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The Influence Of Procyclical, PSAK 71, Audit Quality On Earnings Management With Leverage Variables As Moderation (Case Study: Banking Companies in Indonesia)

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Abstract

The Covid-19 pandemic has brought about many changes in several aspects, especially in the economic sector. The country of Indonesia has experienced a pandemic since the beginning of 2020, due to this outbreak, economic activities, especially companies, have really felt the impact, especially the banking sector. If we look at it from an economic perspective, the existence of procyclical behavior with a slowing economic rate indicates that the level of economic growth is in a contraction phase. Therefore, if viewed based on business cycle theory, procyclical will explain the relationship between economic conditions in a country, so that economic conditions will later influence company (banking) performance. The existence of procyclicals will later be able to influence the occurrence of management behavior in committing deviations, such as increasing market returns or committing fraud in obtaining the desired profit in response to market interest in investing. In this research, researchers used quantitative research using the eviews tool using multiple linear regression tests and moderated regression analysis. This research also uses a sample of 36 banking sector companies in 2020-2022 that are listed on the IDX. The results of this research are procyclical, PSAK 71, Audit Quality has no effect on earnings management. And the leverage variable is unable to moderate procyclical, PSAK 71, Audit Quality on earnings management.

Keywords: Procyclical, PSAK 71, Audit Quality, Leverage, Earnings Management

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INTRODUCTION

The majority of countries in the world have been hit by the Covid-19 pandemic for the last two years. The Covid-19 pandemic has brought about many changes in several aspects, especially in the economic sector. The country of Indonesia has experienced a pandemic since the beginning of 2020, due to the outbreak, economic activities, especially companies, have felt the impact, especially in the banking sector. Judging from various online and offline newspaper media, non-performing loans in companies have increased greatly, thus having an impact on the slowdown in a country's economy. If we look at it from an economic perspective, procyclical behavior with a slowing economic pace shows that the level of economic growth is in a contraction phase. Therefore, if viewed based on business cycle theory, procyclical will explain the relationship between economic conditions in a country, so that economic conditions will influence company performance, especially in the banking world. Procyclical behavior towards banking will be followed by an increase in risk-taking behavior regarding credit distribution which is based on a risk that is not balanced between credit distribution and economic needs. Therefore, procyclical occurs based on two indicators of credit distribution and economic needs. In Indonesia, especially Bank Indonesia (2014), it was found that procyclical banking credit has increased since September 2009.

Based on research by Carvallo Kasman (in Aprilya Dwi Yandari & Erina Sudaryati, 2018) the benchmark for procyclicality uses capital buffer, business cycle, bank size, profitability, and Loan Loss Reserves (LLR). In this study, researchers used these five variables to see whether or not procyclicality occurred in banking companies in banking companies in Indonesia. Therefore, researchers also try to develop research that has been carried out in several studies related to procyclicals such as those carried out by Carvallo, Kasman, and Kontbay-Busun (2015), D'Avino (2015) in America with what happened in Indonesia during the pandemic. covid-19 by developing using PSAK 71 variables, Audit Quality and Leverage. Which procyclical will later be able to influence the occurrence of management behavior in committing deviations, such as increasing market returns or committing fraud in obtaining the desired profit in response to market interest in investing. Apart from that, adding PSAK 71 variables can also have an impact on an increase in the reserve for losses from decreasing a value which will later result in a decrease in company profits (Suroso (2017) in research by Latupeirissa, Clayde (2023)). A decrease in company profits will have an impact on company performance which will also have an impact on interconnected audit quality variables. This can happen because if PSAK 71 experiences a decline, the higher the level of earnings management that will

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affect audit quality. Apart from that, the moderating variable leverage is used as a variable because leverage has a very high potential for committing fraudulent actions in earnings management (Alexandri and Anjani, 2014).

According to Scott (2012), income smoothing has been widely understood as income smoothing, which is a form of earnings management that is often carried out by managers, which is a form of accounting manipulation policy. Income smoothing itself in banking companies is carried out when a bank manager allocates a higher reserve when the bank's condition is in an improving condition, where income smoothing is used when the bank experiences a bad condition (DeFond & Park, 1997). Apart from that, Taktak, Shabou, and Dumontier (2010) research related to income smoothing which is related to loan loss provisions which explains that many banks deliberately smooth their income either by using loan loss provisions or by selling trading securities. Financial institutions, such as banks, resort more to smoothing real profits than artificial ones. The results also show that banks' propensity to smooth reported earnings depends on their exposure to prudential and curative constraints and on various institutional constraints. So that this research can later contribute to users and other researchers who want to research procyclicals, PSAK 71, audit quality itself in the banking sector. Therefore, if we look at the existing problems, the researcher wants to look specifically at the economic conditions in Indonesia during the 2020-2022 period. Especially in banking companies which are related to procyclical behavior, PSAK 71, audit quality and agency theory, namely income smoothing. So based on these problems, the researcher chose the title "The Influence of Procyclical, PSAK 71, Audit Quality on Earnings Management with Leverage Variable as a Moderating Variable (Case Study: Banking Companies in Indonesia 2020-2022)".

METHODS

This research uses quantitative research with a causal associative approach. Associative research is research about the existence of relationships between variables in a population which will be tested by the relationships between variables in samples taken based on that population (Sugiyono, 2017). In this research, the research team will analyze the procyclical relationship, PSAK 71, audit quality with the moderating factor being leverage. The population used in this research was the banking sector listed on the Indonesia Stock Exchange from 2020-2022 as many as 46 companies. The sample that will be used in the research uses a purposive sampling technique, which is 36 companies listed on the IDX.

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In this research, the data used is data included in panel data, which is a combination of two time series and cross sections. So the data analysis method used in this research is a mathematical and statistical method in the form of panel data regression analysis, which uses a statistical test tool, namely Eviews.

The formula for systematic panel data regression analysis is:

Equation 1:

$$MALAB_{it} = \alpha + \beta_1 PC_{it} + \beta_2 PSAK_{it} + \beta_3 KA_{it} + \beta_4 LEV_{it} + e_{it}$$

Equation 2 :

$$MALAB_{it} = \alpha + \beta_1 PC_{it} + \beta_2 PSAK_{it} + \beta_3 KA_{it} + \beta_4 LEV_{it} + \beta 5\,(PC_{it}*LEV_{it}) + \beta_6 (PSAK_{it}*LEV_{it}) + \beta_7\,(KA_{it}*UPit) + e_{it}$$

DISCUSSION

Panel Data Regression Analysis

Panel data regression analysis was carried out to predict the influence of predictor variables on response variables from various sectors observed from research subjects in a certain time period. Panel data regression analysis tests also make it possible for researchers to model and analyze the relationship between dependent and independent variables in a complex panel data framework. The following are the results of the model estimation test in panel data regression analysis:

a. *Common Effect Model*

Tabel 1*. Common Effect Model*

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.352735	3.133385	-0.431717	0.6668
X1	0.282275	0.848824	0.332548	0.7402
X2	-30.81337	52.02397	-0.592292	0.5550
X3	-4.515113	3.302377	-1.367231	0.1745
Z	0.005268	0.008045	0.654756	0.5141

Source: Data processed by researchers (2023)

Based on the results of the common effect model test in table 4.1, it shows that the variable Meanwhile, variable X2 (PSAK 71) is 0.5550, where the value is more than 0.05, so it can be concluded that the PSAK 71 variable has no effect on earnings management.

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and for variable X3 (Audit Quality) it is 0.1745, where the value is more than 0.05, it can be concluded that the audit quality variable has no effect on earnings management.

b. *Fixed Effect Model*

Tabel 2 *Fixed Effect Model*

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.830480	6.833152	-0.267882	0.7896
X1	0.051046	1.180733	0.043233	0.9656
X2	-2.914323	80.35819	-0.036267	0.9712
X3	-0.623447	12.50118	-0.049871	0.9604
z	0.002146	0.018029	0.119046	0.9056

Source: Data processed by researchers (2023)

Based on the results of the fixed effect model test in table 4.2, it shows that the variable Meanwhile, the variable and for variable X3 (Audit Quality) it is 0.9604, where the value is more than 0.05, it can be concluded that the audit quality variable has no effect on earnings management.

c. *Random Effect Model*

Tabel 3 *Random Effect Model*

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.352735	3.193930	-0.423533	0.6728
X1	0.282275	0.865226	0.326245	0.7449
X2	-30.81337	53.02921	-0.581064	0.5625
X3	-4.515113	3.366188	-1.341313	0.1828
Z	5.27E-05	8.20E-05	0.642344	0.5221

Source: Data processed by researchers (2023)

Based on the results of the fixed effect model test in table 4.3, it shows that the variable Meanwhile, the variable Variable X3 (Audit Quality) is 0.1828, where the value is more than 0.05, so it can be concluded that the audit quality variable has no effect on earnings management.

The following is a data significance test in panel data regression analysis:

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Chow Test

The Chow test is carried out to find out which model is most appropriate to take, whether the common effect model or the fixed effect model. The chow test in this research uses the help of the eviews 10 application. The chow test is tested by testing the results of the fixed effect model analysis on eviews 10. The results of the chow test in this research are described in the following table.

The hypothesis used in the Chow test is:

H0: Common Effect Model

H1: Fixed Effect Model

The testing criteria for this Chow test are if the Cross-section Chisquare <0.05 then H0 is rejected and H1 is accepted. The following results of the Chow test in the research can be seen in the table below.

Tabel 4. this Chow test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	0.889485	(35,68)	0.6413
Cross-section Chi-square	40.709992	35	0.2335

Source: Data processed by researchers (2023)

Based on the results of the Chow test in table 4.6 above, the Cross-section Chi-square probability value is 0.2335. where the probability value is more than 0.05. So the researcher draws a conclusion, namely rejecting H0 and H1 being rejected, which means the model chosen is the common effect model.

Hausmann test

The Hausmann test is carried out to find out which model is most appropriate to take, whether the fixed effect model or the random effect model. The Hausmann test was tested by testing the results of the random effect model analysis on Eviews 10. The Hausmann test in this study used the help of the Eviews 10 application. The results of the Chow test in this study are described in the following table.

The hypothesis used in the Hausmann test is:

H0: Random Effect Model

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H1: Fixed Effect Model

The testing criteria for the Hausmann test are if the Random Cross-section <0.05 then H0 is rejected and H1 is accepted. The following results of the Hausmann test in the research can be seen in the table below.

Tabel 5 Hausmann test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.377385	4	0.9843

Source: Data processed by researchers (2023)

Based on the results of the Hausmann test in table 4.7 above, it can be seen that the cross-section probability value is 0.9843 and this probability value is greater than 0.05, so it can be confirmed that this research rejects H0 and H1, which means the model chosen is the random effect model.

Test LM

The Lagrange Model (LM) test was used because the model chosen was a random effect model, so this test was needed.

Tabel 6 Lagrange Model

Null (no rand. effect)	Cross-section	Period	Both
Alternative	One-sided	One-sided	
Breusch-Pagan	0.115653	0.603619	0.719272
	(0.7338)	(0.4372)	(0.3964)
Honda	-0.340078	-0.776929	-0.789843
	(0.6331)	(0.7814)	(0.7852)
King-Wu	-0.340078	-0.776929	-0.834706
	(0.6331)	(0.7814)	(0.7981)
GHM	--	--	0.000000
	--	--	(0.7500)

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Based on the results of the Lagrange model test in table 4.8 above, it can be seen that the Breusch-Pagan probability cross-section One Sided value is 07338 and this probability value is greater than 0.05 so it can be confirmed that this research uses the model chosen by the common effect model.

Hypothesis Test (T Test)

Hypothesis testing is very important in research to help researchers make decisions based on existing statistical evidence. The t test is carried out to decide whether the researcher will reject or accept the hypothesis. The t test is also used to test the truth of a hypothesis and there is no significant difference between two sample means taken randomly from the same population. The hypothesis in this research is analyzed by looking at the probability value in the hypothesis test results. The number of observations in this study was 108 observations. The following are the results of hypothesis testing in this study using the eviews10 application.

Tabel 9 Hypothesis testing

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.352735	3.133385	-0.431717	0.6668
X1	0.282275	0.848824	0.332548	0.7402
X2	-30.81337	52.02397	-0.592292	0.5550
X3	-4.515113	3.302377	-1.367231	0.1745

Source: Data processed by researchers (2023)

The decision making criteria in the t test are, if the probability value < α = 0.05 then H0 is rejected, which means the independent variable (X) has an influence on the dependent variable (Y). However, if the probability value > α = 0.05 then H0 is accepted, which means the independent variable (X) has no influence on the dependent variable (Y). The following are the results of hypothesis testing in this research.

To find out whether the procyclical variable has an effect or not, it can be seen from the large probability value in the t test. If the t test value is <0.05, it can be concluded that the procyclical variable has a positive effect on earnings management. Based on the results of the t test in table 4.13 above, it can be seen that the probability value for the procyclical variable is 0.7402. It is known that this value is greater than 0.05, so the results

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show that H0 is accepted and H1 is rejected, which means that the procyclical variable does not have a positive effect on earnings management.

And then, the PSAK 71 variable has an effect or not, it can be seen from the probability value in the t test. If the t test value is <0.05, it can be concluded that the PSAK 71 variable has a positive effect on earnings management. Based on the t test results in table 4.13 above, it can be seen that the probability value for the PSAK 71 variable is 0.5550. It is known that this value is greater than 0.05, so the results show that H0 is accepted and H2 is rejected, which means that the PSAK 71 variable does not have a negative effect on earnings management.

To find out whether the Audit Quality variable has an influence or not can be seen from the large probability value in the t test. If the t test value is <0.05, it can be concluded that the Audit Quality variable has a positive effect on earnings management. Based on the t test results in table 4.13 above, it can be seen that the probability value for the Audit Quality variable is 0.1745. It is known that this value is greater than 0.05, so the results show that H0 is accepted and H3 is rejected, which means that the Audit Quality variable does not have a negative effect on earnings management.

Tabel 10 Uji Moderasi *Procyclical*

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-2.329228	2.318593	-1.004587	0.3174
0.116644	0.934980	0.124756	0.9010	
Z	-0.003808	0.017032	-0.223606	0.8235
X1*Z	0.004051	0.006741	0.601033	0.5491

To find out whether the leverage moderating variable is able to moderate the procyclical influence on earnings management or not, it can be seen from the large probability value in the t test. If the t test value is <0.05, it can be concluded that the leverage moderating variable is able to moderate the procyclical influence on earnings management. On the other hand, if the t test value is > 0.05, it can be concluded that the leverage moderating variable is unable to moderate the procyclical influence on earnings management. If based on the results of the t test in table 4.14 above, it can be seen that the probability value for the leverage moderation variable is 0.5491. It is known that this value is greater than 0.05, so from these results it shows that H0 is accepted and H4 is

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rejected, which means that the leverage moderation variable is unable to moderate the procyclical influence. towards earnings management.

Table11 Moderation test PSAK 71

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-3.157876	2.474240	-1.276301	0.2047
X2	-30.24137	60.25575	-0.501884	0.6168
Z	0.007102	0.025713	0.276211	0.7829
X2*Z	0.064221	1.105987	0.058066	0.9538

To find out whether the leverage moderating variable is able to moderate the influence of PSAK 71 on earnings management or not, it can be seen from the large probability value in the t test. If the t test value <0.05 then it can be concluded that the leverage moderating variable is able to moderate the influence of PSAK 71 on earnings management. On the other hand, if the t test value is > 0.05, it can be concluded that the leverage moderating variable is unable to moderate the influence of PSAK 71 on earnings management. If based on the results of the t test in table 4.14 above, it can be seen that the probability value for the leverage moderation variable is 0.9538, it is known that this value is greater than 0.05, so from these results it shows that H0 is accepted and H5 is rejected, which means that the leverage moderation variable is not able to moderate the influence of PSAK 71 towards earnings management.

Table.12 Moderation test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.138737	2.524361	0.054959	0.9563
X3	-5.119317	3.709297	-1.380131	0.1705
Z	0.003394	0.009786	0.346779	0.7295
X3*Z	0.006175	0.017364	0.355639	0.7228

To find out whether the leverage moderating variable is able to moderate the influence of Audit Quality on earnings management or not, it can be seen from the large probability value in the t test. If the t test value is <0.05, it can be concluded that the leverage moderating variable is able to moderate the influence of Audit Quality on earnings management. On the other hand, if the t test value is > 0.05, it can be concluded

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that the leverage moderating variable is unable to moderate the influence of Audit Quality on earnings management. If based on the results of the t test in table 4.14 above, it can be seen that the probability value for the leverage moderation variable is 0.7228, it is known that this value is greater than 0.05, so from these results it shows that H0 is accepted and H5 is rejected, which means that the leverage moderation variable is not able to moderate the influence of quality. Audit of earnings management.

DISCUSSION

Based on the results of the analysis above, it shows that the probability value for the procyclical variable is 0.7402, it is known that this value is more than 0.05, which means that the procyclical variable has no negative effect on earnings management, H1 is rejected.

Meanwhile, based on the results of the analysis above for H2, it shows that the probability value for the PSAK 71 variable is 0.5550, it is known that this value is more than 0.05, which means that the PSAK 71 variable does not have a positive effect on earnings management. If we look at the results of this research, it is possible that banking companies that apply PSAK 71 to bank management do not have agency problems because there are no problems with incentives and discretion in completing tasks. So it can be said that an agent is unable to motivate him to act in a way that is beneficial to the principal if the agent is not given an incentive to act in an inappropriate way.

Based on agency theory, Muthmainnah and Wardani (2013) explain that there are several assumptions underlying this theory, namely agency conflict and stewardship theory (separation of management theory) where in this theory agency conflict arises due to three factors, namely the existence of information asymmetry. where the principal is unable to see the competence, intentions, knowledge and actions of the agents. Or maybe they are able to see the performance of the agents but at a high cost. Therefore, research by Muthmainnah and Wardani (2013) explains that there are double benefits related to increasing effectiveness and prioritizing superior returns to shareholders. Therefore, banks as agents use BI and OJK regulations related to PSAK 71 rules to manage financial reports to be able to store profits that will be used in the future. Therefore, the research conducted is not in line with research conducted by Artaty, Tri (2020) in which PSAK 71 has a negative and significant effect on earnings management. The results of this research explain that in 2020 PSAK 71 was implemented in Indonesia and did not result in regional bank management in Indonesia using their discretion to influence the figures in financial reporting. This research is in line with Kurniawati (2021)

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who discusses the application of PSAK 71 to credit guarantee companies and Kurniawan & Firmansyah (2021) regarding the application of PSAK 71 to mutual fund investments for insurance companies in Indonesia.

In the results of research testing the third hypothesis, it shows that the probability value for the Audit Quality variable is 0.1745, it is known that this value is more than 0.05, which means that the PSAK 71 variable does not have a positive effect on earnings management. If we know that audit quality can provide hope for improvement in a company, this hope is related to an accounting policy that will be used in the future. Therefore, based on the results of research conducted in line with research by Kurniati & Syafruddin (2019), where the research found that audit quality has a negative influence on earnings management. Where it can be revealed that the KAP affiliated with Big4 is able to limit the occurrence of earnings management, where the KAP has complete information in detecting earnings management. Therefore, the ability and capacity of an auditor is capable of committing abuse in manipulating financial reports without being seen by financial report users.

Meanwhile in H4, H5, H6 the leverage variable is not able to moderate procyclical, PSAK 71, audit quality on earnings management. Where the results of the H4 analysis show that the probability value for the Leverage variable as a moderating variable is 0.5491, it is known that this value is more than 0.05, which means that the Leverage variable is unable to moderate procyclical earnings management. H5 shows that the probability value of the Leverage variable as a moderating variable is 0.9538, it is known that this value is more than 0.05, which means that the Leverage variable is not able to moderate PSAK 71 on earnings management. Meanwhile, the sixth hypothesis shows that the probability value for the Leverage variable as a moderating variable is 0.7228, it is known that this value is more than 0.05, which means that the Leverage variable is not able to moderate audit quality regarding earnings management. Therefore, we can draw the conclusion that the leverage variable itself is not able to moderate the three independent variables on earnings management.

CONCLUSION

Based on the research results above, we can conclude that the procyclical is 0.7402, it is known that this value is more than 0.05, which means that the procyclical variable does not have a negative effect on earnings management. The PSAK 71 variable is 0.5550, it is known that this value is more than 0.05, which means that the PSAK 71 variable does not have a positive effect on earnings management. And the Audit Quality

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variable is 0.1745, it is known that this value is more than 0.05, which means that the PSAK 71 variable does not have a positive effect on earnings management.

Apart from that, it can also be concluded that the leverage moderating variable cannot be used as a variable which initially had a very high potential for committing fraudulent actions in earnings management, but based on this research it was found that Procyclical, PSAK 71, Audit Quality with leverage as a moderating variable on earnings management is very unlikely. able to moderate these variables. So H4, H5, and H6 are rejected.

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