

Audit Committee Characteristics and Audit-Earnings Quality: Empirical Evidence of the Company with Concentrated Ownership

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ABSTRACT

This study examined the effect of board characteristics on earnings quality moderated by audit quality on companies with concentrated ownership. Board, in this study, referred to an audit committee that assists the board of commissioners to monitor the earnings report. Moderating regression analysis was used in this study to examine the impact of ownership concentration on the earnings quality monitoring model. The examination was conducted on sub-samples based on the level of ownership concentrations, i.e. 10, 20, 50, 80, 90 %. This study found four characteristics of the audit committee that influence the earnings quality. Three of them (independence, expertise and size) had positive effects; the other one (meeting) gave negative effect on earnings quality. Audit quality moderates the effect of audit committee characteristics on earnings quality, except for expertise (accounting and finance). The impact of the ownership concentration level increases as the concentration escalated from 10 to 80 %, but then weakened at 90 % level. The study revealed the debilitating limits of the concentration monitoring.

Keywords: Board characteristics, ownership concentration, audit quality, earnings quality.

1. INTRODUCTION

We examined the effect of board characteristics on the earnings quality was moderated by the audit quality. Examination conducted on companies with concentrated ownership. The element of board that monitors earnings report is the audit committee. The audit committee is an arm of board of commissioners. Profit is an element of financial statements that are presented as part of the information on the company's performance. Earnings is an important element in the agency contract. Earnings is the basis for bonus plan, earnings related to debt covenants, and earnings is also related to a political cost (Scott, 2012: 307-308). If the earnings quality is low, the agency contract is ineffective and inefficient, the impact of high agency costs.

Earnings quality will determine decisions capital market participants, a decision plaintiffs (plaintiffs), the auditor's opinion, the compensation board and analysts (Dechow et al., 2010). In fact, the presentation of earnings often do not describe the actual state of

corporate profits. There are significant difference between actual cash and earnings, could indicate the existence of earnings management. The element earnings can be divided into cash flow and accrual, the greater the earnings be met from operating cash, the higher the quality of earnings (Abdelghany, 2005).

Earnings management practices do when there is asymmetric information. The asymmetric information arising from moral hazard, may encourage opportunistic behavior of management which impacted on bad earnings management. The bad earnings management is done improperly, which hides the actual operating performance by creating false accounting or enlarge the profit estimate to beyond the limits of reasonableness (Parfet, 2000). The opportunistic earnings management negative impact on the quality of earnings reported is low (Velury and Jenkins, 2006), decrease the relevance of accounting information (Habib, 2004), decrease the future earnings (Chan, Chan, Jegadeesh, and Lakonishok, 2004), decrease the shares liquidity (Fathi, Seyyed, and Zahra, 2011).

The presence of opportunistic earnings management practices, the audit committee can monitor the earnings report. The audit committee helps the board of commissioners reviewing the financial information presented by the company, while the role of the auditor to make sure that the financial information presented in compliance with the accounting standards. An effective audit committee is expected to improve the earnings quality to meet a variety of responsibilities, including providing comments and approve accounting policies, reviewing the financial statements and maintain as well as the adequacy of internal control (Hassan, 2013). Interaction audit committee with auditor can improve the monitoring of the earnings quality.

Monitoring role of the audit committee is also influenced by the power control of large shareholders. The audit committee and the auditor will face a strong control of large shareholders in the business environment with concentrated ownership. Large shareholders have the power extensive control up to the management level and provide incentive to expropriate (La Porta *et al.*, 1999; Claessen *et al.*, 2002; Faccio and Lang, 2002; Du and Dai, 2005; Palenzuela and Mariscal, 2007). The Companies with a concentration shareholders who tend to support managers select accounting methods that benefit the company (Varma, Singh, Patel and Naidu, 2009). The controlling shareholder that reported accounting information for personal gain, causing earnings reported loss of credibility (Fan and Wong, 2002). The Ownership have an impact on earnings manipulation (Hassan and Abubakar, 2012). A higher percentage of shares held by large shareholders (blockholders), more pressure on the manager to act in conformity with the interests of shareholders (Sanda, Mukaila and Garba, 2005). The higher ownership concentration, beyond a certain level can lead to abuse of power, so it can be detrimental to the purpose of maximizing the value of company (Sanda *et al.* 2005). Ownership concentration is negatively related to the quality of disclosure (Chiraz, 2014). The higher the ownership concentration weakens the monitoring role of the board on earnings management (Amin, Djuminah, Suhardjanto, and Agustiniingsih, 2017). Other findings show different results, the large shareholders (block holders) have an incentive to monitor management (Shleifer and Vishny, 1997). Large shareholder can effectively monitor management to avoid behavior of opportunistic earnings management (Roodposhti and Chashmi, 2010). Farooq and El Jai (2012) observed that the concentrated ownership has alignment effect which reduce opportunistic behavior manager or entrenchment effect which increase earnings manipulation.

The monitoring mechanism has been implemented by the audit committee and the auditor, but why opportunistic earnings management practices are still going on? Whether the monitoring is implemented by the audit committee and the auditor are ineffective or very

strong influence ownership? Previous studies had shown that the majority of companies in Indonesia was dominated by shareholder concentrated (Lukviarman, 2004). Empirical evidence suggests that 76% of public companies controlled by the ultimate owner (La Porta *et al.*, 1999), while Claessens *et al.* (2002) found 93% of public companies Asia (including Indonesia) is controlled by the controlling shareholder. Large shareholders who control the company is family, government, financial institutions, corporations, and the controlling shareholder (such as foreign investors, cooperative, and employees) (La Porta *et al.*, 1999; Claessens *et al.*, 2002; Faccio and Lang, 2002, Lukviarman, 2004). The large shareholders have extensive power control, which provides incentives to expropriate, including opportunistic earnings management. This phenomenon causes the monitoring function of the earnings quality that do the audit committee and the auditor is becoming weaker.

Related to the problem of research, monitoring conducted by the audit committee and the auditor on earnings quality is very important, but the lack of clarity of the role of the monitoring when there is a high concentration ownership, it is interesting to examine this problem. Does the interaction of the audit committee and auditors in monitoring the earnings quality will strengthen the monitoring role? Does monitoring function has different implications when tested at the company with a level of ownership concentration that is different?

2. LITERATUR REVIEW AND HYPOTHESIS

Effect of the Audit Committee Independence on the Earnings Quality, and Moderate Audit Quality (H1)

An effective audit committee was expected to improve of earnings quality to meet the various responsibilities including, comment and approve accounting policies, reviewing the financial statements and maintain as well as the adequacy of internal control (Hassan, 2013). The Auditor with the Audit Committee to monitor the financial reporting process. Auditors ensure that the financial information presented in compliance with the accounting standards. According to Nugroho and Umanto (2011), the auditor is responsible for external supervision. Auditors gave an assessment of corporate financial statements. Auditors expect the notes inconsistencies in the report and report to the audit committee.

Results of previous studies show that the independence of the audit committee to be effective to control the financial statements. Independence of the Audit Committee to encourage and improve the quality of financial reports informativeness of financial statements (Hundal, 2013). The independence of the audit committee related to earning quality (Baxter and Cotter, 2009). Independent audit committees can encourage more effective financial reporting process (Beasley 1996; Blue Ribbon Committee, 1999). Bedard *et al.* (2004) found that independent audit committees can reduce aggressive earnings management (abnormal accruals). Abbott *et al.* (2004) found that the earnings restatement decreased if all the independent audit committee. Prastiti and Wahyu (2013) found that the independence of the audit committee negatively affect earnings management.

Some studies show different results, independence has a downside risk, if completely separate from management could lead to an independent committee less in view of industry issues that require discussion and tend to side with the auditor (Aldamen, Duncan, Kelly, McNamara and Nagel, 2012), so that the negative effect on the level of monitoring (Sharma, Naiker, and Lee 2009). Klein (2002) reported that the increase in the proportion of independent members not associated with increased quality of financial reporting. The composition of the audit committee from the outside has no effect on abnormal accruals.

Habbash, Christoph, Aly (2013) found the full independence of the audit committee has no impact on earnings management.

Based on the arguments above, it can be concluded that previous research has generally shown that the independence of the audit committee negative effect on earnings management (positively on the quality of earnings). This relationship if it is associated with the role of the auditor, the more it will strengthen the influence of the independence of the audit committee on the earnings quality. However, in a business environment with concentrated ownership, influence the independence of audit committees become weaker when the higher concentration of ownership, since the control shareholders are getting stronger. This hypothesis can be formulated as follows:

H1a: Audit quality moderate influence on the audit committee independence on the earnings quality.

H1b: Audit quality moderate influence on the audit committee independence on the earnings quality and its influence is weak at the higher level of ownership concentration.

Effect of Audit Committee Expertise on Earnings Quality, and Moderate Audit Quality (H2)

Expertise accounting and / or finance can increase the effectiveness of monitoring. The existence of expert accounting and / or financial audit committee can help analyze the accounting and financial reporting policies critically, identify potential problems and solutions (Alzoubi, 2012). Competence to the understanding of accounting standards to reduce the cost substantive test of the external auditor and proven violations of accounting standards less (Turel, 2010).

Lisic, et al. (2011) found a negative relationship expertise and financial accounting and restatements are moderated by the power of the CEO. Audit committee members who ideally should have knowledge of the concepts of accounting and auditing process to improve understanding of the financial reporting process, identify problems, ask questions investigating to management and auditors as well as create a leadership contribution to the audit committee (McDaniel, Martin, and Maines 2002). The audit committee who have financial expertise having an effect negatively on earnings management (Alzoubi and Welcome (2012). Krishnan and Lee (2009) found a negative correlation litigation risk to the existence of the audit committee with accounting and finance experts, for companies with governance standards high, the opposite relationship this was not observed for companies that have weak corporate governance standards.

Different results shown by Dhaliwal et al. (2010) that companies with accounting and financial experts tend to engage in earnings management and this relationship is stronger for companies with high corporate governance standards. Research Carcello et al. (2008) showed that there is no relationship with the management of abnormal production costs with accounting expertise of audit committee and there is a positive relationship the abnormal discretionary with audit committee accounting expertise. Baxter and Cotter (2009) found no correlation magnitude of earnings management with the audit committee accounting expertise. Habbash, Christoph, Aly (2013) showed that the presence of financial experts is also no correlation with earnings management, since financial experts in audit committees often worked as a CFO or CEO at another company.

Based on the arguments above, it can be concluded that previous research has generally shown that the accounting and financial expertise negative effect on earnings management (positively on the quality of earnings). This relationship if it is associated with a qualified auditor's role, it will reinforce the effect of accounting expertise and financial

audit committee on the quality of earnings. However, in a business environment with concentrated ownership, the effect of accounting and financial expertise becomes weak when the higher concentration of ownership, since the control shareholders are getting stronger. This hypothesis can be formulated as follows:

H2a: Audit quality moderate influence on the audit committee expertise on the earnings quality.

H2b: Audit quality moderate influence on the audit committee expertise on the earnings quality and its influence is weak at the higher level of ownership concentration.

Effect of Audit Committee Size on Earnings Quality, and Moderate Audit Quality (H3)

According to KPMG (2013: 3) the size of the audit committee will vary depending on the needs and culture of the organization and the extent to which the board of commissioners to delegate responsibility to the audit committee. Audit committee members that too much can hinder discussion and debate, but too little is not possible to have the expertise and perspective to make a decision. Decision of the Chairman of Bapepam LK No. Kep-643/BL/2012 requires an audit committee consisting of at least one independent commissioner and at least two other members come from outside the issuer or public company. The number of audit committee members who tends to have greater strength and positively associated with the quality of financial reporting (Felo et al., 2003).

The size of the audit committee can have a positive impact on the quality of earnings. A big audit committee more effective in monitoring because they tend to include members with varied expertise for monitoring the financial reporting practices more intense (Baxter and Cotter, 2009). There is a positive effect on the big size of the audit committee monitoring the quality of earnings. Other studies show different results, Xie, et al. (2003) found no significant relationship between the size of the Audit Committee and discretionary accruals. Similarly the findings Chandrasegaram et al. (2013) that the size of the audit committee is not related to earnings management. Habbash, Christoph, Aly (2013), also found no effect of the number of audit committee members to the absolute earnings management.

Results of previous studies show mixed findings. One particular expertise (eg, accounting, auditing, and financial) is needed in order to communicate with the auditor. Communication with the auditor should have sufficient knowledge and expertise in order to have a similar understanding with the auditor and able to work together to monitor the quality of financial reporting. Various skills are required, particularly accounting / auditing / financial management can be satisfied only if it has a sufficient number of audit committee.

Based on the arguments above, it can be concluded that previous studies generally show that the audit committee size has positive influence on the earnings quality. This relationship if it is associated with the role of the auditor, the more it will strengthen the influence of the audit committee size on the earnings quality. However, in a business environment with concentrated ownership, influence the audit committees size become weaker when the higher ownership concentration, since the control shareholders are getting stronger. This hypothesis can be formulated as follows:

H3a: Audit quality moderate influence on the audit committee size on the earnings quality.

H3b: Audit quality moderate influence on the audit committee size on the earnings quality and its influence is weak at the higher level of ownership concentration.

Effect of Audit Committee Meeting on Earnings Quality, and Moderate Audit Quality (H4)

According to KPMG (2013: 1-2) the audit committee usually meets three or four times each year. Audit committee meetings generally on the subject of financial reporting and audit cycle, i.e. before finalization of the interim and final end of the year. This meeting is also to discuss the internal control, risk management, as well as the duties and responsibilities of the audit committee more. Audit committee meeting is intended to ensure that the performance of the audit committee meets the desired goal. The results of monitoring of the audit committee is able to prevent fraudulent financial reporting and financial reporting restatements (Abbott, et al., 2004; Vafeas, 2005). Bedard et al (2004) and Baxter and Cotter (2009) found a significant association between the number of audit committee meetings and earnings management. Ebrahim (2007); Lin and Hwang (2010); Xie et al. (2003) found that the number of audit committee meetings negatively affect earnings management.

Several studies showed different results. Saleh, Takiah and Grace (2007) and Chandrasegaram et al., (2013) study showed that the frequency of audit committee meetings not negatively related to the magnitude of earnings management. Frequency of audit committee meetings are not enough to deter the practice of earnings management in public companies. Yang and Krishnan (2005) found no significant relationship. Habbash, Christoph, Aly (2013) research showed no significant effect on the number of meetings absolute level of earnings management.

Based on the arguments above, it can be concluded that previous studies showed evidence vary, but tend to conclude that the audit committee meeting does not negatively affect the quality of earnings, some are showing audit committee meetings had no effect on earnings management. This is because the audit committee meetings are generally just to meet the financial reporting and audit cycle, ie before finalization of the interim and final end of the year. Meetings involving auditors in the discussion of the audited financial statements, if done effectively can reduce earnings management practices. The role of qualified auditors will further strengthen the influence of the meeting (meeting) audit committee on the quality of earnings. However, in a business environment with concentrated ownership, the effect of meeting (meeting) Audit Committee become weaker when the concentration is higher, because the control shareholders are getting stronger. This hypothesis can be formulated as follows:

H4a: Audit quality moderate influence on the audit committee meeting on the earnings quality.

H4b: Audit quality moderate influence on the audit committee meeting on the earnings quality and its influence is weak at the higher level of ownership concentration.

Below is the conceptual framework of this research:

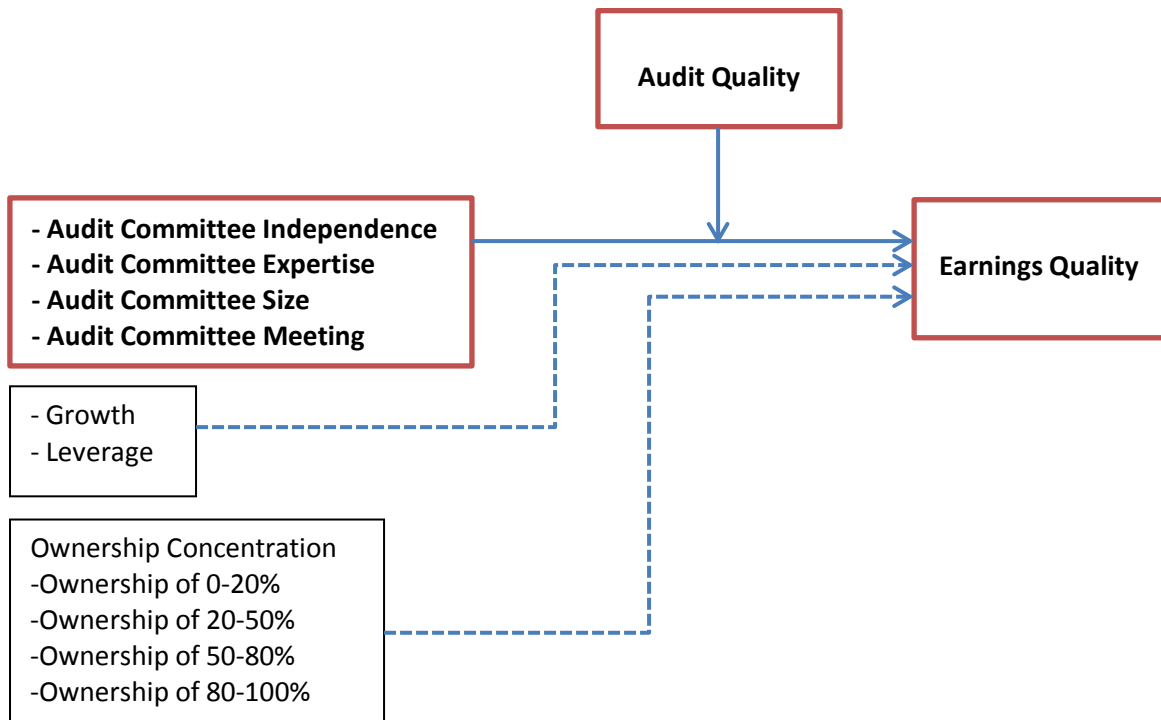


Figure 3.1 Conceptual Framework

3. RESEARCH METHODS

The population of this research is a manufacturing company in Indonesia Stock Exchange 2011-2014 period amounted to 138 companies. Based on data completeness selected 122 companies, thus the total observation as much 488 (122 x 4 years). Some data indicate the presence of outliers, as selected by outlier obtained 388 observations. Business environment with the condition of ownership is concentrated into a research context. Ownership concentration basis used to test samples with concentrated ownership. Ownership concentration in question is the majority shareholder owning at least (cut off) 20% of the common shares (Faccio, and Lang, 2002). The research sample, in further testing, split into five groups based on their level of concentration, the concentration of ownership of > 10%, the concentration of ownership of > 20%, the concentration of ownership of > 50%, the concentration of ownership of > 80%, the concentration of ownership of > 90%.

The research variables are grouped into independent variable, dependent variable, moderating variables, and control variables. Each of these variables and measurements are presented in Table 1 below.

Audit Committee Independence : Proportion of the Audit Committee are independent of the number of members of the Audit Committee (Chandrasegaram et al., 2013; Aldamen et al., 2012; Hamdan, Adel and Sameh, 2013).

Audit Committee Expertise : Proportion of member of the Audit Committee with accounting and finance background to the number of total members of the Audit Committee (Chandrasegaram et al., 2013; Aldamen et al., 2012; Hamdan, Adel and Sameh, 2013).

- Audit Committee Size:** : The number of members of the Audit Committee (Chandrasegaram et al., 2013; Aldamen et al., 2012; Hamdan, Adel and Sameh, 2013)
- Audit Committee Meeting:** : Meeting frequency / Audit Committee meeting held in each year (Chandrasegaram et al., 2013; Aldamen et al., 2012; Hamdan, Adel and Sameh, 2013).
- Discretionary Accruals** : $TCAccr_{i,t} = \alpha_0 + \alpha_1OCF_{i,t-1} + \alpha_2OCF_{i,t} + \alpha_3OCF_{i,t+1} + \alpha_4\Delta Rev_{i,t} + \alpha_5PPE_{i,t} + \varepsilon_{i,t}$
(Dechow, Dichev and McNichols, 2002; Francis *et al.*, 2005 and Feng *et al.*, 2011),
The residuals of the regression model is discretionary accruals. This study uses the absolute value of discretionary accruals (DisAccr) as a proxy for the Earnings Quality. Value of higher discretionary accruals means earnings quality is low, and otherwise.
- Audit Quality** : Industry Specialization is the ratio of market share and the ratio of total assets of the client companies audited in certain industries (Gul et al., 2009).
- Growth** : The percentage growth in total assets (Bedard et al. (2004).
- Leverage** : Financial leverage is the ratio of total debt to total assets (Hamdan, Adel and Sameh, 2013).
- Ownership Concentration** : The number of common stock ownership of at least 20% (cutoff) (faccio, and Lang, 2002).
The role of this variable as a dummy variable and as a fraction sample.

This research analysis method using Moderating Regression Analysis (MRA). This method was chosen for this study are moderating variables in this case the quality of the audit. Moderating Regression Analysis (MRA) is a specific application of multiple linear regression in the regression equation contains elements of interaction or multiplication of two or more independent variables (Ghozali, 2011: 229). Model equation is:

$$EQ = \alpha + \beta_1ACIndep + \beta_2ACExpert + \beta_3ACSize + \beta_4ACMeet + \beta_5Growth + \beta_6Leverage + \beta_7Concentration1 + \beta_8Concentration2 + \beta_9Concentration3 + \beta_{10}Concentration4 + \varepsilon \quad (1)$$

$$EQ = \alpha + \beta_1ACIndep + \beta_2ACExpert + \beta_3ACSize + \beta_4ACMeet + \beta_5AudQual + \beta_6Growth + \beta_7Leverage + \beta_8Concentration1 + \beta_9Concentration2 + \beta_{10}Concentration3 + \beta_{11}Concentration4 + \varepsilon \quad (2)$$

$$EQ = \alpha + \beta_1ACIndep + \beta_2ACExpert + \beta_3ACSize + \beta_4ACMeet + \beta_5AudQual + \beta_6ACIndep * AudQual + \beta_7ACExpert * AudQual + \beta_8ACSize * AudQual + \beta_9ACMeet * AudQual + \beta_{10}Growth + \beta_{11}Leverage + \beta_{12}Concentration1 + \beta_{13}Concentration2 + \beta_{14}Concentration3 + \beta_{15}Concentration4 + \varepsilon \quad (3)$$

4. ANALYSIS

The analysis aims to know the effect of main variables: Audit Committee Independence, Audit Committee Expertise, Audit Committee Size, Audit Committee Meeting on Earnings Quality, and determines the effect of moderating influence Audit Quality. Analysis also to

determine changes in the influence of the main variables (with moderating) at various levels of ownership concentration. The results of the analysis are presented in Table 1 and Table 2 below.

Table 2 Results of Analysis Model Moderation

$$EQ = \alpha + \beta_1 ACIndep + \beta_2 ACExpert + \beta_3 ACSize + \beta_4 ACMeeting + \beta_5 AudQual + \beta_6 ACIndep * AudQual + \beta_7 ACExpert * AudQual + \beta_8 ACSize * AudQual + \beta_9 ACMeet * AudQual + \beta_{10} Growth + \beta_{11} Leverage + \beta_{12} Concentration1 + \beta_{13} Concentration2 + \beta_{14} Concentration3 + \beta_{15} Concentration4 + \epsilon$$

Variable	Hyp	Sign Exp.	Main Model		Model With Moderating		Conclusion
			Without Moderating		Moderating		
			Σ Sample 388		Σ Sample 388		
			Beta	Sig.	Beta	Sig.	
AC Independence ^a	H ₁	(-)	-.008	.887	-.159	.029**	H1a, H1b accepted
AC Expertise ^a	H ₂	(-)	-.167	.001***	-.197	.001***	H2a, H2b accepted
AC Size ^a	H ₃	(-)	-.041	.466	-.396	.000***	H3a, H3b accepted
AC Meeting ^a	H ₄	(+)	.122	.019**	.212	.001***	H4a, H4b accepted
Audit Quality ^b		(-)	-.086	.089*	-4.850	.000***	Significant
ACIndep*AuditQual ^c					1.447	.012**	Moderating
ACExpert*AuditQual ^c					.071	.459	Non Moderating
ACSize*AuditQual ^c					3.524	.000***	Moderating
ACMeet*AuditQual ^c					-.245	.025**	Moderating
Growth ^d		(+)	.136	.006**	.118	.011**	Significant
Leverage ^d		(+)	.243	.000***	.250	.000***	Significant
Concentration 1 ^e		(+)	-.014	.784	-.017	.715	No Significant
Concentration 2 ^e		(+)	.014	.791	.010	.842	No Significant
Concentration 4 ^e		(+)	.126	.019**	.099	.048**	Significant
R			.330		.495		
R Square			.109		.245		
Adj. R Square			.085		.216		
F			4.606		8.630		
Sig.			.000***		.000***		

*** significant at the level of 0:01; ** significant at the level of 0,05; * significant at the level of 0,10

a. Independen (*Predictors*): AC Independence, AC Expertise, AC Size, AC Meeting

b. Moderating: Audit Quality

c. Interaksi (Independent and Moderator): AC Independence*Audit Quality, AC Expertise*Audit Quality, AC Size*Audit Quality, AC Meeting*Audit Quality

d. Control (*Predictors*): Growth, Leverage

e. Dummy of Ownership Concentration: Concentration 1 = 0 - 20% is 1, other is 0; Concentration 2 = 20 - 50% is 1, other is 0; Concentration 3 = 50 - 80% is 1, other is 0; Concentration 4 = 80 - 100% is 1, other is 0.

Table 3 Results of Analysis Model Moderation Different Levels of Ownership Concentration

Variable	Sign Eksp.	Total Sample		Sample > 10%		Sample > 20%		Sample > 50%		Sample > 80%		Sample > 90%	
		Σ Sample 388		Σ Sample 388 ^e		Σ Sample 365 ^e		Σ Sample 278 ^e		Σ Sample 93 ^e		Σ Sample 34 ^e	
		Beta	Sig.	Beta	Sig.	Beta	Sig.	Beta	Sig.	Beta	Sig.	Beta	Sig.
AC Independence ^a	(-)	-.159	.026**	-.162	.026**	-.167	.026**	-.171	.044**	-.753	.000**	-.563	.335
AC Expertise ^a	(-)	-.197	.001**	-.196	.001**	-.195	.001**	-.204	.004**	-.245	.028**	-.070	.814
AC Size ^a	(-)	-.396	.000**	-.408	.000**	-.417	.000**	-.458	.000**	-.764	.000**	-.527	.131
AC Meeting ^a	(+)	.212	.001**	.211	.001**	.192	.005**	.239	.002**	.170	.121	.133	.777
Audit Quality ^b	(-)	-4.850	.000**	-4.978	.000**	-5.043	.000**	-4.965	.000**	-8.660	.000**	-1.689	.386
ACIndep*AuditQual ^c		1.447	.009**	1.516	.009**	1.539	.009**	1.464	.018**	4.238	.002**	.876	.672
ACExpert*AuditQual ^c		.071	.514	.062	.514	.062	.524	.094	.386	.108	.514	-.031	.963
ACSize*AuditQual ^c		3.524	.000**	3.597	.000**	3.630	.000**	3.628	.000**	4.459	.000**	1.784	.001**
ACMeet*AuditQual ^c		-.245	.027**	-.243	.027**	-.223	.048**	-.266	.031**	-.094	.626	-.137	.888
Growth ^d	(+)	.118	.014**	.114	.014**	.104	.030**	.151	.006**	.126	.107	.094	.420
Leverage ^d	(+)	.250	.000**	.235	.000**	.233	.000**	.236	.000**	.065	.400	-.062	.624
R		.485		.485		.484		.515		.749		.868	
R Square		.235		.235		.235		.265		.561		.754	
Adj. R Square		.216		.213		.211		.234		.502		.631	
F		10.503		10.503		9.841		8.712		9.420		6.127	
Sig.		.000**		.000**		.000**		.000**		.000**		.000**	

*** significant at the level of 0:01; ** significant at the level of 0,05; * significant at the level of 0,10

- a. Independen (*Predictors*): AC Independence, AC Expertise, AC Size, AC Meeting
- b. Moderating: Audit Quality
- c. Interaksi (Independent and Moderator): AC Independence*Audit Quality, AC Expertise*Audit Quality, AC Size*Audit Quality, AC Meeting*Audit Quality

- d. Control (*Predictors*): Growth, Leverage
- e. *Split Sample*: Concentration 1 (*cutoff* 10%), Concentration 2 (*cutoff* 20%), Concentration 3 (*cutoff* 50%), Concentration 4 (*cutoff* 80%), Concentration 5 (*cutoff* 90%)

Table 4 Summary of Result of Analysis and Hypothesis Testing

Hip	Hypothesis statement	Conclusion
H1a	Audit quality moderate influence on the audit committee independence on the earnings quality.	Supported: Main Model: beta (β) = -.159; sig.=.029**; Interaction Model : beta (β) = 1.447; sig.=.012** (Table 2)
H1b	Audit quality moderate influence on the audit committee independence on the earnings quality and its influence is weak at the higher level of ownership concentration.	Supported: Cons 1 (cutoff 10%): beta (β)=-.162; sig.=.026** Cons 2 (cutoff 20%): beta (β)=-.167; sig.=.026** Cons 3 (cutoff 50%): beta (β)=-.171; sig.=.044** Cons 4 (cutoff 80%): beta (β)=-.753; sig.=.000** Cons 5 (cutoff 90%): beta (β)=-.563; sig.=.335 (Table 3)
H2a	Audit quality moderate influence on the audit committee expertise on the earnings quality.	No Supported (no moderating): Main Model: beta (β) -.197; sig=.001***; Interaction Model: beta (β)= .071; sig=.459 (Table 2)
H2b	Audit quality moderate influence on the audit committee expertise on the earnings quality and its influence is weak at the higher level of ownership concentration.	Supported: Cons 1 (cutoff 10%): beta (β)= -.196; sig.=.001*** Cons 2 (cutoff 20%): beta (β)= -.195; sig.= .001*** Cons 3 (cutoff 50%): beta (β)= -.204; sig.=.004*** Cons 4 (cutoff 80%): beta (β)= -.245; sig.=.028** Cons 5 (cutoff 90%): beta (β)= -.070; sig.=.814 (Table 3)
H3a	Audit quality moderate influence on the audit committee size on the earnings quality.	Supported: Main Model: beta (β) -.396; sig=.000*** Interaction Model: beta (β)= 3.524; sig=.000*** (Table 2)
H3b	Audit quality moderate influence on the audit committee size on the earnings quality and its influence is weak at the higher level of ownership concentration.	Supported: Cons 1 (cutoff 10%): beta (β)= -.408; sig.=.000*** Cons 2 (cutoff 20%): beta (β)= -.417; sig.=.000*** Cons 3 (cutoff 50%): beta (β)= -.458; sig.=.000*** Cons 4 (cutoff 80%): beta (β)= -.764; sig=.000*** Cons 5 (cutoff 90%): beta (β)= -.527; sig.=.131 (Table 3)
H4a	Audit quality moderate influence on the audit committee meeting on the earnings quality.	Supported: Main Model: beta (β) .212; sig=.001*** Interaction Model: beta (β)= -.245; sig=.025** (Table 2)

H4b	Audit quality moderate influence on the audit committee meeting on the earnings quality and its influence is weak at the higher level of ownership concentration.	Supported: Cons 1 (cutoff 10%): beta (β)= .211; sig=.001*** Cons 2 (cutoff 20%): beta (β)= .199; sig=.005*** Cons 3 (cutoff 50%): beta (β)= .239; sig=.002*** Cons 4 (cutoff 80%): beta (β)= .170; sig=.121 Cons 5 (cutoff 90%): beta (β)= .133; sig=.777 (Table 3)
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5. CONCLUSIONS

Results of testing the hypothesis presented in Table 4 concluded that the three characteristics of the audit committee is independence, accounting and financial expertise, size/number of audit committee positive effect on the earnings quality, while the audit committee meeting negatively affect the earnings quality. This concerns the effectiveness of the meeting. Audit Quality moderating influence characteristics of the audit committee on the earnings quality, except for accounting and financial expertise. This shows that an audit quality will strengthen the monitoring function of the earnings quality. This function will be more effective when interacting with the audit committee. While expertise is not moderated, this means pure as the independent variable. The impact of the level of ownership concentration on the role of the audit committee, strengthened at a concentration level of 10%, 20%, 50%, to 80%, but weakened at a concentration level of 90% or more. At the level of concentration of up to 80% indicating effects are alignment. While at a concentration level of 90% or more indicates there entrenchment effect. This shows that the higher the concentration of ownership weakens the monitoring role of the audit committee on the earnings quality.

Finding

Variable audit quality moderating influence characteristics of the audit committee on the earnings quality. Concentration of ownership affect the change influence characteristics of the audit committee on the earnings quality. Up to a concentration of 80% and 90% more powerful effect, this indicates that there is the effect of alignment. There alignment of the interests of owners and management. Right of control over the ownership of the monitoring role of the audit committee on the earnings quality a positive impact. Concentrations of more than 80 and 90% of influence to weaken, this indicates that there is entrenchment effect or excessive use of rights, especially the right to control the monitoring mechanism.

Research implications

Theoretical implications

The application of agency theory that was originally based on the assumption of ownership spreads, its' business environment with a high concentration of ownership (as in Indonesia) should change. Changes in these assumptions will have an impact on the way of empirical testing in research.

The ownership structure is part of the monitoring system, but ownership with a particular concentration level can weaken the monitoring function. This study provides an explanation limit the debilitating level of concentration monitoring. Confirm the indication of alignment and entrenchment effects related with ownership.

Practical implications

The Audit committee characteristic as an implementation of corporate governance is more effective with the increasing involvement of audit quality. The interaction between the Audit Committee with the Auditor should be able to detect opportunistic earnings management practices. Communication and discussion with the auditor (frequency and quality) should be increased through a joint meeting.

Majority ownership exceeds 50% have a strong ability to control. If the controlling interest overused and tended to expropriate, it is not only detrimental to the minority shareholders but also detrimental to other stakeholders. It also resulted in the weakening of the role of corporate governance. Therefore, there should be clear regulations and firmly linked in majority ownership (mandatory nature).

Disclosure of non-controlling shareholders' rights already exist, but the disclosure of the majority shareholder is still very limited. The structure of the shareholders must be disclosed clearly (detail), especially the major shareholders (ultimate shareholders), during which it seemed shareholders are reported is the "surface", who is the main owner is not disclosed. Disclosure of ownership structure should be reported in the form of a pyramid, so they can know who the real controller, can also be measured control rights and cash flow rights. The general public (including investors) can detect the presence or absence of potential expropriation practices an adverse certain parties.

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2.16 - Audit Committee Characteristics

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Audit Committee Characteristics and Audit-Earnings Quality: Empirical Evidence of the Company with Concentrated Ownership

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ABSTRACT

This study examined the effect of board characteristics on earnings quality moderated by audit quality on companies with concentrated ownership. Board, in this study, referred to an audit committee that assists the board of commissioners to monitor the earnings report. Moderating regression analysis was used in this study to examine the impact of ownership concentration on the earnings quality monitoring model. The examination was conducted on sub-samples based on the level of ownership concentrations, i.e. 10, 20, 50, 80, 90 %. This study found four characteristics of the audit committee that influence the earnings quality. Three of them (independence, expertise and size) had positive effects; the other one (meeting) gave negative effect on earnings quality. Audit quality moderates the effect of audit committee characteristics on earnings quality, except for expertise (accounting and finance). The impact of the ownership concentration level increases as the concentration escalated from 10 to 80 %, but then weakened at 90 % level. The study revealed the debilitating limits of the concentration monitoring.

Keywords: Board characteristics, ownership concentration, audit quality, earnings quality.

1. INTRODUCTION

We examined the effect of board characteristics on the earnings quality was moderated by the audit quality. Examination conducted on companies with concentrated ownership. The element of board that monitors earnings report is the audit committee. The audit committee is an arm of board of commissioners. Profit is an element of financial statements that are presented as part of the information on the company's performance. Earnings is an important element in the agency contract. Earnings is the basis for bonus plan, earnings related to debt covenants, and earnings is also related to a political cost (Scott, 2012: 307-308). If the earnings quality is low, the agency contract is ineffective and inefficient, the impact of high agency costs.

Earnings quality will determine decisions capital market participants, a decision plaintiffs (plaintiffs), the auditor's opinion, the compensation board and analysts (Dechow et al., 2010). In fact, the presentation of earnings often do not describe the actual state of

corporate profits. There are significant difference between actual cash and earnings, could indicate the existence of earnings management. The element earnings can be divided into cash flow and accrual, the greater the earnings be met from operating cash, the higher the quality of earnings (Abdelghany, 2005).

Earnings management practices do when there is asymmetric information. The asymmetric information arising from moral hazard, may encourage opportunistic behavior of management which impacted on bad earnings management. The bad earnings management is done improperly, which hides the actual operating performance by creating false accounting or enlarge the profit estimate to beyond the limits of reasonableness (Parfet, 2000). The opportunistic earnings management negative impact on the quality of earnings reported is low (Velury and Jenkins, 2006), decrease the relevance of accounting information (Habib, 2004), decrease the future earnings (Chan, Chan, Jegadeesh, and Lakonishok, 2004), decrease the shares liquidity (Fathi, Seyyed, and Zahra, 2011).

The presence of opportunistic earnings management practices, the audit committee can monitor the earnings report. The audit committee helps the board of commissioners reviewing the financial information presented by the company, while the role of the auditor to make sure that the financial information presented in compliance with the accounting standards. An effective audit committee is expected to improve the earnings quality to meet a variety of responsibilities, including providing comments and approve accounting policies, reviewing the financial statements and maintain as well as the adequacy of internal control (Hassan, 2013). Interaction audit committee with auditor can improve the monitoring of the earnings quality.

Monitoring role of the audit committee is also influenced by the power control of large shareholders. The audit committee and the auditor will face a strong control of large shareholders in the business environment with concentrated ownership. Large shareholders have the power extensive control up to the management level and provide incentive to expropriate (La Porta *et al.*, 1999; Claessen *et al.*, 2002; Faccio and Lang, 2002; Du and Dai, 2005; Palenzuela and Mariscal, 2007). The Companies with a concentration shareholders who tend to support managers select accounting methods that benefit the company (Varma, Singh, Patel and Naidu, 2009). The controlling shareholder that reported accounting information for personal gain, causing earnings reported loss of credibility (Fan and Wong, 2002). The Ownership have an impact on earnings manipulation (Hassan and Abubakar, 2012). A higher percentage of shares held by large shareholders (blockholders), more pressure on the manager to act in conformity with the interests of shareholders (Sanda, Mukaila and Garba, 2005). The higher ownership concentration, beyond a certain level can lead to abuse of power, so it can be detrimental to the purpose of maximizing the value of company (Sanda *et al.* 2005). Ownership concentration is negatively related to the quality of disclosure (Chiraz, 2014). The higher the ownership concentration weakens the monitoring role of the board on earnings management (Amin, Djuminah, Suhardjanto, and Agustiniingsih, 2017). Other findings show different results, the large shareholders (block holders) have an incentive to monitor management (Shleifer and Vishny, 1997). Large shareholder can effectively monitor management to avoid behavior of opportunistic earnings management (Roodposhti and Chashmi, 2010). Farooq and El Jai (2012) observed that the concentrated ownership has alignment effect which reduce opportunistic behavior manager or entrenchment effect which increase earnings manipulation.

The monitoring mechanism has been implemented by the audit committee and the auditor, but why opportunistic earnings management practices are still going on? Whether the monitoring is implemented by the audit committee and the auditor are ineffective or very

strong influence ownership? Previous studies had shown that the majority of companies in Indonesia was dominated by shareholder concentrated (Lukviarman, 2004). Empirical evidence suggests that 76% of public companies controlled by the ultimate owner (La Porta *et al.*, 1999), while Claessens *et al.* (2002) found 93% of public companies Asia (including Indonesia) is controlled by the controlling shareholder. Large shareholders who control the company is family, government, financial institutions, corporations, and the controlling shareholder (such as foreign investors, cooperative, and employees) (La Porta *et al.*, 1999; Claessens *et al.*, 2002; Faccio and Lang, 2002, Lukviarman, 2004) . The large shareholders have extensive power control, which provides incentives to expropriate, including opportunistic earnings management. This phenomenon causes the monitoring function of the earnings quality that do the audit committee and the auditor is becoming weaker.

Related to the problem of research, monitoring conducted by the audit committee and the auditor on earnings quality is very important, but the lack of clarity of the role of the monitoring when there is a high concentration ownership, it is interesting to examine this problem. Does the interaction of the audit committee and auditors in monitoring the earnings quality will strengthen the monitoring role? Does monitoring function has different implications when tested at the company with a level of ownership concentration that is different?

2. LITERATUR REVIEW AND HYPOTHESIS

Effect of the Audit Committee Independence on the Earnings Quality, and Moderate Audit Quality (H1)

An effective audit committee was expected to improve of earnings quality to meet the various responsibilities including, comment and approve accounting policies, reviewing the financial statements and maintain as well as the adequacy of internal control (Hassan, 2013). The Auditor with the Audit Committee to monitor the financial reporting process. Auditors ensure that the financial information presented in compliance with the accounting standards. According to Nugroho and Umanto (2011), the auditor is responsible for external supervision. Auditors give an assessment of corporate financial statements. Auditors expect the notes inconsistencies in the report and report to the audit committee.

Results of previous studies show that the independence of the audit committee to be effective to control the financial statements. Independence of the Audit Committee to encourage and improve the quality of financial reports informativeness of financial statements (Hundal, 2013). The independence of the audit committee related to earning quality (Baxter and Cotter, 2009). Independent audit committees can encourage more effective financial reporting process (Beasley 1996; Blue Ribbon Committee, 1999). Bedard *et al.* (2004) found that independent audit committees can reduce aggressive earnings management (abnormal accruals). Abbott *et al.* (2004) found that the earnings restatement decreased if all the independent audit committee. Prastiti and Wahyu (2013) found that the independence of the audit committee negatively affect earnings management.

Some studies show different results, independence has a downside risk, if completely separate from management could lead to an independent committee less in view of industry issues that require discussion and tend to side with the auditor (Aldamen, Duncan, Kelly, McNamara and Nagel, 2012), so that the negative effect on the level of monitoring (Sharma, Naiker, and Lee 2009). Klein (2002) reported that the increase in the proportion of independent members not associated with increased quality of financial reporting. The composition of the audit committee from the outside has no effect on abnormal accruals.

Habbash, Christoph, Aly (2013) found the full independence of the audit committee has no impact on earnings management.

Based on the arguments above, it can be concluded that previous research has generally shown that the independence of the audit committee negative effect on earnings management (positively on the quality of earnings). This relationship if it is associated with the role of the auditor, the more it will strengthen the influence of the independence of the audit committee on the earnings quality. However, in a business environment with concentrated ownership, influence the independence of audit committees become weaker when the higher concentration of ownership, since the control shareholders are getting stronger. This hypothesis can be formulated as follows:

H1a: Audit quality moderate influence on the audit committee independence on the earnings quality.

H1b: Audit quality moderate influence on the audit committee independence on the earnings quality and its influence is weak at the higher level of ownership concentration.

Effect of Audit Committee Expertise on Earnings Quality, and Moderate Audit Quality (H2)

Expertise accounting and / or finance can increase the effectiveness of monitoring. The existence of expert accounting and / or financial audit committee can help analyze the accounting and financial reporting policies critically, identify potential problems and solutions (Alzoubi, 2012). Competence to the understanding of accounting standards to reduce the cost substantive test of the external auditor and proven violations of accounting standards less (Turel, 2010).

Lisic, et al. (2011) found a negative relationship expertise and financial accounting and restatements are moderated by the power of the CEO. Audit committee members who ideally should have knowledge of the concepts of accounting and auditing process to improve understanding of the financial reporting process, identify problems, ask questions investigating to management and auditors as well as create a leadership contribution to the audit committee (McDaniel, Martin, and Maines 2002). The audit committee who have financial expertise having an effect negatively on earnings management (Alzoubi and Welcome (2012). Krishnan and Lee (2009) found a negative correlation litigation risk to the existence of the audit committee with accounting and finance experts, for companies with governance standards high, the opposite relationship this was not observed for companies that have weak corporate governance standards.

Different results shown by Dhaliwal et al. (2010) that companies with accounting and financial experts tend to engage in earnings management and this relationship is stronger for companies with high corporate governance standards. Research Carcello et al. (2008) showed that there is no relationship with the management of abnormal production costs with accounting expertise of audit committee and there is a positive relationship the abnormal discretionary with audit committee accounting expertise. Baxter and Cotter (2009) found no correlation magnitude of earnings management with the audit committee accounting expertise. Habbash, Christoph, Aly (2013) showed that the presence of financial experts is also no correlation with earnings management, since financial experts in audit committees often worked as a CFO or CEO at another company.

Based on the arguments above, it can be concluded that previous research has generally shown that the accounting and financial expertise negative effect on earnings management (positively on the quality of earnings). This relationship if it is associated with a qualified auditor's role, it will reinforce the effect of accounting expertise and financial

audit committee on the quality of earnings. However, in a business environment with concentrated ownership, the effect of accounting and financial expertise becomes weak when the higher concentration of ownership, since the control shareholders are getting stronger. This hypothesis can be formulated as follows:

H2a: Audit quality moderate influence on the audit committee expertise on the earnings quality.

H2b: Audit quality moderate influence on the audit committee expertise on the earnings quality and its influence is weak at the higher level of ownership concentration.

Effect of Audit Committee Size on Earnings Quality, and Moderate Audit Quality (H3)

According to KPMG (2013: 3) the size of the audit committee will vary depending on the needs and culture of the organization and the extent to which the board of commissioners to delegate responsibility to the audit committee. Audit committee members that too much can hinder discussion and debate, but too little is not possible to have the expertise and perspective to make a decision. Decision of the Chairman of Bapepam LK No. Kep-643/BL/2012 requires an audit committee consisting of at least one independent commissioner and at least two other members come from outside the issuer or public company. The number of audit committee members who tends to have greater strength and positively associated with the quality of financial reporting (Felo et al., 2003).

The size of the audit committee can have a positive impact on the quality of earnings. A big audit committee more effective in monitoring because they tend to include members with varied expertise for monitoring the financial reporting practices more intense (Baxter and Cotter, 2009). There is a positive effect on the big size of the audit committee monitoring the quality of earnings. Other studies show different results, Xie, et al. (2003) found no significant relationship between the size of the Audit Committee and discretionary accruals. Similarly the findings Chandrasegaram et al. (2013) that the size of the audit committee is not related to earnings management. Habbash, Christoph, Aly (2013), also found no effect of the number of audit committee members to the absolute earnings management.

Results of previous studies show mixed findings. One particular expertise (eg, accounting, auditing, and financial) is needed in order to communicate with the auditor. Communication with the auditor should have sufficient knowledge and expertise in order to have a similar understanding with the auditor and able to work together to monitor the quality of financial reporting. Various skills are required, particularly accounting / auditing / financial management can be satisfied only if it has a sufficient number of audit committee.

Based on the arguments above, it can be concluded that previous studies generally show that the audit committee size has positive influence on the earnings quality. This relationship if it is associated with the role of the auditor, the more it will strengthen the influence of the audit committee size on the earnings quality. However, in a business environment with concentrated ownership, influence the audit committees size become weaker when the higher ownership concentration, since the control shareholders are getting stronger. This hypothesis can be formulated as follows:

H3a: Audit quality moderate influence on the audit committee size on the earnings quality.

H3b: Audit quality moderate influence on the audit committee size on the earnings quality and its influence is weak at the higher level of ownership concentration.

Effect of Audit Committee Meeting on Earnings Quality, and Moderate Audit Quality (H4)

According to KPMG (2013: 1-2) the audit committee usually meets three or four times each year. Audit committee meetings generally on the subject of financial reporting and audit cycle, i.e. before finalization of the interim and final end of the year. This meeting is also to discuss the internal control, risk management, as well as the duties and responsibilities of the audit committee more. Audit committee meeting is intended to ensure that the performance of the audit committee meets the desired goal. The results of monitoring of the audit committee is able to prevent fraudulent financial reporting and financial reporting restatements (Abbott, et al., 2004; Vafeas, 2005). Bedard et al (2004) and Baxter and Cotter (2009) found a significant association between the number of audit committee meetings and earnings management. Ebrahim (2007); Lin and Hwang (2010); Xie et al. (2003) found that the number of audit committee meetings negatively affect earnings management.

Several studies showed different results. Saleh, Takiah and Grace (2007) and Chandrasegaram et al., (2013) study showed that the frequency of audit committee meetings not negatively related to the magnitude of earnings management. Frequency of audit committee meetings are not enough to deter the practice of earnings management in public companies. Yang and Krishnan (2005) found no significant relationship. Habbash, Christoph, Aly (2013) research showed no significant effect on the number of meetings absolute level of earnings management.

Based on the arguments above, it can be concluded that previous studies showed evidence vary, but tend to conclude that the audit committee meeting does not negatively affect the quality of earnings, some are showing audit committee meetings had no effect on earnings management. This is because the audit committee meetings are generally just to meet the financial reporting and audit cycle, ie before finalization of the interim and final end of the year. Meetings involving auditors in the discussion of the audited financial statements, if done effectively can reduce earnings management practices. The role of qualified auditors will further strengthen the influence of the meeting (meeting) audit committee on the quality of earnings. However, in a business environment with concentrated ownership, the effect of meeting (meeting) Audit Committee become weaker when the concentration is higher, because the control shareholders are getting stronger. This hypothesis can be formulated as follows:

H4a: Audit quality moderate influence on the audit committee meeting on the earnings quality.

H4b: Audit quality moderate influence on the audit committee meeting on the earnings quality and its influence is weak at the higher level of ownership concentration.

Below is the conceptual framework of this research:

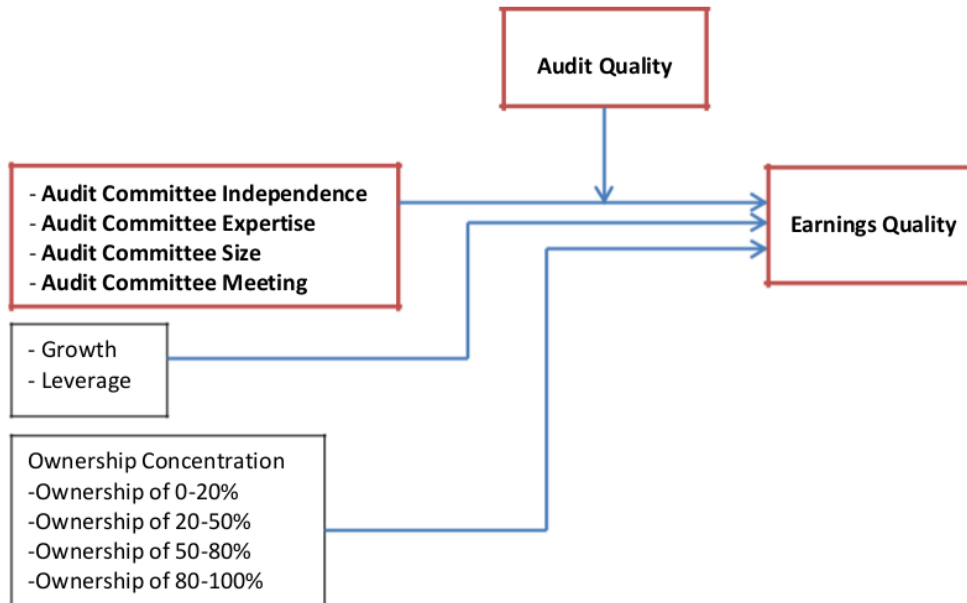


Figure 3.1 Conceptual Framework

3. RESEARCH METHODS

The population of this research is a manufacturing company in Indonesia Stock Exchange 2011-2014 period amounted to 138 companies. Based on data completeness selected 122 companies, thus the total observation as much 488 (122 x 4 years). Some data indicate the presence of outliers, as selected by outlier obtained 388 observations. Business environment with the condition of ownership is concentrated into a research context. Ownership concentration basis used to test samples with concentrated ownership. Ownership concentration in question is the majority shareholder owning at least (cut off) 20% of the common shares (Faccio, and Lang, 2002). The research sample, in further testing, split into five groups based on their level of concentration, the concentration of ownership of > 10%, the concentration of ownership of > 20%, the concentration of ownership of > 50%, the concentration of ownership of > 80%, the concentration of ownership of > 90%.

The research variables are grouped into independent variable, dependent variable, moderating variables, and control variables. Each of these variables and measurements are presented in Table 1 below.

Audit Committee Independence : Proportion of the Audit Committee are independent of the number of members of the Audit Committee (Chandrasegaram et al., 2013; Aldamen et al., 2012; Hamdan, Adel and Sameh, 2013).

Audit Committee Expertise : Proportion of member of the Audit Committee with accounting and finance background to the number of total members of the Audit Committee (Chandrasegaram et al., 2013; Aldamen et al., 2012; Hamdan, Adel and Sameh, 2013).

- Audit Committee Size:** : The number of members of the Audit Committee (Chandrasegaram et al., 2013; Aldamen et al., 2012; Hamdan, Adel and Sameh, 2013)
- Audit Committee Meeting:** : Meeting frequency / Audit Committee meeting held in each year (Chandrasegaram et al., 2013; Aldamen et al., 2012; Hamdan, Adel and Sameh, 2013).
- Discretionary Accruals** : $TCAccr_{it} = \alpha_0 + \alpha_1OCF_{i,t-1} + \alpha_2OCF_{i,t} + \alpha_3OCF_{i,t+1} + \alpha_4\Delta Rev_{i,t} + \alpha_5PPE_{i,t} + \epsilon_{i,t}$
(Dechow, Dichev and McNichols, 2002; Francis *et al.*, 2005 and Feng *et al.*, 2011),
The residuals of the regression model is discretionary accruals. This study uses the absolute value of discretionary accruals (DisAccr) as a proxy for the Earnings Quality. Value of higher discretionary accruals means earnings quality is low, and otherwise.
- Audit Quality** : Industry Specialization is the ratio of market share and the ratio of total assets of the client companies audited in certain industries (Gul et al., 2009).
- Growth** : The percentage growth in total assets (Bedard et al. (2004).
- Leverage** : Financial leverage is the ratio of total debt to total assets (Hamdan, Adel and Sameh, 2013).
- Ownership Concentration** : The number of common stock ownership of at least 20% (cutoff) (faccio, and Lang, 2002).
The role of this variable as a dummy variable and as a fraction sample.

This research analysis method using Moderating Regression Analysis (MRA). This method was chosen for this study are moderating variables in this case the quality of the audit. Moderating Regression Analysis (MRA) is a specific application of multiple linear regression in the regression equation contains elements of interaction or multiplication of two or more independent variables (Ghozali, 2011: 229). Model equation is:

$$EQ = \alpha + \beta_1ACIndep + \beta_2ACExpert + \beta_3ACSize + \beta_4ACMeet + \beta_5Growth + \beta_6Leverage + \beta_7Concentration1 + \beta_8Concentration2 + \beta_9Concentration3 + \beta_{10}Concentration4 + \epsilon \quad (1)$$

$$EQ = \alpha + \beta_1ACIndep + \beta_2ACExpert + \beta_3ACSize + \beta_4ACMeet + \beta_5AudQual + \beta_6Growth + \beta_7Leverage + \beta_8Concentration1 + \beta_9Concentration2 + \beta_{10}Concentration3 + \beta_{11}Concentration4 + \epsilon \quad (2)$$

$$EQ = \alpha + \beta_1ACIndep + \beta_2ACExpert + \beta_3ACSize + \beta_4ACMeet + \beta_5AudQual + \beta_6ACIndep * AudQual + \beta_7ACExpert * AudQual + \beta_8ACSize * AudQual + \beta_9ACMeet * AudQual + \beta_{10}Growth + \beta_{11}Leverage + \beta_{12}Concentration1 + \beta_{13}Concentration2 + \beta_{14}Concentration3 + \beta_{15}Concentration4 + \epsilon \quad (3)$$

4. ANALYSIS

The analysis aims to know the effect of main variables: Audit Committee Independence, Audit Committee Expertise, Audit Committee Size, Audit Committee Meeting on Earnings Quality, and determines the effect of moderating influence Audit Quality. Analysis also to

determine changes in the influence of the main variables (with moderating) at various levels of ownership concentration. The results of the analysis are presented in Table 1 and Table 2 below.

Table 2 Results of Analysis Model Moderation

$$EQ = \alpha + \beta_1 ACIndep + \beta_2 ACExpert + \beta_3 ACSize + \beta_4 ACMeeting + \beta_5 AuditQual + \beta_6 ACIndep * AuditQual + \beta_7 ACExpert * AuditQual + \beta_8 ACSize * AuditQual + \beta_9 ACMeet * AuditQual + \beta_{10} Growth + \beta_{11} Leverage + \beta_{12} Concentration1 + \beta_{13} Concentration2 + \beta_{14} Concentration3 + \beta_{15} Concentration4 + \varepsilon$$

Variable	Hyp	Sign Exp.	Main Model		Model With Moderating		Conclusion
			Without Moderating		Moderating		
			Σ Sample 388		Σ Sample 388		
			Beta	Sig.	Beta	Sig.	
AC Independence ^a	H ₁	(-)	-0.008	.887	-.159	.029**	H1a, H1b accepted
AC Expertise ^a	H ₂	(-)	-.167	.001***	-.197	.001***	H2a, H2b accepted
AC Size ^a	H ₃	(-)	-0.041	.466	-.396	.000***	H3a, H3b accepted
AC Meeting ^a	H ₄	(+)	.122	.019**	.212	.001***	H4a, H4b accepted
Audit Quality ^b		(-)	-.086	.089*	-4.850	.000***	Significant
ACIndep*AuditQual ^c					1.447	.012**	Moderating
ACExpert*AuditQual ^c					.071	.459	Non Moderating
ACSize*AuditQual ^c					3.524	.000***	Moderating
ACMeet*AuditQual ^c					-.245	.025**	Moderating
Growth ^d		(+)	.136	.006**	.118	.011**	Significant
Leverage ^d		(+)	.243	.000***	.250	.000***	Significant
Concentration 1 ^e		(+)	-0.014	.784	-0.017	.715	No Significant
Concentration 2 ^e		(+)	.014	.791	.010	.842	No Significant
Concentration 4 ^e		(+)	.126	.019**	.099	.048**	Significant
R			.330		.495		
R Square			.109		.245		
Adj. R Square			.085		.216		
F			4.606		8.630		
Sig.			.000***		.000***		

*** significant at the level of 0:01; ** significant at the level of 0,05; * significant at the level of 0,10

a. Independen (*Predictors*): AC Independence, AC Expertise, AC Size, AC Meeting

b. Moderating: Audit Quality

c. Interaksi (Independent and Moderator): AC Independence*Audit Quality, AC Expertise*Audit Quality, AC Size*Audit Quality, AC Meeting*Audit Quality

d. Control (*Predictors*): Growth, Leverage

e. Dummy of Ownership Concentration: Concentration 1 = 0 - 20% is 1, other is 0; Concentration 2 = 20 - 50% is 1, other is 0; Concentration 3 = 50 - 80% is 1, other is 0; Concentration 4 = 80 - 100% is 1, other is 0.

Table 3 Results of Analysis Model Moderation Different Levels of Ownership Concentration

Variable	Total Sample			Sample > 10%			Sample > 20%			Sample > 50%			Sample > 80%			Sample > 90%			
	Sign Exp.	Σ Sample 388	Beta	Σ Sample 388 ^e	Beta	Sig.	Σ Sample 365 ^e	Beta	Sig.	Σ Sample 278 ^e	Beta	Sig.	Σ Sample 93 ^e	Beta	Sig.	Σ Sample 34 ^e	Beta	Sig.	
AC Independence ^a	(-)	-1.59	.026**	-1.62	.026**	.167	.026**	-1.71	.044**	-1.71	.044**	-1.71	.044**	-1.71	.044**	-1.71	.044**	-1.71	.044**
AC Expertise ^a	(-)	-1.97	.001**	-1.96	.001**	.195	.001**	-2.04	.004**	-2.04	.004**	-2.04	.004**	-2.04	.004**	-2.04	.004**	-2.04	.004**
AC Size ^a	(-)	-3.96	.000**	-4.08	.000**	.417	.000**	-4.58	.000**	-4.58	.000**	-4.58	.000**	-4.58	.000**	-4.58	.000**	-4.58	.000**
AC Meeting ^a	(+)	.212	.001**	.211	.001**	.192	.005**	.239	.002**	.239	.002**	.239	.002**	.239	.002**	.239	.002**	.239	.002**
Audit Quality ^b	(-)	-4.850	.000**	-4.978	.000**	5.043	.000**	-4.965	.000**	-4.965	.000**	-4.965	.000**	-4.965	.000**	-4.965	.000**	-4.965	.000**
ACIndep*AuditQual ^c		1.447	.009**	1.516	.009**	1.539	.009**	1.464	.018**	1.464	.018**	1.464	.018**	1.464	.018**	1.464	.018**	1.464	.018**
ACExpert*AuditQual ^c		.071	.514	.062	.514	.062	.524	.094	.386	.094	.386	.094	.386	.094	.386	.094	.386	.094	.386
ACSize*AuditQual ^c		3.524	.000**	3.597	.000**	3.630	.000**	3.628	.000**	3.628	.000**	3.628	.000**	3.628	.000**	3.628	.000**	3.628	.000**
ACMeet*AuditQual ^c		-2.45	.027**	-2.43	.027**	.223	.048**	-2.66	.031**	-2.66	.031**	-2.66	.031**	-2.66	.031**	-2.66	.031**	-2.66	.031**
Growth ^d	(+)	.118	.014**	.114	.014**	.104	.030**	.151	.006**	.151	.006**	.151	.006**	.151	.006**	.151	.006**	.151	.006**
Leverage ^d	(+)	.250	.000**	.235	.000**	.233	.000**	.236	.000**	.236	.000**	.236	.000**	.236	.000**	.236	.000**	.236	.000**
R		.485		.485		.484		.515		.515		.749		.749		.868		.868	
R Square		.235		.235		.235		.265		.265		.561		.561		.754		.754	
Adj. R Square		.216		.213		.211		.234		.234		.502		.502		.631		.631	
F		10.503		10.503		9.841		8.712		8.712		9.420		9.420		6.127		6.127	
Sig.		.000**		.000**		.000**		.000**		.000**		.000**		.000**		.000**		.000**	

*** significant at the level of 0.01; ** significant at the level of 0.05; * significant at the level of 0.10

- a. Independent (Predictors): AC Independence, AC Expertise, AC Size, AC Meeting
- b. Moderating: Audit Quality
- c. Interaksi (Independent and Moderator): AC Independence*Audit Quality, AC Expertise*Audit Quality, AC Size*Audit Quality, AC Meeting*Audit Quality
- d. Control (Predictors): Growth, Leverage
- e. Split Sample: Concentration 1 (cutoff 10%), Concentration 2 (cutoff 20%), Concentration 3 (cutoff 50%), Concentration 4 (cutoff 80%), Concentration 5 (cutoff 90%)

Table 4 Summary of Result of Analysis and Hypothesis Testing

Hip	Hypothesis statement	Conclusion
H1a	Audit quality moderate influence on the audit committee independence on the earnings quality.	Supported: Main Model: beta (β) = -.159; sig=.029**; Interaction Model : beta (β) = 1.447; sig=.012** (Table 2)
H1b	Audit quality moderate influence on the audit committee independence on the earnings quality and its influence is weak at the higher level of ownership concentration.	Supported: Cons 1 (cutoff 10%): beta (β)=-.162; sig=.026** Cons 2 (cutoff 20%): beta (β)=-.167; sig=.026** Cons 3 (cutoff 50%): beta (β)=-.171; sig=.044** Cons 4 (cutoff 80%): beta (β)=-.753; sig=.000** Cons 5 (cutoff 90%): beta (β)=-.563; sig=.335 (Table 3)
H2a	Audit quality moderate influence on the audit committee expertise on the earnings quality.	No Supported (no moderating): Main Model: beta (β) -.197; sig=.001***; Interaction Model: beta (β)=.071; sig=.459 (Table 2)
H2b	Audit quality moderate influence on the audit committee expertise on the earnings quality and its influence is weak at the higher level of ownership concentration.	Supported: Cons 1 (cutoff 10%): beta (β)= -.196; sig=.001*** Cons 2 (cutoff 20%): beta (β)= -.195; sig=.001*** Cons 3 (cutoff 50%): beta (β)= -.204; sig=.004*** Cons 4 (cutoff 80%): beta (β)= -.245; sig=.028** Cons 5 (cutoff 90%): beta (β)= -.070; sig=.814 (Table 3)
H3a	Audit quality moderate influence on the audit committee size on the earnings quality.	Supported: Main Model: beta (β) -.396; sig=.000*** Interaction Model: beta (β)= 3.524; sig=.000*** (Table 2)
H3b	Audit quality moderate influence on the audit committee size on the earnings quality and its influence is weak at the higher level of ownership concentration.	Supported: Cons 1 (cutoff 10%): beta (β)= -.408; sig=.000*** Cons 2 (cutoff 20%): beta (β)= -.417; sig=.000*** Cons 3 (cutoff 50%): beta (β)= -.458; sig=.000*** Cons 4 (cutoff 80%): beta (β)= -.764; sig=.000*** Cons 5 (cutoff 90%): beta (β)= -.527; sig=.131 (Table 3)
H4a	Audit quality moderate influence on the audit committee meeting on the earnings quality.	Supported: Main Model: beta (β) .212; sig=.001*** Interaction Model: beta (β)= -.245; sig=.025** (Table 2)

<p>H4b Audit quality moderate influence on the audit committee meeting on the earnings quality and its influence is weak at the higher level of ownership concentration.</p>	<p>Supported: Cons 1 (cutoff 10%): beta (β)= .211; sig=.001*** Cons 2 (cutoff 20%): beta (β)= .199; sig=.005*** Cons 3 (cutoff 50%): beta (β)= .239; sig=.002*** Cons 4 (cutoff 80%): beta (β)= .170; sig=.121 Cons 5 (cutoff 90%): beta (β)= .133; sig=.777 (Table 3)</p>
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5. CONCLUSIONS

Results of testing the hypothesis presented in Table 4 concluded that the three characteristics of the audit committee is independence, accounting and financial expertise, size/number of audit committee positive effect on the earnings quality, while the audit committee meeting negatively affect the earnings quality. This concerns the effectiveness of the meeting. Audit Quality moderating influence characteristics of the audit committee on the earnings quality, except for accounting and financial expertise. This shows that an audit quality will strengthen the monitoring function of the earnings quality. This function will be more effective when interacting with the audit committee. While expertise is not moderated, this means pure as the independent variable. The impact of the level of ownership concentration on the role of the audit committee, strengthened at a concentration level of 10%, 20%, 50%, to 80%, but weakened at a concentration level of 90% or more. At the level of concentration of up to 80% indicating effects are alignment. While at a concentration level of 90% or more indicates there entrenchment effect. This shows that the higher the concentration of ownership weakens the monitoring role of the audit committee on the earnings quality.

Finding

Variable audit quality moderating influence characteristics of the audit committee on the earnings quality. Concentration of ownership affect the change influence characteristics of the audit committee on the earnings quality. Up to a concentration of 80% and 90% more powerful effect, this indicates that there is the effect of alignment. There alignment of the interests of owners and management. Right of control over the ownership of the monitoring role of the audit committee on the earnings quality a positive impact. Concentrations of more than 80 and 90% of influence to weaken, this indicates that there is entrenchment effect or excessive use of rights, especially the right to control the monitoring mechanism.

Research implications

Theoretical implications

The application of agency theory that was originally based on the assumption of ownership spreads, its' business environment with a high concentration of ownership (as in Indonesia) should change. Changes in these assumptions will have an impact on the way of empirical testing in research.

The ownership structure is part of the monitoring system, but ownership with a particular concentration level can weaken the monitoring function. This study provides an explanation limit the debilitating level of concentration monitoring. Confirm the indication of alignment and entrenchment effects related with ownership.

Practical implications

The Audit committee characteristic as an implementation of corporate governance is more effective with the increasing involvement of audit quality. The interaction between the Audit Committee with the Auditor should be able to detect opportunistic earnings management practices. Communication and discussion with the auditor (frequency and quality) should be increased through a joint meeting.

Majority ownership exceeds 50% have a strong ability to control. If the controlling interest overused and tended to expropriate, it is not only detrimental to the minority shareholders but also detrimental to other stakeholders. It also resulted in the weakening of the role of corporate governance. Therefore, there should be clear regulations and firmly linked in majority ownership (mandatory nature).

Disclosure of non-controlling shareholders' rights already exist, but the disclosure of the majority shareholder is still very limited. The structure of the shareholders must be disclosed clearly (detail), especially the major shareholders (ultimate shareholders), during which it seemed shareholders are reported is the "surface", who is the main owner is not disclosed. Disclosure of ownership structure should be reported in the form of a pyramid, so they can know who the real controller, can also be measured control rights and cash flow rights. The general public (including investors) can detect the presence or absence of potential expropriation practices an adverse certain parties.

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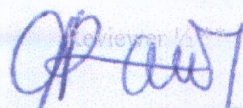
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