EMPIRICAL STUDY OF INCOME MANAGEMENT BASED ON CASH FLOWS, AUDITOR QUALITY AND COMPANY VALUE IN INDONESIA

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Abstract

This study aims to determine the effect of cash flow-based earnings management on firm value as moderated by the variable Good Corporate Governance. This research is explanatory research. The research population is manufacturing companies on the Indonesia Stock Exchange in 2014-2015. Methods of data analysis using Moderating Regression Analysis (MRA). This study explains that cash flow-based earnings management has an effect on firm value. Auditor quality has a significant effect on firm value. Likewise, management ownership has no effect on firm value.

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1. Introduction
The case of financial manipulation, especially in relation to profit, is exemplified by the cases of Toshiba and Olympus. Revenue manipulation by Worldcom amounted to US $ 3.8 billion, as was the Enron case. Enron's Directors and Auditors performed financial engineering by manipulating its revenues of up to US $ 600 million, and falsifying US $ 1.2 billion in debt reports. This shows that the reporting of earnings that occurs in the company is explained by the manager's efforts to stakeholders.

According to Cohen (2008), profit is a measurement of management performance appraisal, tax imposition, dividend policy, investment guidelines, and decision making. Profit is a form of company performance. This is because the current year's profit must be of good quality so that it is an indicator of profit and relates to future operating cash flows.

Management of the company towards finances, especially the resulting high profits so that company activities can take place. The existence of low earnings quality causes a discontinuity of the company so that the company's activities will not run well, causing stakeholders to make wrong decisions so that the company's value decreases (Siallagan and Mahfoedz, 2006). If shareholders have higher shareholder prosperity due to high company value, shareholders increase their capital investment in the company (Haruman, 2008). Earnings management is an act of managing earnings reporting. The existence of an agency conflict causes a gap between managers and shareholders.

Information asymmetry of information imbalance (asymmetrical information) between principal and agent is due to positions that have more information about the company than principals and agents. agents to conceal some information unknown to the principal on the assumption that individuals act to maximize self-interest. The agent influences the accounting numbers in the financial statements by doing earnings management. This means that earnings management will get non-real profits which can reduce the value of the company in the future (Siallagan and Mahfoedz, 2006). Menager utilizes the company's net profit information in an opportunistic manner by making maximum profit for the following year so as to carry out earnings management. Roychowdhury (2006), Gunny (2005), Cohen (2008) and Ratmono (2010) explain earnings management by showing that managers have switched from accrual earnings management to real earnings by auditors and regulators.

The purpose study were to determine the effect of cash flow-based earnings management on company value; and knowing the effect of audit quality as moderation in effect of cash flow-based earnings management on firm value.
2. Literature Review

Agency Theory

Agency theory was explained by Jensen and Meckling (1976) in Pasaribu (2009) where there is an agency relationship described by the contract between the manager (agent) and the investor (principal). An agency conflict occurs between the owner and the agent due to agency costs that are not in accordance with the interests of the leadership. Agency theory arises because of the interests of principals and agents which are motivated by their respective interests so that they clash with each other.

According to Jensen and Meckling, 1976) in Pasaribu (2009), agency contracts are related to resource management and are required to provide rewards to agents and be responsible for their duties. Lane (2000: 31) explains the principal and agent relationships that have an impact on the actions of other parties or the actions of others. There are agreements in the institutional structure at various levels, such as norms of behavior and the concept of a contract between the two.

According to Pearce and Robinson (2008: 47) in agency theory there is a separation between the principal (principal) and the manager (agent) in the company, so that there is a possibility that the owner's wishes are ignored resulting in conflict. If the debt-to-equity limit is low, management chooses a method that will increase income and bonuses. The existence of research on agency theory, government intervention encourages accounting alternatives that reduce income. So that the choice of the accounting method is influenced by this method on agency contracts (Bastian, 2006: 213). An agency conflict arises if the manager aims to maximize profits to minimize costs, but if the owner of the company sells some shares to other investors, agency conflicts arise (Noerirawan, 2012).

Cash Flow Based Earnings Management

Dechow and Skinner (2000) explain that earnings management is carried out by increasing profits (income increasing), decreasing profits (income decreasing), income smoothing and taking a bath, namely the recognition of costs and losses for the coming period in the current period when at the current period there are three earnings management, namely management, real earnings, accrual and accounting fraud (Gunny, 2005). Real earnings management actions with normal conditions with the main objective of profit targets (Cohen and Zarowin, 2010; Roychowdhury, 2006). Real earnings management patterns, namely manipulation in operating activities, investing activities, and financing activities. Real earnings management is the manipulation carried out by management in company activities during the accounting period. Real earnings management is carried out during the accounting period with specific objectives, namely meeting certain profit targets, avoiding losses, and achieving analyst forecast targets.
There are three ways to do real earnings management, namely: (Cohen and Zarowin, 2010 in Nugroho 2013)

a. Sales manipulation is an attempt to increase sales within a certain period of time temporarily by providing easy terms of credit by giving a discount or discount., as customers get the same discount in the future.

b. Strategy to increase profit and sales in the current period, if profit is positive. Discounts make profits go up but future cash flows fall. flow.

c. Over production, company managers can increase profits by producing more, causing costs per unit with lower products. This strategy can reduce operating profit but this strategy has a negative impact on future cash flows, because the company bears large storage costs for its inventory.

The Impact of Cash Flow Based Earnings Management Influence

Profits recorded serve as a reference for shareholders by looking at the condition of the company. Managers manage the company by getting external and internal information in the future. The existence of this information gap is called information asymmetry. Therefore, this information gap can determine the company's condition and prospects in the future. The existence of information asymmetry makes company owners unable to see the condition of the future company that performs earnings management by managers who carry out earnings management to increase firm value in the short term but reduce firm value in next time. The hypothesis proposed is:

H1: Cash flow-based earnings management has a negative impact on Firm Value

The Impact of Auditor Quality on firm value

Editor quality is the editor's efforts in finding and reporting errors against violations in the accounting system. Investors have the perception that companies audited by the Acountant Public disclose reports accurately and high so there is an increase in investor confidence. Ardiana (2014) found the size of KAP has a positive impact on firm value By increasing the credibility of financial statements, the company's stock price has positive impact on firm value (ROA and Tobins Q).

Based on this basis, the hypothesis that can be proposed is:

H2: Audit quality has a positive impact on firm value.

The Impact on Earning Management on Firm Value with auditor quality as Moderating

Ardiati (2005) found that information asymmetry can be reduced by auditing to verify financial statements. The effectiveness of auditing to prevent earnings management varies with the quality of auditors. The higher the auditing quality (high-quality auditing), the more effective the earnings management will be (Ardiati 2005). Based on this, the hypothesis that can be proposed is:

H3: Cash flow-based earnings management has a positive impact on firm value is weakened by the presence of audit quality.
3. Research Methods
The population of this research is all manufacturing industries listed on the Indonesia Stock Exchange in 2014-2015. The sampling technique used purposive sampling method with the following criteria:

a. The company has never carried out any acquisition and merger activities during 2014-2015;

b. The company report financial reports for 2014-2015;

Secondary data available from ICMD 2015 and Corporate Financial Statements. The independent variables include cash flow-based earnings management (ABCFO). The dependent variable is Firm Value (Q). Audit quality is a moderating. Method analysis used MRA and t test.

4. Results
This Sample was 101 companies with a study period of 2 years so that the observation data were 202 companies. The method of data analysis use Moderated Regression Analysis is performed to examine the impact cash flow-based earnings management and audit quality as a moderating variable and the dependent variable firm value is shown in Table 1.

<table>
<thead>
<tr>
<th>Research variable</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>0.680</td>
<td>0.083</td>
<td>8,237</td>
<td>0.000</td>
<td>-</td>
</tr>
<tr>
<td>RES CFO FIX</td>
<td>-0.867</td>
<td>0.615</td>
<td>-0.146</td>
<td>-1.408</td>
<td>0.159</td>
</tr>
<tr>
<td>Editor Quality</td>
<td>0.274</td>
<td>0.045</td>
<td>0.156</td>
<td>6.045</td>
<td>0.000</td>
</tr>
<tr>
<td>KA * EMI1</td>
<td>1,970</td>
<td>0.341</td>
<td>0.242</td>
<td>5,778</td>
<td>0.000</td>
</tr>
</tbody>
</table>

R = 0.713
R Square = 0.508
F count = 48.259
Adjusted R square = 0.497

Source: Appendix 3

The regression equation that can be formed from the MRA coefficient is:
Y = 0.680 - 0.867EMI + 0.274KA + 1,970Moderate 1 + e

The results of proving the hypothesis are described in Table 2 below.

Table 2. Hypothesis Testing Results

<table>
<thead>
<tr>
<th>Research variable</th>
<th>t</th>
<th>Sig.</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>8.237</td>
<td>0.000</td>
<td>-</td>
</tr>
<tr>
<td>RES CFO FIX</td>
<td>-1.408</td>
<td>0.159</td>
<td>Not significant</td>
</tr>
<tr>
<td>Audit Quality (QA)</td>
<td>6.045</td>
<td>0.000</td>
<td>Significant</td>
</tr>
<tr>
<td>KA * EMI1 (Moderate1)</td>
<td>5.778</td>
<td>0.000</td>
<td>Significant</td>
</tr>
</tbody>
</table>
Based on data analysis and results of hypothesis testing, the following discussion is identified.

**The Effect of Cash Flow Based Earnings Management on Firm Value**

The results of hypothesis testing explain that real earnings management, operating cash flow does not have a significant effect on firm value. This indicates that the first hypothesis is rejected. This means that real management based on the company's operating cash flow is negative and decreases the value of the company. The cash flow statement serves to pay debts and dividends. CFO is the determinant of the company's activities to pay short-term debt and finance the company's operating costs.

This is because the company is suspected of carrying out real earnings management through operating cash flow if the average negative operating cash flow is not able to increase firm value. This cash flow statement will provide useful information about the company's ability to generate income from operating activities, make investments, pay off liabilities, and pay dividends. The cash flow statement reports measures of cash flows for three business activities: operating, investing, and financing. Operating cash flow or cash flow from operating activities is the basic cash equivalent for accrued net income, more generally, cash flow information helps in assessing the company's ability to meet its obligations, pay dividends, increase capacity and obtain funding.

Cash flow from operations (CFO) is an indicator that determines whether the company's operational activities can generate sufficient cash flow to pay off short-term loans, maintain the company's operational capabilities, and finance expenses for operational activities. Cash flow from operating activities contains cash receipts and disbursements obtained and used for the company's operational activities. Identification of cash flow components from operating activities, including cash receipts from customers, payments to suppliers, employees, and others, tax payments, interest payments, and other operating activities. Earnings management of real operating flow activities carried out by management through daily company activities during the current accounting period cannot be an investor's measure of firm value. Therefore, this earnings management can be done at any time during the current accounting period. Timing is an important part of the company in this case the manager has an incentive to carry out real activities in operating cash flow.

The company has incentives in operational activities during the current period. Oktarina and Hutagaoul (2008) show the findings that companies carry out real earnings management by producing operating cash flows with higher market performance than companies that get profits from real earnings management. This is in accordance with agency theory where there is a clash between the owner (investor) and the agent in the agency relationship. This study is inconsistent with Roychowdhury (2006) and Herawaty (2008) which show that earnings management had not significant effect on firm value.
The Effect of Auditor Quality on Firm Value

The test results show that the quality of auditors has a significant effect on firm value. It means that the better the audit, the higher the company value. It shows that the second hypothesis is accepted where the quality of auditors has a significant effect on firm value is proven. The quality of the audit is carried out to provide consideration in assessing the reasonableness of investors.

The results indicate that audit quality reflects the credibility of the auditors used and errors in the financial statements. The more credible the financial statements audited by the auditors, the better the quality of the financial reports produced and submitted to users, especially shareholders. So that the better the level of trust and decisions taken by shareholders so that the value of the company will increase. The quality of auditors is distinguished based on public accounting firms (KAP) which are included in the Big 4 and Non Big 4 groups. The quality of auditors will increase in line with the size of the Public Accounting Firm so that it will improve the quality of the public accounting firm. This will affect the client in choosing a public accounting firm, the selection of KAP that is included in the Big 4 and Non Big 4 groups will affect the independence of the auditor so that it will improve the quality of the financial statements prepared by the company, the independence itself will affect the quality of the auditor, by Thus the independence of a public accounting firm will affect the quality of financial statements. A quality audit is very important to ensure that the accounting profession fulfills its responsibilities to investors, the general public, the government and other parties who rely on the quality of audited financial statements. The quality of quality financial reports will make investors interested in investing in the company, which in turn will increase the value of the company.

The ability of auditor to improve audit quality also increases investor confidence. Audit quality explains that a public accountant can fulfill his responsibilities to investors, the public, the government and other parties who need financial reports so that investment increases. This study is consistent with Ardiana (2014) who found the influence of KAP on firm value. This is supported by Afza and Razid (2014) where the quality of auditors has an influence on firm value (ROA and Tobins Q).

The Impact of Earnings Management on Firm Value with Editor Quality as Moderating Variable

Good corporate governance mechanisms must align the interests of various parties based on agency theory. Shareholders and creditors of the company can exercise control over the manager. Good governance will become an obstacle in earnings management so that financial reports can increase financial reports to explain firm value. The corporate governance mechanism capable of exercising opportunistic control for managers is: (1) increasing company share ownership by, (2) increasing institutional ownership of shares. (3) enlarging the portion of the independent board of commissioners. (3) improve audit quality.
Based on the results of data analysis, it is explained that cash flow-based earnings management has an effect on firm value with audit quality which can strengthen the effect. It means that operating cash flow from sales or acceleration will be influenced by cash flow-based earnings management through operating costs to firm value. This is due to the influence of cash flow-based earnings management through operating costs on value which is strengthened by audit quality. This is also due to management's earnings management action by increasing production on a large scale so that the comparison between overhead costs and the number of units of goods causes the average cost per unit and cost of goods sold to be lower, causing HPP to have an impact on company profits.

A high-quality audit acts as an effective barrier to earnings management because management's reputation will be damaged and the value of the company will decrease if it is proven that there is a reporting error, so it is predicted that earnings management will occur more in companies that have low-quality auditors. Auditing is a process to reduce the misalignment of information that exists between management and shareholders by using outside parties to provide endorsement of the financial statements. Auditing is a process to reduce the misalignment of information that exists between managers and shareholders by using outside parties to validate financial statements. Users of financial statements, especially shareholders, will make decisions based on reports made by auditors regarding the financial statements of a company. This shows that the auditor plays an important role in ratifying the financial statements of a company. Therefore, the use of a qualified auditor is expected to increase the credibility of the financial statements so as to increase the value of the company.

5. Conclusion and Suggestion

Conclusion
The conclusions of this study include 1) Cash flow-based earnings management does not have a significant effect on firm value. This means that earnings management cannot increase firm value. 2) The quality of auditors has a significant effect on firm value; 3) Cash flow-based earnings management has an effect on the value moderated by the quality of the auditors.

Suggestion
The suggestions put forward are 1) Creditors, investors, financial analysts and auditors are more careful in understanding earnings in financial reports because if the quality of earnings is lowered by taking advantage of accounting standards and government regulations; 2) The next research approach uses discretionary accruals which are more suitable with Kang and Sivaramakrishnan (1995) who have a better model so that they have a better comparison.
REFERENCES