

MEDIATING KEY AUDIT METTERS ON THE RELATIONSHIP, AUDIT QUALITY,
AND EARNINGS MANAGEMENT

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Abstract

This study examines the mediating effect of key audit matters on the relationship between audit quality and earnings management. The research was conducted at consumer goods companies listed on the Indonesia Stock Exchange in 2022. The sample of this study was 85 company data selected through sample criteria. The data analysis technique used in this research is multiple regression analysis. The results of this study indicate that audit quality has a significant effect on key audit matters (KAMs), key audit matters (KAMs) have a significant effect on earnings management, audit quality has a significant effect on earnings management. Key audit matters (KAMs) are able to mediate the effect of audit quality on earnings management. The results of this study provide information that high audit quality and key audit matters (KAMs) conditions can be predicted to reduce earnings management, so that this can provide benefits for the management of manufacturing companies in the consumption sector in managing the risk of earnings management carried out by the company.

Keywords: key audit matters, audit quality, and earnings management

INTRODUCTION

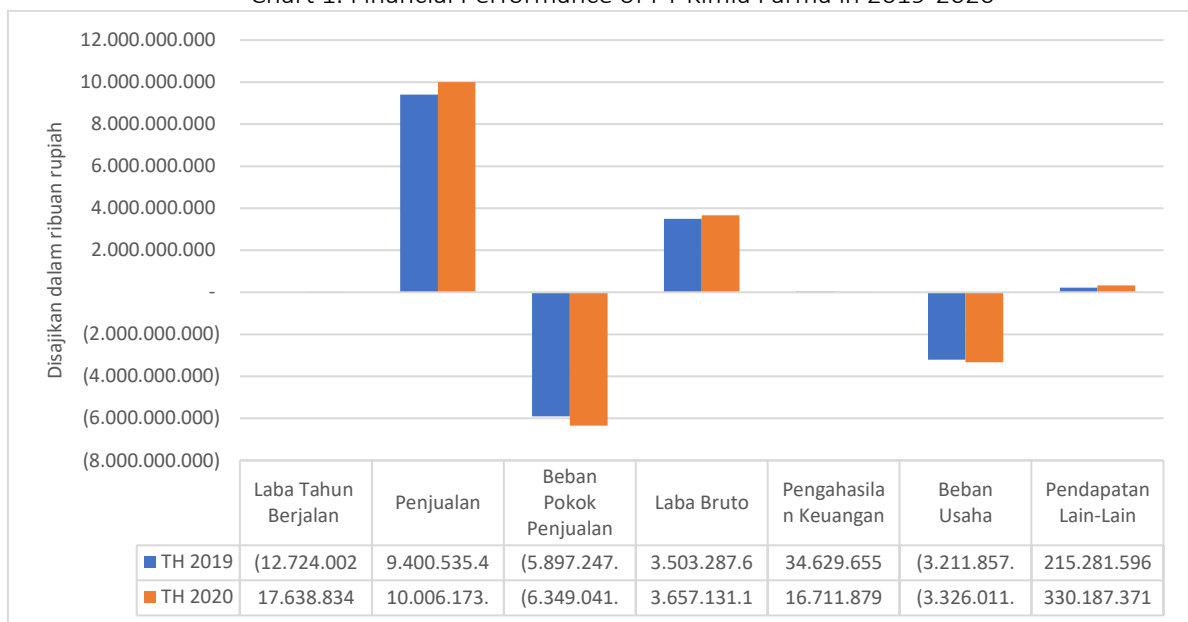
The financial reports of a company pay great attention to profits. Profit is a measure of financial performance used by company stakeholders in making investment decisions. Therefore, financial reports must be examined by parties who have high independence, relevance and credibility to improve the quality of financial reports reported by management, and avoid misrepresentations of financial reports that result in losses for other users of financial reports (Tat & Murdiawati, 2020).

Earnings management is a profit manipulation activity carried out by company managers to achieve certain goals (Erawati & Siang, 2021). Either increase profits or reduce the level of reported losses. Motives for earnings management practices include bonuses, hypothetical debt agreements, meeting investors' profit expectations, maintaining reputation, and maintaining profitability, thus requiring the role of independent audit in the business environment. Audit quality can also prevent earnings management practices. Barghathi et al., (2018) audit reports are often only seen as a legal requirement and are not very useful for many stakeholders. High quality auditors are better than low quality auditors, therefore audit quality is given to public accountants which can be measured through the Public Accounting Firm (KAP) which audits a company's reports.

In conducting a financial report audit, the role of key audit matters (KAMs) is needed which can be used as a mediator between audit quality and earnings management. KAM provides insight

into the most important things in an audit and provides a better understanding of audit quality. To address concerns about lack of transparency, Auditing Standards (SA)-701 is required. Under this standard, independent reports must include KAM communications, effective January 1, 2022. Once KAM is included in the audit report, it is believed that management practices (such as Earnings Management, EM) will be scrutinized more closely by various stakeholders (Gold et al., 2020).

Chart 1. Financial Performance of PT Kimia Farma in 2019-2020



Source: Data Processed in 2023

In the financial statements taken from the IDX, quoting the company PT Kimia Farma (Persero) Tbk, it can be concluded that profits in 2020 increased sharply by IDR 4.91 billion. This is evident that the manager of PT Kimia Farma and several of his employees used used antigen tools to get increased profits so that revenue increased and retained earnings experienced a very drastic increase (Yusri, 2022).

In Sitanggang et al., (2020) found a significant negative effect between audit quality and earnings management in the UK. Meanwhile, research (Rahmawati, 2020) found a positive and significant effect of audit quality on earnings management in Indonesia. Based on the research of Kitiwong & Sarapaivanich, (2020) that improving audit quality does not affect the implementation of KAMs. Shamsuddin, (2020) that improving audit quality affects the implementation of KAMs. Furthermore, research from Gold et al., (2020) found that KAMs had no effect on earnings management, but Xiao et al., (2020) showed that KAMs had an effect on earnings management.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

According to Jensen & Meckling, (1976) states that there is a principal-agent relationship where the agent manages the company on behalf of the owner or principal. Due to the separation

of ownership and control, managers can use company resources for personal interests which gives rise to agency problems. Agency costs are caused by information asymmetry where agents have more information about the company than principals. The existence of information asymmetry allows managers to manipulate profits to show a good image of the company (Al-Shaer & Zaman, 2021).

Earnings Management

Earnings management is often used by managers to be able to change financial reports and make amendments or updates to contractual returns which will produce accounting data that can improve the performance of financial report user facilities. Usually, earnings management is also measured by discretionary accruals because earnings management comes from applying the accrual basis.

According to Mappadang et al., (2019)), earnings management is a relationship that is closely related to managers' decisions in determining the accounting methods used to present the company's financial reports, where this also influences whether the financial reports are presented fairly or vice versa.

Audit Quality

Audit quality is an important concept in accounting and auditing practice. Audit quality refers to the independent auditor's ability to carry out audit tasks well, identify potential risks, and provide an objective opinion regarding the truth and compliance of the company's financial reports. Measuring audit quality can use several indicators, including conformity of audits with audit standards and the quality of audit results (Sihombing & Triyanto, 2019). In Dresdner & Fischer, (2020) states that auditors define audit quality in terms of the auditor's compliance with Generally Accepted Auditing Standards (GAAS) which produces financial reports that are accurate and reliable, according to plan, and carried out by competent and trained auditors.

Key Audit Matters (KAMs)

Key Audit Matters (KAMs) in the context of mediation effects, KAM plays an important role in explaining the relationship between audit quality and earnings management. KAM really considers the professionalism of auditors, which is the most significant in the audit of financial statements for the current period as well as the most significant area (Lee, Wei Min and Phua, 2018) of a financial statement audit (IAASB, 2021). The International Auditing and Assurance Standards Board (IAASB) established KAM as an international audit standards-setting body with the aim of increasing the transparency of audited financial reports. where KAMs disclosure encourages auditors to present more detailed reports and can provide additional information that is relevant for users of audited financial reports (Yoga & Dinarjito, 2021).

Previous Research

Research conducted by Sitanggang et al., (2020) shows that there is a significant relationship between audit quality and earnings management. Rahmawati, (2020) in her research shows the results that there is a positive and significant relationship between audit quality and earnings management. In research conducted by Kitiwong & Sarapaivanich, (2020) found that audit quality results were not influenced by the implementation of disclosed KAM. Audit quality

is not influenced by the implementation of KAM. Shamsuddin, (2020) provides results that KAM has a significant effect on audit quality. Gold et al., (2020) found that KAM has no effect on earnings management, Xiao et al., (2020) KAM research results influence earnings management.

Impact of Audit Quality on Key Audit Matters Audit

ISA 701 states that communicating key audit matters in the independent audit report is a major development that expands the role of the auditor and requires disclosure of the most significant risks facing clients in the audit opinion (García et al., 2019). The importance of communication in terms of audits, due to the KAM requirements by the IAASB can guide different stakeholders to draw their attention to significant matters (Sirois et al., 2018). Due to increased user attention, audit quality is expected to improve due to the implementation of KAM and potentially reduce agency costs. This research was supported by Li et al., (2019) in his research stating that disclosure affects the audit quality significantly on KAMs. Therefore, the first hypothesis is as follows:

H1: There is a positive influence between audit quality and key audit matters.

The impact of Key Audit Matters on Profit Management

The impact of Key Audit Matters on Profit Management on an audit report and profit management issue cannot be determined or linked simultaneously. Analytical models show that information asymmetry decreases with higher rates of voluntary disclosure. As a result, trading volumes and stock market liquidity increased, which could reduce capital costs. (Consoni et al., 2017).

In this study supported by (Gold et al., 2020) which shows that managers tend to make an aggressive financial reporting decision reduced with the presence of KAMs (compared with the absence of KAMs). This research proves that KAMs has a profit management influence. Therefore, the second hypothesis of this study is as follows:

H2: There is a negative influence between key audit matter on profit management.

The Influence of Audit Quality on Earnings Management

Earnings management shows management's motivation to produce estimates and operational decisions in order to meet the expected profit level. To reduce this problem, external audit plays a control role to ensure the quality of financial reports such as reducing agency costs arising from opportunistic behavior of managers, reducing asymmetric information between the company and its stakeholders, and helping the flow of useful information into the capital markets. An important role that auditors must play is understanding and exploring business, with sufficient skills, experience and time to implement high-quality audit practices (Velte & Issa, 2019). This research is supported by Rahmawati, (2020) in her research showing that audit quality has a significant effect on earnings management. Therefore, the third hypothesis of this research is as follows:

H3: There is a negative influence between audit quality and earnings management

The Influence of Audit Quality on Earnings Management Mediated by Key Audit Matters

According to Almarayeh et al., (2020) show that higher audit quality does not mean higher earnings quality, and there is no relationship between earnings management and KAP being one

of the big four. According to research from Sumiadji et al., (2019), it shows that there is a positive influence between auditor tenure and earnings management. Auditor tenure has a significant relationship with earnings management and minimizing earnings manipulation (Ibrahim et al., 2020).

Based on the problems above and the results of previous research which are still inconclusive, this research further supports testing the mediating effect of key audit matters on the relationship between audit quality and earnings management. Therefore, the fourth hypothesis of this research is:

H4: There is a positive influence between audit quality and earnings management considering key audit matters as a mediating variable

Research Framework

Based on the explanation above, this research model is as follows:

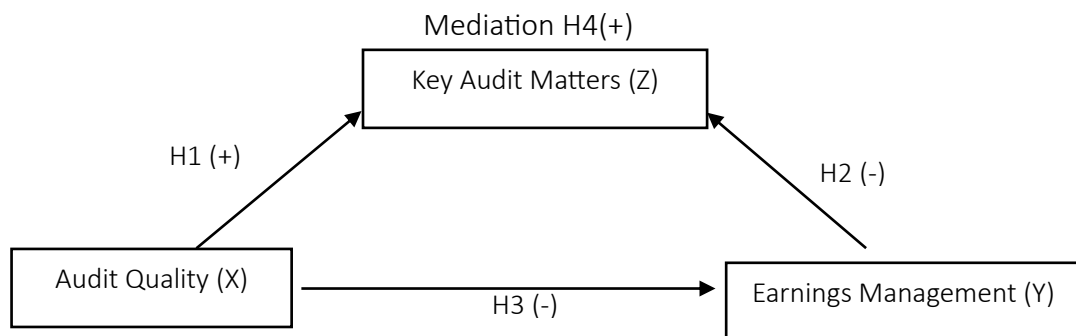


Figure 1. Research Framework

RESEARCH METHOD

Population and Sample

This research takes a population of manufacturing companies in the consumer goods sector listed on the Indonesia Stock Exchange (BEI). Sugiyono, (2019) A sample is a part of the population that is used as a representative of that population. This sampling technique uses a purposive sampling method. The sample criteria used in this research are as follows: Consumer goods sector manufacturing companies listed on the IDX in 2022; The company publishes financial reports ending December 31, 2022; The company has complete data required for research

Operational Definition of Variables

Dependent Variable

This research uses earnings management as the dependent variable. Alqam et al., (2021) The Modified Jones model is the most powerful earnings management calculation model of the existing models for estimating discretionary accruals because earnings management comes from applying the accrual basis. Accruals. covers various earnings management techniques available to managers when preparing reports. The formula for calculating discretionary accruals is as follows:

Calculate the total accruals (TAC) value first using the formula:

- $[[TAC]]_{it} = [[NI]]_{it} - [[CFO]]_{it}$
- $[[TAC]]_{it}/A_{(it-1)} = \beta_1 (1/[[TA]]_{(it-1)}) + \beta_2 ([[\Delta Rev]]_{it}/(TA_{(t-1)})) + \beta_3 ([[PPE]]_{it}/A_{(it-1)}) + \epsilon$
- $[[NDA]]_{it} = \beta_1 (1/A_{(it-1)}) + \beta_2 ([[\Delta Rev]]_{it}/A_{(it-1)} - [[\Delta Rec]]_{it}/A_{(it-1)}) + \beta_3 ([[PPE]]_{it}/A_{(it-1)})$
- $[[DAC]]_{it} = [[TAC]]_{it}/A_{(it-1)} - [[NDA]]_{it}$

Information

DAC _{it}	= Company's Discretionary Accruals (i) in the year period (t)
NDA _{it}	= Non Discretionary Accruals of company (i) in the period of year (t)
TAC _{it}	= Total company accruals (i) in the year period (t)
Ni _{it}	= Net Income (Net Profit) of the company (i) in the year period (t)
CFO _{it}	= Cash flow from company operating assets (i) in the year period (t)
A _{it-1}	= Total assets of company (i) in the previous year (t) period
ΔRev _{it}	= Company (i)'s income in year (t) minus company i's income in year t-1
ΔRec _{it}	= Company i's trade receivables in year t minus company i's trade receivables in year t-1
PPE _{it}	= Property, Plant and Equipment (total tangible fixed assets) of company i in year period t
β ₁ , β ₂ , β ₃	= regression coefficients
ε	= Error

Independent Variables

Independent variables or can be called independent variables. Independent variables are variables that influence or cause changes or emergence of the dependent variable Sugiyono, (2019). Alqam et al., (2021) In this research, the independent variable is audit quality, where this activity is to examine, supervise, report accounting activities recorded in the financial statements that are to be reported to a company. Therefore it can be measured using a dummy variable proxy, with the following criteria: Audit quality is worth 1 if the company is audited by a big four KAP; Audit quality is worth 0 if the company is audited by a non-big four KAP.

Mediation Variables

Alqam et al., (2021) Measurement of this variable is as follow: The number of problem issues is divided by the checklist content analysis, which means finding problem issues that are located after the auditor's opinion in the independent auditor's report section. Then divide the number of points by how many responses the auditor communicated; The number of word issues is divided by the content analysis of the word count, which means that after knowing the problem issue, it is necessary to count the number of syllables in the problem issue. Next, count the number of syllables in all explanations of the auditor's response.

Data Analysis Techniques

Descriptive Statistical Test

According to Ghozali, (2021) Descriptive statistical analysis is used as an illustration of analyzing data in the form of average value, mode value, lowest value, highest value, standard deviation level, variance and correlation between research variables.

Classic Assumption Test

The classical assumption test is used to ensure the equation of the regression research model to identify data values, the quality of the data being analyzed is not biased but must be consistent. The classical assumption test is as follows:

Normality Test

The normality test is a test that aims to measure whether in the regression model, confounding or residual variables have a normal distribution (Ghozali, 2021). Normality testing uses the Kolmogorov Smirnov Test statistical test. Data is attributed to normal if the significant value is > 0.05 or 5%, and vice versa.

Multicollinearity Test

The multicollinearity test functions to determine whether there is a correlation between the independent variables in the regression model Ghozali, (2021) If the independent variables are correlated with each other then these variables are not orthogonal. An orthogonal variable is a correlation value for an independent variable equal to zero. In making decisions on this test, the Tolerance and Variance Inflation Factor (VIF) is used. If the Tolerance value < 0.10 or $VIF > 10$ then multicollinearity occurs. And if the Tolerance value > 0.10 or $VIF < 10$ then it does not show multicollinearity.

Heteroscedasticity Test

The heteroscedasticity test aims to test whether there are differences in the variance of residual values from one observation to another in a regression model. According to Ghozali, (2021). It is said that the regression model does not have heteroscedasticity if the scatter plot graph does not form certain patterns such as widening, narrowing or waves either above or below the number 0 on the Y axis. If it does not form clear patterns then it can be said that heteroscedasticity does not occur. Apart from that, there is also a Glejser test to determine the significance value. If the significance value is greater than 0.05 then heteroscedasticity does not occur. If the significance value is smaller than 0.05 then heteroscedasticity occurs

Hypothesis Testing

Determination Coefficient Test (Adjusted R²)

Coefficient of determination test (adjusted R²) to measure the model's ability to explain variations in the dependent variable. The value of the coefficient of determination is between zero and one. If the adjusted R² value is small, it shows that the ability of the independent variable

to explain the dependent variable is very limited. If the R2 value is close to one, it means that the independent variable is able to provide the information needed to predict changes in the dependent variable (Ghozali, 2021). The weaknesses of the correlation coefficient include its bias in the number of independent variables included in the model. Every time a variable is added, the adjusted R2 will increase regardless of whether the variable has a significant effect on the dependent variable.

Multiple Linear Regression Test

Multiple linear regression analysis is an analysis aimed at testing the influence of the independent variable on the dependent variable (Ghozali, 2021). The multiple linear regression equation in this research is as follows:

$$EM = \alpha + \beta_1AQ + \beta_2KAMs + e$$

Information:

EM	= Earnings management
A	= Constant
β_1 - β_2	= Regression Coefficient
AQ	= Audit Quality
KAMs	= Key Audit Matters
e	= Standard Error

T test

According to Ghozali, (2021), the t statistical test shows how much influence an independent variable individually has in explaining the dependent variable. This test was carried out using a significant value of 0.05 ($\alpha=5\%$). If the significant value is > 0.05 then the hypothesis is rejected, which means the regression coefficient is not significant. If the significant value is ≤ 0.05 , accept the hypothesis, meaning the regression coefficient is significant.

Test Sobel Test

The Sobel test is carried out by testing the indirect influence of the independent variable on the dependent variable through intervening variables. The effect of mediation can also be seen from the multiplication of significant coefficients or not. The Sobel test has the following calculations:

$$S_{ab} = \sqrt{(b^2) (s_a)^2 + a^2 (s_b)^2 + (s_a)^2 (s_b)^2}$$

Information :

Sat	= the size of the standard error of indirect influence
a	= path of the independent variable (X) with the mediating variable (Z)
B	= mediation path (Z) with dependent variable (Y)
sa	= standard error coefficient a
sb	= standard error coefficient b

RESULTS AND DISCUSSION

Research Sample Data

This research uses secondary data in the form of annual reports obtained through the Indonesian Stock Exchange website and company websites. Consumer goods companies listed on the IDX in 2022 are the objects of this research. Purposive sampling is used as a sampling model according to certain criteria in accordance with the research objectives. Based on the sample selection criteria, only 85 companies were found to meet the criteria. The number of data observations processed was 85 data. The results of the sampling selection are shown in table 1 below:

Table 1. Total Sample Data

No	Criteria	Amount
1	Consumer goods sector manufacturing company listed on the IDX in 2022	87
2	Companies that went bankrupt	1
3	Companies where no complete audit report was found in 2022	1
The number of sample companies that meet the criteria is		85
Research period		1
Total sample		85

Source: Processed secondary data, 2023

Descriptive Analysis

The following presents a descriptive statistical analysis of research data for key audit matters and earnings management variables:

Table 2. Descriptive Statistics of Research Data for the 2022 Period

	N	Min	Max	Mean	Std. Deviation
Earnings Management	85	-,259	,356	-,00957	,121091
KAMs	85	40	549	172,02	99,437
Valid N	85				

Source: Processed secondary data, 2023

Table 3. Sample Groups of Companies Based on Audit Quality

	Audit Quality	Min	Max	Mean	Std. Deviation
Big Four	26	,000	1,000	,31765	,468324
Non Big Four	59	,000	1,000	,31765	,468324
Total	85				

Source: Processed secondary data, 2023

Based on table 2 above, the average value of Key Audit Matters (KAMs) which is measured by the number of problem issues divided by the checklist content analysis and the number of word issues divided by the word count content analysis is 172.02. This shows that the average value of Key Audit Matters (KAMs) for manufacturing companies in the consumer goods sector on the IDX in 2022 is 172.02; The lowest value is 40 and the highest value is 549. The standard deviation value of 99.44 is smaller than the average (mean) of 172.02, which indicates that the data differences in the Key Audit Matters (KAMs) variable are relatively low.

The average value of earnings management as measured by discretionary accruals is -0.0096. This shows that the average value of discretionary accruals in the manufacturing consumer goods sector on the IDX in 2018-2022 is -0.0096; the lowest value is -0.259 and the highest value is 0.356. The standard deviation value of 0.121 is greater than the average (mean) of -0.0096, which indicates that the data differences in the earnings management variable are relatively high.

Based on table 3, the average audit quality value measured using a dummy variable proxy is 0.318. This shows that the value is close to 0, where the number 1 (maximum) if the company is audited by a big four KAP and the number 0 (minimum) if the company is audited by a non-big four KAP. The standard deviation value of 0.468 is greater than the average (mean) of 0.318, which indicates that the difference in data on the audit quality variable is relatively high.

Data Analysis

Data Normality Testing

To determine the distribution of research data, one of the tools used is the Kolmogorov Smirnov test. Based on testing using the Kolmogorov Smirnov test, the output obtained can be seen in table 2 as follows:

Table 4. Kolmogorov Smirnov Test Model 1

	Unstandardized Residual
<i>Kolmogorov-Smirnov Z</i>	1,307
Asymp. Sig. (2-tailed)	,066

Source: Processed secondary data, 2023

Table 5. Kolmogorov Smirnov Test Model 2

	Unstandardized Residual
<i>Kolmogorov-Smirnov Z</i>	1,192
Asymp. Sig. (2-tailed)	,116

Source: Processed secondary data, 2023

Based on table 4 above, the distribution of research data on the unstandardized residual value of the first model on the influence of audit quality on earnings management has a calculated

Z number (Kolmogorov Smirnov) of 1.307 and a probability value of 0.066 > 5% or 0.05 significance level; so it includes data that is normally distributed and worthy of being tested in parametric testing (linear regression).

Meanwhile, based on table 5 above, the distribution of research data on the unstandardized residual value of the second model on the influence of audit quality on earnings management has a calculated Z number (Kolmogorov Smirnov) of 1.307 and a probability value of 0.116 > 5% or 0.05 significance level; so it includes data that is normally distributed and worthy of being tested in parametric testing (linear regression).

Classic Assumption Test

Multicollinearity Test

The multicollinearity test in this research was carried out by referring to the tolerance value and variance inflation factor (VIF) value. If the test results show a Tolerance number above 0.1 and a VIF value below 10, then multicollinearity does not occur. The results of the multicollinearity test in the two regression models can be seen in Table 6 below:

Table 6. Multicollinearity Test Results Model 1

Model	<i>Collinearity Statistics</i>	
	<i>Tolerance</i>	VIF
1 Audit Quality	1,000	1,000

Source: Processed secondary data, 2023

Based on the results of the multicollinearity test in regression model 1, it can be seen that the audit quality variable has a tolerance value of 1,000 > 0.1 and a VIF value of 1,000 < 10, so there is no multicollinearity in regression model 1.

Table 7. Model 2 Multicollinearity Test Results

Model	<i>Collinearity Statistics</i>	
	<i>Tolerance</i>	VIF
1 Audit Quality	,993	1,007
KAMs	,993	1,007

Source: Processed secondary data, 2023

Based on the results of the multicollinearity test in regression model 2, it can be seen that the audit quality variable has a tolerance value of 0.993 < 0.1 and a VIF value of 1.007 > 10, while the KAMs variable has a tolerance value of 0.993 < 0.1 and a VIF value of 1.007 > 10. Because the second model shows that there is no multicollinearity in regression model 2.

Heteroscedasticity Test

The heteroscedasticity test is used to see that the data used has the same variance among the data. Heteroscedasticity testing used in this research was the Glejser test. The Glejser test results can be seen in the following table:

Table 8. Glejser Model 1 Test Results

1	Audit Quality	,675
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Source: Processed secondary data, 2023

Table 8 shows that from the Glejser test results for regression model 1 it is known that the audit quality variable has a significance value of 0.675. Because the significance value is greater than 0.05 (>0.05), the audit quality variable does not have a significant effect on absolute residual 1 (abs_res1). Thus, it can be concluded that in regression model 1 there is no heterocodicity problem.

Table 9. Glejser Model 2 Test Results

Model		Sig
1	Audit Quality	,648
	KAMs	,067

Source: Processed secondary data, 2023

Table 9 shows that from the Glejser test results for regression model 2 it is known that the audit quality variable has a significance value of 0.648 and the KAMs variable has a significance value of 0.067. Because the significance value is greater than 0.05 (>0.05), the audit quality variable and KAMs variable do not have a significant effect on absolute residual 2 (abs_res2). Thus, it can be concluded that in regression model 2 there is no heterocodicity problem.

Hypothesis Testing

Coefficient of Determination (R²)

The coefficient of determination (R-Square) in multiple linear regression is used to determine the amount of influence the independent variable has on the dependent variable. The results of the coefficient of determination test can be seen in the following table:

Table 10. Model 1 Determination Coefficient Test Results

Model	Adjusted R Square
1	,059

Source: Processed secondary data, 2023

Based on the results of the coefficient of determination test for regression model 1 which are presented in Table 10, it can be seen that the Adjusted R Square value obtained is 0.059. This shows that the audit quality variable has an influence on KAMs of 5.9%, while the other 94.1% is influenced by other variables which were not used as models in this research.

Table 11. Model 2 Determination Coefficient Test Results

Model	Adjusted R Square
1	,159

Source: Processed secondary data, 2023

Based on the results of the coefficient of determination test for regression model 2 which are presented in Table 11, it can be seen that the Adjusted R Square value obtained is 0.159. This shows that audit quality and KAMs influence earnings management by 15.9%; while the other 84.1% was influenced by other variables that were not modeled in this study.

Regression Analysis

Regression analysis is used to find out how much influence the independent variable has on the dependent variable, where the research consists of two models. Model 1 tests the effect of audit quality on KAMs; The second model tests the influence of audit quality and KAMs on earnings management. The results of the regression analysis can be seen in the following table:

Table 12. Regression Analysis Model 1

Model	Unstandardized Coefficients	
		B
1	(Constant)	,012
	Audit Quality	-,069

Source: Processed secondary data, 2023

From the results of the analysis, the following regression equation can be obtained:

$$Z = a + \beta_1 X$$

$$Z = 0.012 - 0.069 X$$

Where:

$$Z = \text{KAMs}$$

$$X = \text{Audit quality}$$

The results of equation 1 show that: The coefficient value for the audit quality variable is - 0.069, which indicates a negative direction of influence. These results indicate that the higher the audit quality, the lower the KAMs will be.

Table 13. Regression Analysis Model 2

Model	Unstandardized Coefficients	
		B
1	(Constant)	,012
	Audit Quality	-,069

KAMs	,0001
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Source: Processed secondary data, 2023

From the results of the analysis, the following regression equation can be obtained:

$$Y = a + \beta_2 X + \beta_3 Y_1$$

$$Y = 0.084 - 0.076 X + 0.0001 Y_1$$

Where:

Y = Earnings management

Z = KAMs

X = Audit quality

The results of equation 2 show that: The coefficient value for the audit quality variable is -0.076, which indicates a negative direction of influence. These results indicate that the higher the audit quality, the lower the earnings management. The coefficient value for the KAMs variable is 0.0001, which indicates a positive direction of influence. These results indicate that the higher the KAMs, the more earnings management will improve.

T Test

Hypothesis testing in this research uses the t test, which is intended to determine the influence of each independent variable individually on the dependent variable. The t test results can be seen in the following table:

Table 14. T test results

Hipotesis	Model	t-hitung	Sig.	Keterangan
H ₁	X → Z	-2,505	0,014	Diterima
H ₂	Z → Y	-2,914	0,005	Diterima
H ₃	X → Y	-3,301	0,001	Diterima

Source: Processed secondary data, 2023

Information:

X = Audit quality

Z = KAMs

Y = Earnings management

The Influence of Audit Quality on KAMs, from the test results, the t-count value was -2.505 with a significance value of 0.014. Because the significance value is smaller than 0.05 (<5%) it can be said that Ho is rejected and H1 is accepted. This means that audit quality has a significant effect on KAMs. The Influence of KAMs on Profit Management, from the test results, the t-count value was -2.914 with a significance value of 0.005. Because the significance value is smaller than 0.05 (<5%) it can be said that Ho is rejected and H2 is accepted. This means that KAMs have a significant influence on Profit Management. The Influence of KAMs on Profit Management, from the test results, the t-count value was -3.301 with a significance value of 0.001. Because the significance value is smaller than 0.05 (<5%) it can be said that Ho is rejected and H3 is accepted. This means that KAMs have a significant influence on Profit Management.

Direct and Indirect Tests

Direct and indirect tests in this research examine the effect of audit quality on earnings management through KAMs intervening/mediation variables. The results of direct and indirect testing using the Sobel test using the software <https://www.danielsoper.com/statcalc/calculator.aspx?id=31> can be seen as follows:

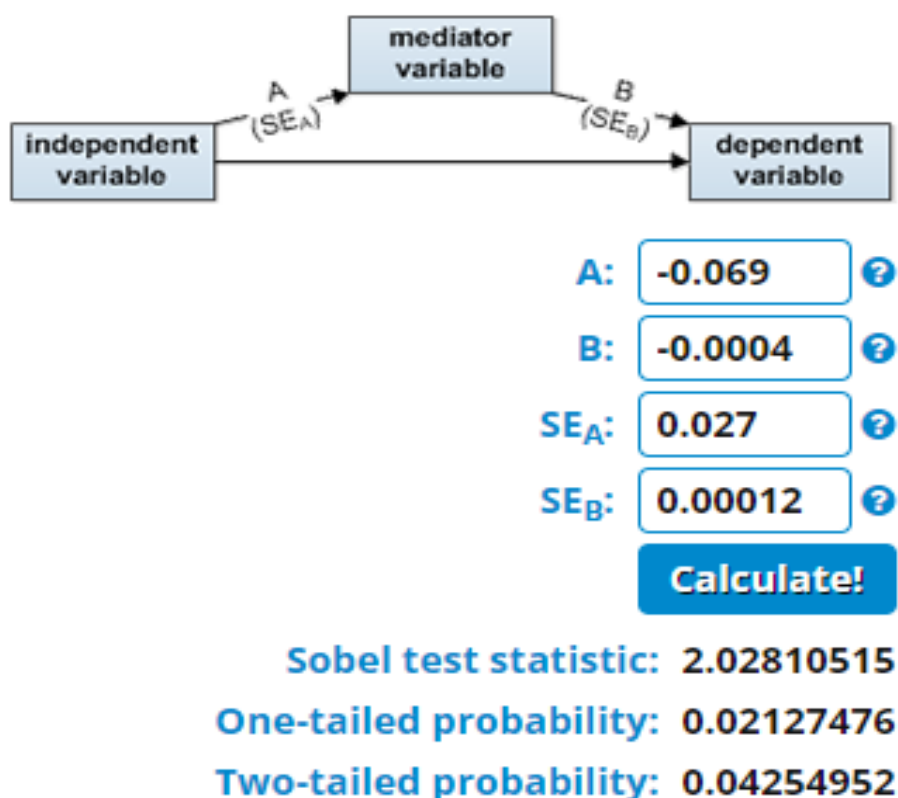


Figure 2. Sobel test

Source: Processed secondary data, 2023

Figure 2 shows the results of the sobel test, where a significance or probability value of $0.021 < 0.05$ was obtained. Thus, it can be concluded that KAMs are able to mediate the influence of audit quality on earnings management.

The Influence of Audit Quality on KAMs

The results of data processing show that audit quality has a positive effect on KAM. The lower the audit quality, the negative impact it will have on key audit matter. If audit quality is low, this means the auditor may not be able to effectively identify, analyze or disclose relevant and significant KAMs. On the other hand, with a good quality audit, the auditor can identify and handle main audit problems appropriately and comprehensively, thereby ensuring that financial reports become more reliable and useful for stakeholders, such as company owners, investors, creditors and other related parties (Marques et al., 2021) These results are in accordance with research

findings conducted by Li et al., (2019) in their research which stated that disclosure of audit quality has a positive effect on KAMS.

The Influence of KAMs on Profit Management

The results of data processing show that KAM has a negative effect on earnings management. KAM can reduce the potential for earnings management. In the independent auditor's report, KAM is presented to provide additional information to users of financial reports in a transparent manner regarding complex and high-risk aspects of financial reports. This can reduce the potential for earnings management Xiao et al., (2020), because more attention and supervision from external parties (auditors) can make company management more careful in its financial reporting. These results are in accordance with research conducted by Gold et al., (2020), which shows that managers are less likely to make aggressive financial reporting decisions in the presence of KAM (compared to the absence of KAM). This research proves that KAM has a negative influence on earnings management.

The Influence of Audit Quality on Earnings Management

The results of data processing show that audit quality has a negative effect on earnings management. The higher the quality of the audit, the more effective the control over earnings management practices carried out by the company. Velte & Issa, (2019) If audit quality is high, auditors will tend to be more careful, critical and firm in auditing financial reports. Thus, company management will face greater pressure and obstacles to carry out earnings management practices. In this situation, earnings management practices can have a negative impact on the reliability of financial reports and lead to the presentation of inaccurate information that can mislead stakeholders and investors. These results are in accordance with research findings conducted by Rahmawati, (2020) in her research showing that audit quality has a negative effect on earnings management.

The Influence of Audit Quality on Profit Management Through Key Audit Matters

As a Mediating Variable. The results of data processing show that KAM is able to mediate the positive influence of audit quality on earnings management. The mediator role of Key Audit Matters means that its existence can influence the relationship between audit quality and earnings management. When audit quality is high, auditors tend to be more careful in auditing financial reports and identifying significant KAM problems (Shamsuddin, 2020). With a more transparent and focused KAM, earnings management can face greater obstacles in attempts to manipulate financial reports. The results of this research are in accordance with research conducted by Sumiadji et al., (2019) showing that there is a positive influence between auditor tenure on earnings management. Auditor tenure has a significant relationship with earnings management and minimizing earnings manipulation (Ibrahim et al., 2020).

CONCLUSION

It can be concluded that: Audit quality has a positive effect on Key audit matters (KAMs); Key Audit Matters (KAMs) have a negative effect on Earnings Management; Audit Quality has a negative effect on Earnings Management; Key Audit Matter (KAMs) is able to mediate the positive

influence of audit quality on earnings management. It is hoped that this research will provide useful information for manufacturing company management that high levels of audit quality and KAM can be predicted to reduce earnings management. Suggestions that can be given for further research need to consider other research variables to analyze other variables that influence earnings management, apart from audit quality and KAM variables. The limitation of this research is that the sample used in this research only uses consumer goods sector companies in 2022.

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