data from five countries other than Singapore (Table 6).

Table 6. Regression Result Excluding Observation from Singapore

Variabel Independen	Ekspektasi Tanda	Model 1a		Model 1b		Model 2a		Model 2b	
		Coef	Prob.	Coef	Prob.	Coef	Prob.	Coef	Prob.
IFRS	-	-0.2162	0.0019 **	-0.2122	0.0027 **	-0.1543	0.1068	-0.2056	0.0566 *
BIG	-	-0.1748	0.0001 ***	-		0.0879	0.7486		
SPEC	-			-0.0604	0.1871			-0.0209	0.9380
IFRSBIG	-					-0.0797	0.3228	-0.0126	0.8799
IFRSSPEC	-								
C	Tidak ada	0.0660	0.8303	0.2430	0.4877	0.1016	0.1825	0.2164	0.5802
Variabel Kontrol									
SIZE	+/-	0.1629	0.0000 ***	0.1533	0.0000 ***	0.1640	0.0000 ***	0.1535	0.0000 ***
LEV	+/-	-0.2436	0.0000 ***	-0.2385	0.0000 ***	-0.2435	0.0000 ***	-0.2370	0.0000 ***
OCF	+/-	1.6900	0.0000 ***	1.6256	0.0000 ***	1.6714	0.0000 ***	1.5590	0.0000 ***
GROW	+/-	-0.1495	0.0000 ***	-0.1458	0.0000 ***	-0.1482	0.0000 ***	-0.1445	0.0000 ***
LOSS	+/-	-0.9035	0.0000 ***	-0.8987	0.0000 ***	-0.8967	0.0000 ***	-0.9028	0.0000 ***
MCAP	+/-	0.1400	0.0524 *	0.1219	0.0872 *	0.1237	0.0825 *	0.1237	0.0893 *
N		350.0000		350.0000		350.0000		350.0000	
R-squared		0.5512		0.5241		0.5561		0.5168	
Adjusted R-squared		0.5341		0.5099		0.5349		0.5194	
F-statistic		40.8088		39.3264		37.3993		34.8622	
Prob(F-statistic)		0.0000		0.0000		0.0000		0.0000	

From the regression results shown in Table 9, it appears that in general the regression results obtained are similar to the regression results with the Singapore state included. The same relative value of significance is obtained in models 1b, 2a and 2b either by including country data of Singapore or not. As for model 1a, in the regression without entering Singapore data, the BIG variable value showing the dimension as the quality dimension of the auditor is significantly negative to the discretionary accruals, which means supporting the hypothesis 2a that the firm's earnings quality audited by the auditor of Big-4 auditors is higher than the quality the company's earnings audited by auditors of non Big-4 audit firms. When Singapore is included, this variable becomes insignificant because 91% or almost all public companies in Singapore are audited by Big-4 auditors, the highest among other countries.

5. Conclusions

After analyzing the six sample countries, it can be concluded from this research that the higher the degree of IFRS convergence, the lower the likelihood of discretionary accruals, which means that the earnings quality will be better. These results are consistent with the research of Daske and Gunther (2006), Chiu et al., (2013), Dimitropoulos et al. (2013) and Ismail et al. (2013) that examines the effect of standards on the quality of financial statements with the result that in general the universal standard (IFRS) has a positive effect on the quality of financial statements.

The attributes associated with the quality of auditors, both the size and speciality of auditors have no significant effect on the quality of earnings described by the value of discretionary accruals. Meanwhile, the degree of IFRS Convergence does not indicate the effect of moderation on the relationship between audit quality as illustrated by size and auditor specialization with earnings quality. Thus, the degree of IFRS convergence has no role of moderation of IFRS convergence degree to the effect of audit quality with the earnings quality. This lack of significance is likely due to the fact that most sample companies have been audited by Big-4 auditors or audit firm with industry specialization.

Suggestions for further research are as follows: (i) added dimension of earnings quality dimension and updating of measurement method so that earnings quality measurement will be more accurate; (ii) The addition of auditor quality measurement so that auditor quality will be more accurately measured; (iii) The use of samples from different industries and regions with clear struc- tures, which may lead to differences that may occur between industries and regions; (iv) Research conducted within a period of several years, with the year through the crisis / recession, so it looks the difference in conditions between normal conditions with the conditions during the crisis.

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Zahra NADHIR is a student from Faculty of Economic and Business Universitas Indonesia. This paper is written with her supervisor as her thesis.

Ratna WARDHANI is Associate Professor at Faculty of Economic and Business Universitas Indonesia. She is a senior lecturer and also senior consultant. She has published several articles in national and international journals. Her research interest covers broad range of topics such as corporate governance, financial accounting, public sector, etc.
ORCID ID: https://orcid.org/0000-0002-7691-7443