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Why State-Owned Enterprises Often Do Earnings Management?

Wuri Cahyaning Pramusti[1a], Elva Nuraina[1b], Elana Era Yusdita[1c*]

[1a,1b,1c)] Department of Accounting Education, Faculty of Teacher Training and Education, Universitas PGRI Madiun
Jalan Setia Budi No. 85 Madiun 63118, Indonesia

e-mail: [a]wuricahyaning2@gmail.com, [b]elvanuraina@unipma.ac.id, [c*]elaradita@unipma.ac.id
*****corresponding author

Abstract

The requirement that the income statement provided be in the profit position all of the time encourages the use of earnings management. Managers manipulate data using accounting practices to fool stakeholders. The goal of this research is to see how the effect of government ownership on earnings management affects audit quality. For 2015-2020, the population is State-Owned Enterprises listed on the IDX. A sample of 24 State-Owned Enterprises is obtained using the purposive sampling method. Using EViews version 10, simple regression and moderated regression analysis (MRA) were used to analyze the data. The findings reveal that government ownership has no effect on earnings management and that audit quality has no effect on earnings management when it comes to government ownership. Big Four public accounting firms have been unable to curb earnings management practices due to government expectations and protection. The bank's earnings management *profit maximization* occurred as a result of the bank's desire to attract and increase the confidence of third-party funds, which are the bank's greatest source of funds. *Income minimization*, on the other hand, occurred because the corporation intended to lower the amount of tax it had to pay to the government.

Keywords: audit quality; earnings management; state-owned enterprises

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INTRODUCTION

Financial statements are useful for investors to make economic decisions related to information on the presentation of the statement of financial position, financial performance, and cash flows of the entity during the reporting period (PSAK No. 1 concerning Revised Financial Statements 2015). Financial statements are also a liaison between agent and *principal*. According to Sari & Khafid (2020), the relationship between the owner and management can be often manipulated by the management. The management deceives information from financial statements addressed to users of financial statements. The demand that the income statement presented must always be in the profit position makes the practice of earnings management high. Management as the entity's manager has the right to determine the accounting method used in the preparation of financial statements. Modify information with accounting methods to deceive stakeholders based on the desired goals. The income statement becomes a benchmark for evaluating the company's performance and is used for economic decision-making (Febria, 2020; Hasty & Herawaty, 2017 & Perdana, 2019). Earnings information can be the target of efforts to modify earnings as an opportunistic management action to maximize satisfaction (Hasty & Herawaty, 2017). In addition to maximizing satisfaction, earnings management also has an impact on increasing investor confidence in the company. However, the truth is that it is detrimental to the investor because the profit presented is not the actual profit.

One of the financial statement modification scandals that occurred with Garuda Indonesia in 2018 became the public spotlight. After experiencing a loss in 2017, GIAA posted a net profit of 11.22 billion rupiahs. The surge in net profit came from Mahata's revenue recognition of US$ 239,940,000, of which is profit sharing from PT. Sriwijaya Air of US$ 28,000,000 (Sugianto, 2019). The profit resulting from the recognition of revenue from a 15-year employment contract should have been recognized as a receivable. Finally, Garuda Indonesia Indef economist, Bhima Yudhistira asked IDX authorities and the Supreme Audit Agency (BPK) to further audit Garuda Indonesia's financial statements which were considered strange (Jannah, 2019). In addition, Garuda Indonesia's net profit declined from year to year starting in 2015 to 2018 and experienced an increase in profit at the end of the 2019 period (Anonymous, 2019).

Government ownership was chosen in this study because the government is considered capable of helping the pooling of interests between shareholders and managers (Hunardy & Tarigan, 2017; Sabrina & Muharam, 2015). In this case, the government has rules and mechanisms in carrying out its duties, so that it can become a medium for supervising management. So the ownership of the government can oversee the actions of management in conducting earnings management. In line with the opinion of Jensen & Meckling (1976), this fundamental difference in interests causes the need for rules to be applied to protect the interests of shareholders. Management is responsible for fulfilling the interests of shareholders, but it tends to optimize their interests and ignore the interests of shareholders. It results in information asymmetry. Management who has more information about the company leads to opportunistic actions, namely earnings management actions. This information asymmetry can be minimized if the agent and principal implement a transparency system.

The agent provides signals in the form of information carried out by management in realizing the principal's wishes. The information is in the form of accountable financial reports that are presented transparently. So it can be consumed by users of interest and the public. The large percentage of government ownership is expected to be able to minimize the management's desire to manage earnings based on satisfaction. However, the large percentage of government ownership can also encourage management to modify financial statements for certain purposes. For example, there is pressure from superiors so that the income statement is always in a profit position. In addition, companies that operate not for personal interests but can provide benefits to stakeholders. Similar to Garuda Indonesia, which is under pressure every year, starting in 2015, Garuda Indonesia has always experienced a decline in profits, even to the point of experiencing substantial losses. In this condition, the stakeholders need a third party to ensure that the financial statements presented meet accounting standards.

Government ownership in state-owned companies is the largest shareholder so that the control of the company is in the hands of the government. Government ownership structure can affect the company's performance in generating profits. The government as a policymaker will certainly make clear policies to be implemented in its business activities. In this case, it is considered to be able to improve the company's financial performance which also affects the profit generated (Hunardy & Tarigan, 2017). In addition, Asfahani (2017) said that companies with most of the shares owned by the government are usually going public companies so that everything about the company will be observed and assessed by the wider community. Government ownership in the company will make the right economic decisions, so as not to get a bad judgment from stakeholders. In line with research Gonzalez & Meca (2014) that the government ownership structure with a high percentage can affect

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earnings management in the company because directly and indirectly, the decision is in the hands of the government. This statement is supported by the results of research conducted by Sadjiarto et al. (2019), that government-owned companies do not agree to carry out earnings management because the government participates in equity participation so that government control can be used to resolve agency conflicts. In contrast, Attia (2019) states that government ownership does not affect earnings management, because their goal of earnings management is to increase debt and automatically enjoy low debt costs. State-Owned Enterprises still carry out earnings management, especially in the construction sector that has the highest earnings management, while the metal sector carries out the lowest earnings management (Fransisca, 2021).

According to various studies conducted by researchers, government ownership has a negative impact on earnings management. The researchers incorporated the audit quality variable as a moderator to mediate the conflict between the agent and the principal. There are variances in the results of the above research related to the influence of government ownership on profits management. High audit quality can reliably provide an audit opinion on a company's financial statements and be accounted for so that earnings management can be detected (Hasty & Herawaty, 2017).

The auditor's ability to detect and report a financial statement inaccuracy is characterized as audit quality. Aggressive income or discretionary accruals are the most typical financial statement errors (Ndubuisi, Okeke, & Chinyere, 2017). User confidence in the financial statements given by quality audit reports will rise, allowing them to be utilized in future decision-making (Fitriyani et al., 2014; Ndubuisi et al., 2017). The extent of auditor independence is affected by the size of the public accounting firm, therefore Big Four public accounting firms can disclose earnings management methods more than non-Big Four public accounting companies (Hasty & Herawaty, 2017).

The external audit used by Garuda Indonesia in 2018 was the Tanubrata Sutanto Fahmi Bambang & Rekan Public Accounting Firm. It is a member of BDO International, but not a member of the Big Four Public Accounting Firm. According to the information in the 2015-2020 annual report, PT Garuda Indonesia always used audit services from the Big Four Public Accounting Firm from 2015 to 2017. BUMN (State-owned enterprises) is a go public business entity directly supervised by the government. It cannot be separated from the act of polishing financial statements that do not reflect the actual report. The audit, which is supposed to mediate the conflict between the agent and the principal, has instead become an adherent of earnings management.

The level of corporate accountability is very important for stakeholders. The guarantee for the wealth invested in the company is accounted for in the financial statements made. Stakeholders make future decisions based on the financial statements. The report presents components that can explain how the company's performance which is measured by the profits generated to improve its performance by applying accounting standards that are considered the most appropriate. In BUMN companies, there are high demands for transparency and accountability to gain public trust that the funds invested by the state in these companies can be managed properly. So, the existence of a third party can mediate an agency conflict between the principal and the agent. Third parties who can mediate are those who have a professional attitude, are independent, and have high work integrity. Uncertainty in the financial statements can be anticipated through a quality auditing process. Audit quality can be seen from the reputation of the auditor who audits. If the auditor's reputation is good, the audit results provided can be trusted. The Public Accounting Firm with good reputations includes the Big Four Public Accounting Firms. It is hoped that the involvement of the Big Four Public Accounting Firm can influence management in presenting quality financial reports. Audit quality can be seen from the reputation of the auditor who audits. If the auditor's reputation is good, the audit results provided can be trusted. The Public Accounting Firm with good reputations includes the Big Four Public Accounting Firms. It is hoped that the involvement of the Big Four Public Accounting Firms can influence management in presenting quality financial reports. A quality audit can be seen from the reputation of the auditor who audits. If the auditor's reputation is good, the audit results provided can be trusted. The Public Accounting Firms with good reputations include the Big Four Public Accounting Firms. It is hoped that the involvement of the Big Four Public Accounting Firm can influence management in presenting quality financial reports.

Audit quality can affect earnings management as the study conducted by Amijaya & Prastiwi (2013); Guna & Herawaty (2010); that audit quality is considered as a control and can detect earnings management in making financial statements so that management will think again to manage earnings. In addition, the financial statements that have been audited by the Big Four Public Accounting Firm can increase the credibility of the financial statements so that they can attract investors (Aryanti, Kristanti, & Hendratno, 2017). On the contrary, the research of Christiani & Nugrahanti (2014); Rachmawati & Fuad (2013); and Wiryadi & Sebrina (2013) show that audit quality does not affect earnings management. It is because companies prefer the assessment of financial statements to look good and they do not care about the reputation of the Big Four or non-Big Four Public Accounting Firm. So the Big Four or non-Big Four Public Accounting Firms have not been proven to limit earnings management practices. From the explanation above, there are inconsistencies in the research results. Audit quality can be used as a moderating variable to moderate the relationship between government ownership and earnings management.

The novelty in this study is the use of government ownership as the dependent variable, earnings management as the independent variable, and audit quality as the moderating variable where this study examined State-Owned Enterprises listed on the IDX during 2015-2020. The State-Owned Enterprises are chosen because government ownership is only in State-owned companies where the company has very high control, but there are still cases of earnings management. One of the earnings management cases occurred at PT Garuda Indonesia in 2018. In addition, State-Owned Enterprises also have a great responsibility to the government to help realize the welfare of the community following Law no. 19 of 2013. In this study, audit quality can be a moderator because the opinion expressed by the auditor is considered to be able to minimize conflicts between management and shareholders, namely the government so that it can detect earnings management. So, the purpose of this study is to find out how the influence of government ownership on earnings management, and how the role of audit quality as moderating government ownership with earnings management using discretionary accruals.

RESEARCH METHODS

This study took place over the course of four months, from March to June 2021. The data used in this study is secondary data in the form of financial statements of State-Owned Enterprises registered on the IDX. The variables used in this study are government ownership, earnings management, and audit quality. Simple regression equation is used to determine the effect of government ownership on earnings management, while Moderate Regression Analysis (MRA) is used to determine whether audit quality can moderate government ownership of earnings management. The purposive sampling strategy was used in this study. This study examined a sample of 24 State-Owned Enterprises that were registered on the Indonesia Stock Exchange between 2015 and 2020. In the table below, the sampling criteria are listed.

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Table 1. Sampling Criteria

No	Information	Amount
1	State-Owned Enterprises registered on the Indonesia Stock Exchange (IDX) for the 2015-2020 period.	25
2	State-Owned Enterprises that do not publish annual reports in a row in 2015-2020.	(1)
3	Data relating to research variables are not available during the 2015-2020 period	0
	SOE data sampled	24
	Observation data (24x5)	120

Source: Secondary data processed by researchers (2021)

The operational definition in this study is as follows. Government ownership can be known by comparing the percentage of shares owned by the government to the total number of outstanding shares owned by the company (Wiranata & Nugrahanti, 2013). Earnings management is the process by which a company's management uses accounting principles to provide high-quality data in financial statements. Proxy discretionary accruals are used to determine earnings management (DA). The Modified Jones Model is used to measure earnings management in this study. According to Dechow, Sloan, and Sweeney (1995), the Jones modification model is calculated as follows:

a. Calculation of total accruals

$$TAC_{it} = NI_{it} - CFO_{it}$$

Furthermore, the estimation of total accruals using OLS is

$$\frac{TAC_{it}}{A_{it-1}} = \beta_1\left(\frac{1}{A_{it-1}}\right) + \beta_2\left(\frac{\Delta\, REV_{it}}{A_{it-1}}\right) + \beta_3\left(\frac{\Delta PPE_{it}}{A_{it-1}}\right) + e$$

b. From the estimation results of total accruals, it can be determined the value of Non-Dictionary Accruals with the following formula:

$$NDAC_{it} = \beta_1\left(\frac{1}{A_{it-1}}\right) + \beta_2\left(\frac{\Delta\, REV_{it} - \Delta\, REC_{it}}{A_{it-1}}\right) + \beta_3\left(\frac{\Delta PPE_{it}}{A_{it-1}}\right) + e$$

c. Then calculate Dictionary Accruals as a proxy for earnings management with the formula

$$DA_{it} = \frac{TAC_{it}}{A_{it-1}} - NDAC_{it}$$

Where:

TAC_{it}	=	total accruals of the company in period t
NI_{it}	=	company's net profit in period t
CFO_{it}	=	the company's total operating cash flow in period t
A_{it-1}	=	total assets of the company before period t
ΔREV_{it}	=	the difference between the company's total revenue in period t and period t-1
ΔREC_{it}	=	the result of reducing the total receivables of period t with the previous period
ΔPPE_{it}	=	total 110negative, plant, and equipment of the firm in period t
$NDAC_{it}$	=	*Non-Dictionary Accruals* company in period t
DA_{it}	=	*Dictionary Accruals* company period t

Audit quality is defined as an external audit that is trusted to detect fraud or inaccuracies in financial statements and report them to stakeholders. The size of the Public Accounting Firm can be used to determine audit quality. This viewpoint is consistent with Hasty & Herawaty (2017), who stated that audit quality can be evaluated by the Public Accounting Firm's judgment. A dummy variable determines the audit quality variable. Companies that employ the services of the Big Four Public Accounting Firms are assigned a value of 1, while companies that do not use the services of the Big Four Public Accounting Firms are assigned a value of 0.

Eviews version 10 is being used to process the data that has been obtained. The Eviews offer a number of benefits, including the ability to analyze data in time series, cross-section, and panel formats. The results of data processing are displayed on a single screen, making it easy for consumers to see the results. Furthermore, data processing results are simple to copy into other programs such as MS Word or similar (Winarno, 2017). The Eviews program uses descriptive statistical analysis, classical assumption testing, and hypothesis testing as data analysis methodologies. Normality, multicollinearity, autocorrelation, and heteroscedasticity tests are examples of traditional assumption tests. A simple linear regression test, T-test, moderated regression analysis (MRA), and the coefficient of determination are among the hypothesis tests.

If the study just has one independent variable, a basic linear regression test is utilized (Priyastama, 2017). This basic linear regression test was used to determine how closely government ownership and earnings management are linked.

In research, the t-test is used to see how well independent factors may partially explain the variation between variables. A significant level of 0.05 was used in this study to compare the value of t-count and t-table. If the significance level in the test findings is less than 0.05, it is said that there is a partial effect. MRA is a test of moderating variables that determines whether the variables in the regression have interactions. If F count > F table, audit quality is considered to be able to increase or weaken the relationship between government ownership and earnings management.

The coefficient of determination is used in this study to assess the model's capacity to explain changes in the dependent variable. 0 and 1 are the determination values. The tiny Adjust R Square value reveals the independent variable's low ability to explain the dependent variable. If the Adjust R Square value is close to 1, on the other hand, it can be assumed that the independent variable can explain all of the information needed to project the variable's fluctuation.

RESULTS AND DISCUSSION

The results of the descriptive analysis show that State-Owned Enterprises have an average earnings management of -0.014748 shows that the company performs earnings management by minimizing profit. Narolita & Krisnadewi (2016) earnings management by minimizing earnings is known from the negative descriptive accrual value, while earnings management by maximizing earnings is known from the positive descriptive accrual value. The mean value of government ownership is 0.636096, which means government ownership in State-Owned Enterprises by 63%. While the mean value of audit quality is 0.641667 which means there are 64.17% using the Big Four Public Accounting Firm audit services.

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Table 2. Descriptive Analysis Results

	Government Ownership (X1)	Audit Quality (X2)	Earnings Management (Y)
Mean	0.636096	0.641667	-0.014748
Median	0.641864	1.0000000	-0.014792
Maximum	0.90252	1.0000000	0.008526
Minimum	0.411043	0.000000	-0.040918
Std. Dev.	0.109774	0.481521	0.012178
Observations	120	120	120

Source: Output Eviews Version 10 (2022)

The chow test, Hausman test, and LM test are used to pick the panel data regression estimation model. The Chow test is used to determine if the common effect model or the fixed effect model is the best model. The Hausman test is used to determine which model, fixed-effect or random-effect, is the best. The LM Test is used to choose between the common effect model and the random-effect model as the best model. The table below summarizes the outcomes of the panel data regression estimation model selection.

Table 3. Chow Test Results

Effects Test	Statistics	df	Prob.
Cross-section F	48.402878	(23.94)	0.0000
Cross-section Chi-square	306.338275	23	0.0000

Source: Output Eviews Version 10 (2022)

Table 4. Hausman Test Results

Test Summary	Chi-Sq. Statistics	Chi-Sq. df	Prob.
Cross-section random	1.674557	2	0.4329

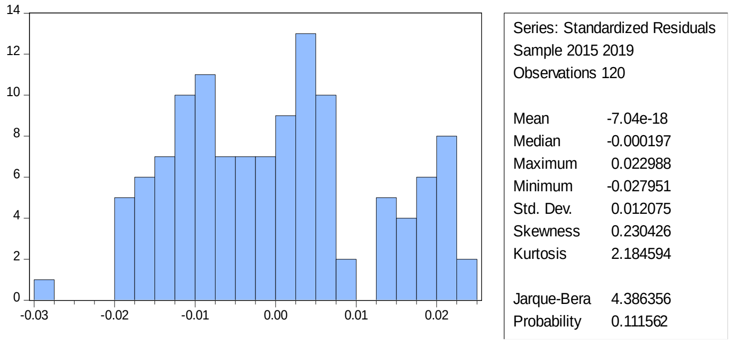
Source: Output Eviews Version 10 (2022)

Table 5. LM Test Results

Null (no rand. Effect) Alternative	Cross-section one-sided	Period one-sided	Both
Breusch-Pagan	194.3818	2.058204	196,4400
	(0.0000)	(0.1514)	(0.0000)
Honda	13.94209	-1.434644	8.844097
	(0.0000)	(0.9243)	(0.0000)
King-Wu	13.94209	-1.434644	4.042195
	(0.0000)	(0.9243)	(0.0000)
GHM	-	-	194.3818
	-	-	(0.0000)

Source: Output Eviews Version 10 (2022)

The Prob. Cross-selection Chi-square value was 0.00 based on table 3. The fixed-effect model performs better than the comment effect model when the value is 0.00 (<0.05). The result of Prob. *Cross-section random* 0.00 in Table 4 is 0.4329 (> 0.05), indicating that the random effect model is superior to the fixed effect model. Cross-selection *one-sided* 0.00 was obtained in table 5. The random effect model performs better than the common effect model when the value is 0.00 (<0.05). The Chow test, Hausman test, and LM test results indicated that the random effect model was preferable to the fixed-effect and common effect models. As a result, the random effect model is a good choice for testing the traditional assumptions and MRA.



Picture 1. Normality Test Results
Source: Output Eviews Version 10 (2022)

Table 6. Multicollinearity Test Results

	X1	X2	Y
X1	1.0000000	-0.298147	-0.112777
X2	-0.298147	1.0000000	-0.054856
Y	-0.112777	-0.054856	1.0000000

Source: Output Eviews Version 10 (2022)

Table 7. Autocorrelation Test Results

R-squared	0.006051	Mean dependent var	-0.002028
Adjusted R-squared	-0.010940	SD dependent var	0.003757
SE of regression	0.003777	Sum squared resid	0.001669
F-statistics	0.356134	Durbin-Watson stat	1.756239
Prob(F-statistic)	0.701135		

Source: Output Eviews Version 10 (2022)

Table 8. Calculation of Autocorrelation Test Results

DW coefficient	**Criteria**			
	dU	**DW**	**4- dU**	**Information**
1.756239	1.7342	1.756239	2.2658	There is no autocorrelation, positive or negative

Source: Output Eviews Version 10 (2022)

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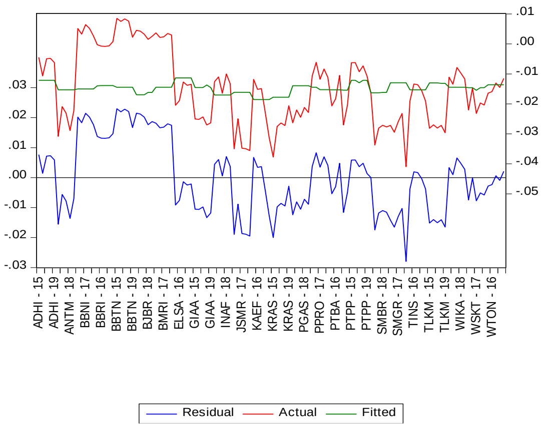

Picture 2 Heteroscedasticity Test Results
Source: Output Eviews 10 (2022)

The data criteria for the classical assumption test were met, namely that it was normally distributed, free of multicollinearity, autocorrelation, and heteroscedasticity. The probability value is 0.111562 (0.111562> 0.05), hence the data is regularly distributed, according to Figure 1. Table 6 shows that the correlation coefficient is below 0.9, indicating that the research variable is not multicollinear. Furthermore, the autocorrelation test shows that if the DW value is between dU and 4-dU, there is no autocorrelation (Ghozali, 2017:94). The Durbin Watson (DW) value of 1.756239 is shown in Table 7. With 120 samples and 2 variables, the Durbin Watson (DW) table value for a significant 0.05 in the value of dU is 1.7342. While 4-dU has a value of 2.2639, (4-1.756239). As a result, the value of DW is less than the value of dU and 4-dU (1.7342<1.756239<2.2639). According to the given results, the regression model has no autocorrelation. The heteroscedasticity test indicates that the generated image does not form a patterned graph, indicating that there is no heteroscedasticity.

The influence of government ownership characteristics on earnings management was investigated using a simple linear regression test. Meanwhile, the influence of audit quality in moderating government ownership characteristics on earnings management is investigated using moderated regression analysis (MRA). The following table shows the simple regression results:

Table 9. Simple Regression Test Results

Variable	Coefficient	Std. Error	t-Statistics	Prob.
C	-0.003676	0.014976	-0.245470	0.8065
KP	-0.016548	0.022975	-0.720294	0.4728
KA	-0.000850	0.001663	-0.510944	0.6104

Source: Output Eviews Version 10 (2022)

The resulting equation is

ML = α + βKP

ML = -0.003676 – 0.016548KP…………………………...…………….*Equation 1*

Value t count < t table (-0.720294 < 1.98027) with a prob value greater than 0.05 (0.4728> 0.05). Thus, it can be concluded that government ownership has no effect on earnings management, so hypothesis 1 (H1) is rejected.

Table 10 Coefficient of Determination

R-squared	0.006051	Mean dependent var	-0.002028
Adjusted R-squared	-0.010940	SD dependent var	0.003757
SE of regression	0.003777	Sum squared resid	0.001669
F-statistics	0.356134	Durbin-Watson stat	1.756239
Prob(F-statistic)	0.701135		

Source: Output Eviews Version 10 (2021)

Based on the table above, the value of Adjusted R Square is -0.010940, meaning that government ownership is only able to explain 1.09% of earnings management variables, the rest are other factors not examined by researchers. The Moderate Regression Analysis (MRA) equation model is

$ML = \alpha + \beta_1 KP + \beta_2 KA + \beta_3 KP * KA + \varepsilon$ ………………………………………. *Equation 2*

Where:

ML	=	Earnings management
α	=	Constant Value
β	=	Independent variable coefficient
KP	=	Government Ownership
KA	=	Audit Quality
β_3	=	Interaction
ε	=	Error

The results of the Moderated Regression Analysis (MRA) are described in the table below:

Table 11 Test Results Moderated Regression Analysis (MRA)

Variable	Coefficient	Std. Error	t-Statistics	Prob.
C	-2.09E-05	0.016608	-0.001257	0.9990
KP	-0.021914	0.025307	-0.865906	0.3883
KA	-0.008044	0.013188	-0.609940	0.5431
KA*KP	0.011142	0.020249	0.550269	0.5832

Source: Output Eviews Version 10 (2021)

The resulting equation is

ML = 0.000005 – 0.021914KP – 0.008044KA + 0.011142KM*KA + ε………….*Equation 3*

In table 11 the regression coefficient of audit quality moderates the relationship between government ownership and earnings management with a positive value of 0.011142. The conclusion is that when audit quality moderates government ownership with earnings management and increases one unit, then earnings management is worth 0.011142. Based on table 11 above, the results of the analysis based on the probability test are the T-test and the MRA test. The T-test is seen from table 11 which shows a probability value of0.5832. The probability value is greater than the significant value, meaning that audit quality cannot moderate the relationship between government ownership and earnings management. Thus, hypothesis 2 (H2) is rejected.

The MRA test is used to determine the existence of audit quality in moderating the relationship between government ownership and earnings management. To find out whether audit quality can be moderated or not is done by comparing the results of the data output before and after moderation, that is, seeing changes in the value of *Adjusted R-squared* in the MRA results table.

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Table 12 Coefficient of Determination Before Moderation

R-squared	0.003875	Mean dependent var	-0.002057
Adjusted R-squared	-0.004567	SD dependent var	0.003767
SE of regression	0.003775	Sum squared resid	0.001682
F-statistics	0.459023	Durbin-Watson stat	1.761300
Prob(F-statistic)	0.499407		

Source: Output Eviews Version 10 (2021)

Table 13 Coefficient of Determination After Moderation

R-squared	0.008608	Mean dependent var	-0.002000
Adjusted R-squared	-0.017031	SD dependent var	0.003747
SE of regression	0.003779	Sum squared resid	0.001657
F-statistics	0.335743	Durbin-Watson stat	1.770043
Prob(F-statistic)	0.799513		

Source: Output Eviews Version 10 (2021)

Table 12 shows the value of *Adjusted R-squared* before moderation by -0.004567. Whereas *Adjusted R-squared* table 13 after moderation of -0.017031. It means that the relationship between audit quality and government ownership with earnings management is only able to explain 1.7% by the researcher and the rest are other factors not examined. *Adjusted R-squared* before and after an increase of 0.021598 (-0.017031-0.004567). It shows that the existence of a moderating variable can increase the coefficient of determination.

Discussion

The results of data processing from 120 samples with descriptive statistical techniques using the Eviews version 10 program explain that government ownership does not affect earnings management. This decision-making is obtained from the results of data processing in table 4.8 where the coefficient of government ownership is-0.016548 and sig value 0.4728 (0.4728 > 0.05). So it can be concluded that government ownership does not affect earnings management.

The phenomenon of earnings management in Indonesian State-Owned Enterprises is not follow agency theory. In agency theory, there is a contract between the agent and the principal. *Agent* as a company manager knows more information than the principle so that it can cause information asymmetry. On the other hand, the government ownership structure can affect company profits, because the government is a policymakers where policies are made there are clear mechanisms and rules to increase profits (Hunardy & Tarigan, 2017). The existence of these regulations is considered to be able to reduce agency conflicts, but in reality, government ownership cannot overcome earnings management. Agree with Wiranata & Nugrahanti (2013) that the government intervenes in improving the performance of the companies it owns in the interests of the government.

Following signaling theory, regardless of the condition of the company, whether good or bad, management is required to give a positive signal so that management performance is considered good by stakeholders. The information presented is the most important element for stakeholders to make decisions, because the information presents a picture of past and future conditions (Sabatini & Sudana, 2019). BUMN is a go public company, where all information submitted will be in the spotlight of the wider community. Misinformation submitted will have an impact on the sustainability of its business, so the BUMN chooses to give a positive signal to explain the condition of the company. A positive signal is not only needed by the government as the largest shareholder but also for the people of Indonesia. State-Owned Enterprises have obligations to the people which are regulated in RI Law No. 19 of 2003. The obligations of State-Owned Enterprises include providing goods and services to meet the needs of the community, providing public services, and earning profits so that State-Owned Enterprises continue to grow. If State-Owned Enterprises always give positive signals, it will increase the trust and good judgment of stakeholders in managing their companies.

According to Novianus (2016), from the results of earnings management calculations using a modified Jones model proxy with a value of *discretionary accruals* negative means the company manages earnings with income minimization, while a positive discretionary accrual value means the company manages earnings with income maximization. Bank Negara Indonesia (Persero) Tbk. (BBNI), State Savings Bank (Persero) Tbk. (BBTN), West Java & Banten Regional Development Bank (BJBR), Bank Mandiri (Persero) Tbk. (BMRI) manage earnings with income maximization. The company's goal is to manage earnings with income maximization so that the company's performance looks good. Apridasari (2020) said that the higher the profit generated by the bank, the greater the bonus received by management, and investors are increasingly interested in investing in shares or increasing the level of share ownership in the company. Banks tend to do income maximization to attract Third Party Funds (DPT). Deposits, commonly known as deposits, are the largest source of funds from banks. according to RI Law No. 10 of 1998 concerning Amendments to Law No. 7 of 1992 concerning Banking The DPT in question is funds originating from the public in the form of deposits, demand deposits, savings, certificates of deposit, and so on. Third-party funds are very important for the sustainability of banks because the largest source of funds for banks according to data in 2020 is 90% of the bank's general funding sources (Annur, 2021). So, there is no doubt that state-owned banks still carry out earnings management with income maximization.

Table 2 shows the average value of earnings management -0.014748, this figure explains that on average State-Owned Enterprises do income minimization. Minimizing profits is carried out when the current year reaches a high profit, the aim is to overcome doubts in the next period so as not to experience losses. When companies earn high profits, companies tend to use the income minimization method to avoid government policies on antitrust regulations and increase corporate income taxes (Syahrial, 2013). By minimizing profits, it is undeniable that the company has a goal to avoid taxes (Gonzalez & Meca, 2014). But according to Antonius & Tampubolon (2019) and Rahmadani, Muda, & Abubakar (2020), the size of the company's earnings management does not affect tax avoidance but can reduce the tax burden. Tax avoidance is one of the political motivations in earnings management. However, earnings management actions will harm the stakeholders. Where earnings management affects the size of the return received by stakeholders. In addition, the decision-making will not be following the actual conditions.

Audit quality has not been able to moderate the relationship between government ownership and earnings management. Seen from Table 4.10 where the regression coefficient of government ownership is-0.021914 and the significance value 0.3883 (0.3883 > 0.05), the audit quality regression coefficient is -0.008044 and the significance value 0.5431 (0.5431 > 0.05), and the regression coefficient of government ownership* audit quality is 0.011142 and the significance value 0.5832 (0.5832 > 0.05). This means that audit quality has not been able to moderate the relationship between government ownership and earnings management.

The results of this study are in line with Hasty & Herawaty (2017)which uses the same variable, namely audit quality as a moderation. Where in his research audit quality has a value more than the probability coefficient used, namely 0.05. Thus, audit quality has not been able to moderate the relationship between government ownership and earnings

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management. It is along with the studies conducted by Agustia (2013) and Ulina et al. (2018). They stated that the low litigation risk in Indonesia causes the Big four Public Accounting Firm to be reluctant to disclose earnings management. So the Big four Public Accounting Firm does not guarantee the existence of earnings management in the company. Big Four Public Accounting Firm has not been able to identify and reduce misstatements of financial statements so that earnings management practices still occur in the company.

Equation 3 above explains that the audit quality coefficient value is (-0.008044) and the value of the moderating coefficient is 0.011142. By comparing the value of the coefficient of audit quality and the value of the moderating coefficient, both values are significant (-0.008044 < 0.05 and 0.011142 < 0.05). Therefore, the types of moderating variables in this study are included in the classification of the quasi moderator. The quasi moderator is a variable that regulates the relationship between the independent variable and the dependent variable, where the quasi moderator interacts with the independent variable and becomes a variable. From the results of data analysis, 64.16% of the total sample used Big four Public Accounting Firm. The meaning is as many as 15 out of 24 State-Owned Enterprises entrust the audit of financial statements to Big four Public Accounting Firm which are considered to be able to ensure the credibility of their financial statements. While the remaining 35.84% use the services of a Non-Big Four Public Accounting Firm.

The coefficient of determination shows Adjusted R Square value before moderation and after moderation increased from 1.09% to 1.7%. From these results, audit quality can help reduce earnings management in BUMN. So that the selection of a Public Accounting Firm to audit the company's financial statements must also be considered by the principle to control agent behavior. The use of Public Accounting Firm services that have high professionalism and independence can increase the credibility and relevance of the company's financial statements (Aryanti, Kristanti, & Hendratno, 2017). Companies audited by competent auditors in terms of cognitive and proficiency in the use of technology can find irregularities in the financial statements presented so that the financial statements presented after the audit can attract investor confidence. In this case, the Public Accounting Firm that has the above criteria is the Big four Public Accounting Firm. The Big Four Public Accounting Firm include Ernst and Young, *PricewaterhouseCoopers* (PwC), Deloitte Touche Tohmatsu (DTT), and Klynveld Peat Marwick Goerdeler (KPMG).

CONCLUSION

The existence of demands and protection from the government makes the agent not worry about managing earnings. Indonesian State-Owned Enterprises still carry out earnings management by *income maximization* and income minimization. Income maximization occurs in banks due to attracting and increasing trust from third-party funds as the bank's largest source of funds. Whereas *income minimization* happened because the company wanted to reduce the tax burden paid to the government.

The association between government ownership and earnings management is not moderated by audit quality. It is due to the government's involvement in policy-making to control the corporation. The employment of audit services by Big four and non-big-four public accounting firms has not been able to enhance or weaken the relationship between government ownership and earnings management, but it has the potential to increase shareholder confidence in the company's financial statements.

Limitations in this study are the lack of references and previous research that used the ownership variable government on earnings management, and audit quality as moderating government ownership while this study interesting because it is motivated by the phenomena that exist in Indonesia.

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