ABSTRACT

This study aimed to examine the effect of audit quality is proxied by the size of the firm, industry specialist auditors, and auditor independence on earnings management in corporate banking. The existence of information asymmetry encourages managers to perform earnings management practices. In this research, a public accounting firm size was measured by using a Big Four accounting firm and Non-Big Four accounting firm. Industry specialist auditors in this study was measured by using a dummy variable. Auditor independence is measured by using the length of the relationship with the client auditor (audit tenure). Beaver and Angel models used to calculate the magnitude of earnings management (discretionary accruals). In this study using control variables firm size, operating cash flow, growth, and leverage.

This research used 80 samples of banking companies listed in BEI on period 2008-2011. The measured by linear regression with SPSS program. In collection data, this research analyzed secondary data obtained from ICMD (Indonesia Capital Market Directory) and Indonesian Stock Exchange.

The results showed that the variables that had a significant influence on earnings management is the firm size, and industry specialist auditors. Based on the results of the study showed that the size of the firm a significant negative effect on earnings management. Companies audited by a Big Four accounting firm higher in detecting earnings management practices compared to firms audited by non-Big Four accounting firm are more susceptible is not detection of earnings management. Industry specialist auditors significant negative effect on earnings management. This indicates that the company is audited by auditors who specialize in inhibiting greater earnings management practices. Auditor independence variables do not have a significant influence on earnings management conducted banking company.

Keywords   : audit quality, earnings management, The Big Four accounting firm, industry specialist auditors, auditor independence.