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The Effect of Audit Quality, Tax Planning and Leverage on Earnings Management

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Abstract — ***This study is to address a current issues about how important of audit quality for supporting firm's performance, due still there a research gap from previous literatures about the effects of audit quality on earnings management. This paper aims to illustrate and examine the effect of audit quality on the relationship of tax planning rates and leverage on earnings management, based on evidence in Indonesia. This quantitative study using secondary data obtained from the company's annual report. The research population is LQ-45 firms listed on the Indonesia Stock Exchange in 2013-2017 as many as 45 companies. The data analysis technique used was multiple linear regression analysis using SPSS 22 for Windows. The results of this study indicate that tax planning and leverage affect earnings management. While audit quality as a moderating variable strengthens the relationship between tax planning and leverage on earnings management. This study provides futher evidence of earnings management related about audit quality, tax planning and leverage separately for academically side. For practitioners, it can be used as a consideration in making investment decisions, that there is a connection between the things that become variables in this study.*** ***K**eywords— **Audit Quality, Tax Planning, Leverage and Earnings Management***

Introduction

The company always strives to maximize the achievement of the best performance in order to maintain its existence in business competition. Maintaining stakeholder trust is important, because companies that have gained trust from stakeholders will have the opportunity to gain success and survive in business competition (Susanto, 2017) [1]. Presentation of financial statements is the final product of financial accounting, where an important aspect in financial accounting is an assessment / measurement (valuation / measurement) through a balance sheet approach or income statement (Sunarto, 2009) [2].

Accounting information can be relevant, if it can meet the needs of all parties who use it. Not only internal parties, but external parties who have interests also need information in financial statements. This difference in interests causes differences in information needed between one party and another (Sulistyanto, 2008) [3]. Many companies in managing company finances practice earnings management to cover the lack of financial statements in a certain period in order to look more attractive to users of financial statements (Anhara, 2015) [4]. According to Sari & Ahmar (2014) [5] profit is a component derived from the difference between income and expenses. Therefore, income and expenses can be used as management targets for managing earnings. Various types of earnings management detection models can be used to measure earnings management in a company.

Some studies on earnings management are mostly associated with company performance by comparing how the company performs before and after offering shares due to earnings management activities (Barus & Sembiring, 2012) [6]. In general, earnings management can be done because the basis of recording transactions is accrual, where the recording of these transactions without having to be accompanied by cash receipts or disbursements. The manager's attitude can be the embodiment of earnings management, especially to intervene in financial statement information by utilizing freedom in choosing and using accounting methods, where managerial engineering activities are difficult to detect. Financial statement users will find it difficult to find out whether the information on the financial statements has been engineered or not just by reading the financial statements (Sulistyanto, 2008) [3].

An example case about manipulation of financial statements by PT. Timah (TINS) in 2015. PT Timah

(Persero) Tbk allegedly provided fictitious financial reports in the first semester of 2015. This fictitious financial report activity was carried out to cover PT Timah's financial performance, which continued to worry. Chairman of the Tin Employee Association (IKT), Ali Samsuri revealed that PT Timah's financial condition had not been healthy for the past three years. The inability of the PT Timah Board of Directors to come out of the loss trap has resulted in the surrender of 80% of PT Timah's mining area to business partners. The surrender of PT Timah's mining area to business partners has negative consequences for PT Timah's future, especially for 7,000 employees in this state-owned company. Previously, the Board of Directors had also decided to close the operations of the large mining area owned by PT Timah, namely in TB Mapur, TB Nudur and TB Tempilang which were then handed over to business partners. If referring to the real conditions that occur at PT Timah (Persero) Tbk's fictitious financial statements for the first semester of 2015, PT Timah. Because in the first semester of 2015 PT Timah's operating profit suffered a loss of Rp. 59 billion. So the financial report that states that PT Timah has succeeded in carrying out efficiency activities and the right strategy and positive performance is a big lie (Eginius, 2016) [7].

On other hand, PT Timah also recorded an increase in debt of almost 100 percent compared to 2013. In 2013, the company's debt only reached Rp263 billion. However, the amount of this debt increased to IDR 2.3 trillion in 2015 (Arfianto, 2016) [8] .An investment decision making requires information about the income received by the institution, which is often the target of opportunistic engineering to maximize the interests of management, so that it can endanger investors (Christiani & Nugrahanti, 2014) [9]. The tendency of stakeholders to pay attention about earnings reports that can motivate managers to plan certain strategies, so that the reports produced are in accordance with the stakeholder's expectations, which is to do earnings management (Susanto, 2017). The problem starts when earnings management carries a negative influence and tends to mis-lead information users in their financial reporting (Prasetya & Gayatri, 2016) [10] . This action covers the selection of accounting policies where management can regulate the rise, fall or even the average profit that the company produces, this behavior is known as earnings management (Sari & Asturi, 2015) [11] .

Yunita & Darmawati (2013) [12] states that management conduct earnings management usually for various purposes such as avoiding political costs, avoiding violations of debt agreements, in an effort to influence capital market decisions and also to get bonuses and other compensation. Earnings management practices can influence the relevance of financial statement presentation, this is because the financial statements presented are not helpful, but mislead the users. The actual state of a company is often associated with earnings management behavior, because earnings management is considered not always displaying the actual situation and the action is based on various reasons, including to meet the interests of company owners by increasing the value of the company so that corporate uncertainty is low (Putra, 2009) [13] ; (Maulana, 2014) [14] .

Earnings management practices are closely related to agency theory, namely the existence of differences in interests between management and owners of companies and the government. Earnings management practices are also influenced by several factors such as tax planning, namely the process of controlling actions to avoid the consequences of unwanted taxes, and controlling the amount of tax paid by tax avoidance and not tax smuggling (Wardani and Santi, 2018); Zain (2003) [15]. According to Djoko Muljono (2009) [33] tax planning is one of the company's planning activities related to business activities carried out by entrepreneurs to be able to carry out obligations and get rights related to taxation, which will have an adverse effect on employers.

Sulistyanto (2008) [3] stated that managers tend to try to minimize their obligations, among them the obligation to pay taxes. For managers, the smaller the tax must be paid to the government, the smaller the obligation. There are various ways that managers can do to manage profits to reduce the value of corporate taxes, for example, companies make inventory purchases at the end of the year to reduce their taxes. In normal economic conditions which tend to rise, companies that use the LIFO inventory assumption will generate high principal selling prices. Conceptually, if the basic price is higher, it will reduce the company's profit. As a result, the taxes paid to the government will be lower.

Earnings management is also closely related to leverage, when viewed from agency theory, leverage can be used as an additional oversight mechanism for management that can reduce agency costs incurred by shareholders (Utami & Meiranto, 2017) [16]. The higher the leverage, the higher the company's dependence on debtholder so that the desire to avoid violating the debt contract will also be higher. Leverage is the level of securities with debt used in a company's capital structure, leverage is the ratio used to measure the extent to which a company is financed by debt. Debt can have good or bad influence for the company, this phenomenon is evidenced by the fact that on the one hand, companies must be able to generate profits to be able to cover their obligations to shareholders and to avoid making loans to external parties for the survival of the company (Sambora, Handayani, & Rahayu, 2014) [17]. In companies that have a high debt to equity ratio, company managers tend to use accounting methods that can increase income or profits (Ramadhan, 2017) [18].

This results in financial reports being unreliable because the information contained in them is biased, does not display actual information, for which a quality audit is able to limit earnings management practices so that financial reports can be accounted for. Auditing financial statements carried out by the auditor has different qualities, therefore, high-quality auditing will act as a deterrent to effective earnings management, because the reputation of management will be destroyed and the value of the company will drop if reporting this wrong is detected and revealed (Amijaya & Prastiwi, 2013) [19]. Audit quality can be interpreted as all possibilities that can occur when the auditor audits the client's financial statements and finds violations or errors that occur and reports them in the audited financial statements (Dewi & Jati, 2014) [20]. With management actions in managing earnings, an independent party is needed to mitigate the existence of information asymmetry so that it reflects that the company's performance is far better.

Auditors are expected to be able to mitigate the actions of the company's management in managing revenue, can minimize information asymmetry and detect financial statement discrepancies (findings), and their opinions can be used as a reference for investors as investment considerations or vice versa, so that they are more confident investing in companies with reasonable audit opinions without exception (Herianti and Marunda, 2015) [21]; (Yunita and Darmawati, 2013) [12]. However, with high audit quality, financial statements will be more relevant and credible, so that the risk of misstatement can be avoided which can also have an impact on the payment of obligations (Nihlati and Meiranto, 2014) [22]; (Dwianika, Amin and Setiyadi, 2018). It is encouraging researchers to conduct further studies.

Annisa and Lulus (2012) stated that the financial statements audited by the Big Four are suspected to be of higher quality with a lower level of fraud, when compared to companies audited by non-Big Four. The principal is considered to be more trustworthy in the report of the big name auditor with high integrity and independence possessed by the big auditor. But with the increase in KAP, the agent will try to minimize earnings management on an accrual basis, but it will increasingly improve its earnings management in real terms (Nihlati & Meiranto, 2014) [22].

The results of this study are expected to contribute both academically and practically. Academically it can be used as reference literacy for further research related to earnings management practices. For practitioners, it can be used as a consideration in making investment decisions, that can be learned whether or not there is a connection between audit quality, tax planning, corporate debt in earnings management practices, so that it is expected to get sufficient information to decide which investment choices are appropriate.

Literature Review and Hypothesis Formulation

Agency Theory

The company is the center of contractual agreements between various parties, each of which has different interests, namely shareholders, management represented by managers, suppliers and other parties including potential investors and employees. The theory that explains the relationship between these parties (principal and agent) is called agency theory. The underlying problem of agency theory is the conflict of interest between owners and managers in the company. Managers, called agents and owners, called principals, are two parties who each have different goals in controlling a company, especially regarding how to maximize satisfaction and importance of the results achieved through business activities (Anhara, 2015) [4].

This theory can explain about the asymmetry information which is a condition of imbalance in information acquisition between management and shareholders (Christiani & Nugrahanti, 2014) [9]. Agency theory explains the relationship between the agent and the principal. Agents are company management, while the principal is the owner (shareholder). Agency theory describes the separation of company property rights and responsibility for decision making (Jasen & Meckling, 1976) [23]. Agency relations always cause problems between owners and agents because of differences in mindset and prominent differences in interests (Jasen & Meckling, 1976) [23].

Stakeholder Theory

The existence of a company is strongly influenced by the support given by stakeholders to the company, the company is not an entity that only operates for its own interests but must provide benefits to its stakeholders (shareholders, creditors, consumers, suppliers, government, society, analysts and other parties) (Chariri : 2008) [24]. Stakeholder support can affect the survival of the company. Companies must seek support by carrying out activities that show attention to the interests of stakeholders, so that disclosure of social responsibility is considered a powerful way to get support from stakeholders (Gargauri & Ridha Shabau, 2010) [25].

The stakeholder theory considers the impact of company disclosure policies when there are differences in stakeholder groups within a company. Disclosure of information by companies is used as a management tool to manage information needs needed by various groups (stakeholders), therefore management discloses information on social and environmental responsibility in order to manage stakeholders so that companies get support from them. This support can affect the survival of the company (Anhara, 2015) [4].

Profit in Earnings management according to Scott (2011) [26] is "The choice by managers of accounting policies so as to achieve some specific objective". This means that earnings management is a decision of managers to choose certain accounting policies that are considered able to achieve the desired goals, both to increase profits or reduce the level of reported losses. Earnings management (earnings management) in a narrow definition only relates to the selection of accounting methods. Earnings management in a narrow sense can be defined as management behavior to "play" with the discretionary accruals component in determining the amount of earnings. Whereas in broad definition, earnings management is an act of managers to increase or reduce reported earnings at this time on a unit where managers will be responsible, without causing an increase or decrease in the long-term economic profitability of the unit (Zumrotun, 2013) [27].

Healy (1985) states that there are two approaches that can be used to detect management behavior in managing earnings. First, controlling the type of accruals, where accruals are broadly defined as the portion of revenue and expenses items in the income statement that are not represented by cash flows; and second, changes in accounting policies. Furthermore, Healy (1999) [28] states that discretionary accruals are used as a total accrual proxy. The assumption used is a relatively small non-discretion accrual to discretionary accruals, so that high total accruals contain high discretionary accruals. Accrual totals can be calculated in two ways. First, calculate changes in each balance sheet account that is the subject of accruals; and second, calculating the difference between net income and cash flow.

Scott (2009) [29] suggests several motivations for earnings management:

a. **Bonus Purpose**, managers who have information on net income will act opportunistically to make earnings management by maximizing current profits.

b. **Political Motivation**, Earnings management is used to reduce reported earnings due to public pressure which has resulted in the government setting stricter regulations.

c. **Motivation Taxation**, Tax saving motivation is the most obvious motivation for earnings management. Various accounting methods are used with the aim of saving income tax.

d. **CEO (Chief Executive Officer) Substitution**, CEOs who are approaching retirement will tend to increase income to increase their bonuses. If the company's performance is bad, it will maximize revenue so that it is not terminated.

e. **Initial Public Offering (IPO),** Companies that will go public do not have market value, and cause managers of companies that will go public to do earnings management in their prospectus in the hope of increasing the company's stock price.

f. **The Importance of Providing Information**, Information about company performance must be conveyed to investors so that earnings reporting needs to be presented so that investors continue to assess that the company is in good performance.

Whereas according to Watts and Zimmerman (1986) [30] there are three hypotheses to motivate earnings management as bellow:

a. **Bonus Plan Hypothesis**, a plan of bonus or managerial compensation will tend to choose and use accounting methods that will make the reported profits higher. This concept addresses that the bonus promised by the owner to the company manager not only motivates the manager to work better but also motivates the manager to carry out managerial fraud. Managers will play with the size of the accounting numbers in the financial statements so that the bonus will be earned every year. This results in the company owner experiencing a double loss of obtaining false information and issuing a bonus for something that is not appropriate.

b. **Debt (equity) hypothesis**, a company that have a larger debt ratio will tend to use accounting methods with earnings reports that tend to be higher and tend to violate the debt agreement if there are certain benefits and benefits obtained. The profit is in the form of profit games so that debt obligations can be postponed for a period the next so that all parties who want to know the condition of the company that actually gets the wrong information and makes business decisions is also wrong.

c. **Political Cost Hypothesis**, a company tend to choose and use accounting methods that can reduce or increase the reported profits. This concept discusses that company managers tend to violate government regulations. Managers will play with profits so that the payment obligations are not too high so that profit allocation is in accordance with the wishes of the company.

There are various types of earnings management detection models can be used to measure earnings management in a company (Sari & Ahmar, 2014) [5]. Jones model is the first earnings management detection model introduced by Jones (1991) [31] which was later developed by Dechow et al. (1995) known as the modified Jones model. According to Stubben (2010) [32], there are several weaknesses of the modified Jones model model revealed as a cross-sectional estimation which indirectly assumes that companies in the same industry produce the same accrual process.

In addition, the accrual model also does not provide information for the component of managing corporate earnings where the accrual model does not distinguish discretionary increases in earnings through income or expense components. Seeing the weaknesses of research on earnings management, Stubben (2010) [32] developed a model that uses the main component of income, namely accounts receivable to predict earnings management. The use of revenue models in detecting earnings management can be applied to companies in Indonesia, but not many studies have used this model because it is a new model that can be used to detect earnings management.

The Revenue Discretionary Model was introduced by Stubben (2010) [32] on the basis of dissatisfaction with the accrual model commonly used today. There are two formulas in the revenue discretionary model that are used as measurements of earnings management. First is revenue model, this model focuses on income that has a direct relationship with accounts receivable. Second, the conditional revenue model, this model was redeveloped with the addition of company size (size), company age (age), and gross margin (GRM) which can be used to detect accrual earnings management regarding the provision of loans related to accounts receivable. Firm size is a proxy of financial strength. Company age is a proxy for the company stage in the business cycle. As a proxy for operational performance from a comparison of companies with competitor companies, gross margins are used.

Tax Planning

Tax planning is one way that can be utilized by taxpayers in conducting tax management of their business or income, but it should be noted that the intended tax planning is tax planning without conducting a constitutional or taxation law that applies (Muljono, 2009) [33]. Tax planning (tax planning) is part of tax management and is the first step in conducting tax management (Aditama & Purwaningsih, 2014) [1] .

According to Suandy (2011) [34] tax planning is the first step in tax management by collecting and researching tax regulations so that the types of tax-saving measures to be selected can be selected. The purpose of tax planning is to get around so that the tax burden can be reduced as low as possible by utilizing existing regulations to maximize income after tax, because taxes are an element of sharing to shareholders and to be reinvested.

According to Zain (2008) there are several general strategies for tax planning, namely as follows:

1. Tax Saving, is an effort to efficiency the tax burden through the selection of alternative tax imposition at a lower rate. For example, companies that have taxable income of more than Rp. 100 million can make changes in natural gifts to employees as benefits in the form of money.
2. Tax Avoidance, is an effort to efficiency the tax burden by avoiding taxation through transactions that are not taxable objects. For example, companies that are still experiencing losses, need to change employee benefits in the form of money into natural gifts because nature is not an object of tax Article 21 income tax.
3. Avoid violations of tax regulations, by mastering the applicable tax regulations, companies can avoid tax penalties in the form of:

   a. Administrative sanctions: fines, interest or increase;

   b. Criminal sanctions: criminal or confinement
4. Delaying payment of tax obligations without violating applicable regulations can be done through a delay in VAT payments. This delay is carried out by delaying the issuance of output tax invoices to the allowable deadline, especially for credit sales. In this case, the seller can issue a tax invoice at the end of the following month after the month of delivery of the goods.
5. Optimizing permissible tax credits. Taxpayers often lack information about paying taxes that can be credited which are prepaid taxes. For example, Article 22 Income Tax for the purchase of diesel and / or import and Fiscal Foreign Affairs for official travel of employees.

Leverage

According to Van Horne et al (2007) [35], leverage is the use of fixed costs in an effort to increase profitability. Leverage is a tool to measure how much a company depends on creditors in financing company assets, where the level of leverage of each company will vary (Roskha, 2017) [36]. The lower this ratio, the higher the level of corporate funding provided by shareholders. Every company has a different debt policy and debt level. Company leverage can be influenced by various factors. These factors can be in the form of size, source of income, level of guarantee, cost of debt, opportunities for growth, reputation, and liquidity (Yuliana & Yuyetta, 2017).

The consequences of leverage according to Weston and Copeland (1997) if the use of debt turns out that the return on assets is greater than the cost of debt, leverage is profitable and returns on capital with the use of leverage also increase, conversely if the returns on assets are more less than the cost of debt, leverage will reduce the rate of return on capital. The greater the leverage used by a company, the greater the reduction. As a result, leverage can be used to increase profitability, but at the risk of increasing losses in dismal times. So the profits and losses will be enlarged by leverage, and the greater the leverage used by a company the greater the inaccuracy or ups and downs of profitability. Leverage is a double-edged sword which if the company's profit can be enlarged, and vice versa. In other words, the use of leverage in a company can increase a company's profits, but if something does not go as expected, the company can suffer losses (Roskha, 2017) [36].

Audit Quality

De Angelo (1981) defines audit quality as the probability that an auditor finds and reports about a violation in his audit accounting system. Audit quality is seen as the ability to enhance the quality of corporate financial reporting, with high audit quality expected to further increase investor confidence so that the market will react positively if the financial statements are audited by qualified auditors (Christiani & Nugrahanti, 2014) [9].

Audit quality is the suitability of audits carried out by auditors based on established audit standards (Watkins et al., 2004). In this study, audit quality was measured by the size of KAP auditing clients who were sampled. The Public Accountant Office (KAP) can be divided into two categories, namely KAP affiliated with the big four, namely KAP which is categorized as large scale and non big four KAP or KAP which are categorized as small scale. Previous research has found evidence that Big 4 has a higher level of accuracy in reporting GC opinions compared to non-Big 4 (Francis 2004; Geiger and Rama 2006). In other words, Big 4 has a lower reporting error GC than the big four non-Big KAP consisting of Pricewaterhouse Coopers, KPMG, Deloitte and EY. If the company whose financial statements are audited by KAP affiliated with the big four, it is given a value of 1, whereas if it is audited by a non big four KAP then it is given a value of 0.

The results of research conducted by Lucy Citra Fitriany (2016) show that Tax Planning has a significant influence on Earnings Management. This research is in line with Hapsari et al (2016) who conducted a similar study with the same results, where Tax Planning has a significant influence on Earnings Management. However, it is different from the research conducted by Aditama & Purwaningsih which states that Tax Planning has no effect on Profit Management, so researchers propose the following hypothesis:

H1 = Influential Tax Planning on Profit Management

Then for Leverage variables on Earnings Management there are several studies that have been conducted, including (Roskha, 2017) [36], where the results of these studies indicate that Leverage has an effect on Earnings Management. This is in line with the research conducted by Priharta, et al. (2018) [37] which states that Leverage has a significant effect on Earnings Management. But different from the results of research conducted by Gunawan and Waluyo (2015) [38] which states that leverage does not affect earnings management, so researchers propose the second hypothesis below:

H2 = Influential Leverage on Earnings Management.

Furthermore, for the Audit Quality variable several previous studies have been carried out, including those conducted by Rustiarini & Sugiati (2013) [39], where the results of the study stated that the size of KAP had an effect on Profit Management. But this is not in line with the research conducted by Dewi & Nugraharti (2014) [40] which states that Company Size has no effect on Profit Management. According to research conducted by Herianti & Marunda (2016) states that Audit Quality is able to moderate the relationship between Tax Planning and Earnings Management. In addition, according to research conducted by Naftalia & Marsono (2013) [41], states that Audit Quality can be moderating, so researchers propose a third hypothesis such as the following:

H3 = Audit Quality moderate the relationship of Tax Planning and Leverage on Profit Management.

Methodology

The approach in this study is to use a quantitative approach, and based on its objectives, this type of research is causal, namely research that explains the effect of an independent variable (independent variable and moderating variable) on the dependent variable (dependent variable). The independent variables in this study include the Intensity of Tax Planning and Leverage for the moderating variable namely Quality Audit and for the dependent variable in this study is Profit Management.

Definition and Operationalization of Variables

According to Bougie and Sekaran (2013) [42], variables are anything that can take different things or vary values. Values can be different at the same time the object or person is at the same time for different objects or people.

1. The dependent variable in this study is earnings management.

The measurement of the dependent variable in this study uses the Revenue Discretionary Model introduced by Stubben (2010) [32]. There are two formulas in the Revenue Discretionary Model which are used as a measure of earnings management. First is revenue model, this model focuses on income that has a direct relationship with accounts receivable. Second, the conditional revenue model, this model was developed again with the addition of company size (Size), company age (Age), and gross margin (GRM), as detail bellow:

$$\Delta \hat{AR}it = \alpha + \beta 1\ \Delta Rit + \beta 2\ \Delta Rit \times SIZEit + \beta 3\ \Delta Rit \times AGE\ it + \beta 4\ \Delta Rit \times AGE\_SQit + \beta 5\ \Delta Rit \times GRR\_Pit + \beta 6\ \Delta Rit \times GRR\_Nit + \beta 7 \Delta Rit \times GRMit + \beta 8\ \Delta Rit \times GRM\_SQit + \varepsilon\, it$$

AR = piutang akrual
R = *annual revenue*
SIZE = *natural log* dari total aset saat akhir tahun
AGE = umur perusahaan(*year*)
GRR_P = *industry median adjusted revenue growth* (= 0 if negative)
GRR_N = *industry median adjusted revenue growth* (= 0 if positif)
GRM = *industry median adjusted gross margin at end of fiscal year*
SQ = *square of variable*
Δ = *annual change*

2. In this study there are 2 independent variables whose relationship relates to the effect on earnings management, the firstly is company tax retention rate and secondly leverage.

$$\boxed{TRR = \frac{\boldsymbol{Net\ Income}\mathbf{it}}{\boldsymbol{Pretax\ Income}\ (\mathbf{EBIT})\mathbf{it}}}$$

-TRR = company tax retention rate i in year t.

-Net Income $_{it}$ = company net profit i in year t.

-Pretax Income (EBIT) it = corporate income before tax i in year t.

Leverage is a tool to measure how much a company depends on creditors in financing company assets. Companies that have a high degree of leverage mean that they are very dependent on external loans to finance their assets (Jayanti, 2011) [43]. In this study tax planning is measured by total debt divided by total of assets.

c. The moderating variable in this study is audit quality. It is the suitability of audits carried out by auditors based on established audit standards (Watkins et al., 2004) [44]. In this study, audit quality was measured by the size of KAP auditing clients who were sampled. The Public Accountant Office (KAP) can be divided into two categories, namely KAP affiliated with the big four, namely KAP which is categorized as large scale and non big four KAP or KAP which are categorized as small scale. The big four KAP consists of Pricewaterhouse Coopers, KPMG, Deloitte and EY. If the company whose financial statements are audited by KAP affiliated with the big four, it is given a value of 1, whereas if it is audited by a non big four KAP then it is given a value of 0.

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
P_PAJAK	60	,42	1,16	,7596	,07641
LEV	60	,16	1,27	,5211	,24046
K_AUDIT	60	,00	1,00	,9500	,21978
M_LABA	60	-1,59	,35	-,4910	,40651
Valid N (listwise)	60				

The population of this research is manufacturing companies listed on the Indonesia Stock Exchange. The sample used in this study is the LQ-45 company listed on the IDX. The sampling method used was purposive sampling which is sampling based on the following criteria: 1). Companies listed in the LQ45 category on the Indonesia Stock Exchange (IDX) 2). Companies that have statistical data and financial reports disclosed to the public from 2013 to 2017 to facilitate the calculation process in this study. 3). Companies that provide audited financial reports and audit reports for 2013-2017.
4). Companies that use rupiah in financial reporting.

Result and Analysis

Descriptive statistical results of Tax Planning, Leverage, Audit Quality and Profit Management variables show that: 1). The Tax Planning variable has the lowest value of 0.42 at PT Bukit Asam Coal Mining (Persero) Tbk, and the highest value is 1.16 at PT Bank Rakyat Indonesia (Persero) Tbk, the average value (Mean) is 0.7596 and has a standard deviation of 0.7461. 2). Leverage variable has the lowest value of 0.16 at PT Kalbe Farma Tbk, the highest value is 1.27 at PT Matahari Department Store Tbk, the average value is 0.5211 and the standard deviation is 0.24046. 3). Variables Audit quality has the lowest value of 0.00, that is, for companies audited by Non Big Four KAP, the highest value of 1.00 is for companies audited by the Big Four KAP, the average value of 0.9500 and the standard deviation is 0.21978.
4. Profit Management variable has the lowest value of -1.59, namely at Bukit Asam Coal Mine (Persero) Tbk, the highest value is 0.35, that is at PT Astra International Tbk, the average value of -0.4910 and the standard deviation is 0.40651.

From the descriptive statistic table shown the calculation of tolerance value shows that there is no independent variable that has a tolerance value of <0.10, the value of tolerance tax planning is 0.827, leverage is 0.876 and audit quality is 0.874. The VIF calculation results have no variable that has a VIF value> 10, where the tax planning VIF value is 1,270, leverage is 1,142 and audit quality is 1,145a and it can be concluded that free from multicollinearity.

T Test Result

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1,826	,904		2,019	,048
P_PAJAK	-2,516	1,180	-,473	-2,131	,037
LEV	-4,183	1,061	-2,474	-3,944	,000
K_AUDIT	4,511	1,323	2,415	3,410	,001

a. Dependent Variable: Earnings Management

Based on the table above, it can be seen that the Beta value for the Tax Planning variable is -2,516 with a significant value of 0.37. in accordance with the provisions of first-way decision making, a significant value is less than 0.05 (0.037 <0.05) then H1 is accepted. Based on the provisions of decision making the second way, if t table> t count then H1 is accepted. Judging from the table (df = 60-1-1 (n-k-1); two sides / 0,025) = 2,002 and t count -2,131> 2,002 then H1 is accepted. This means that Tax Planning has a negative effect on Earnings Management.

This states that every increase of 1 (one) in Tax Planning will reduce Profit Management by -22.156. Based on the table above it can be seen that the Beta value for the Leverage variable is -4.183 with a significant value of 0.00. in accordance with the provisions of the first way of decision making, a significant value is less than 0.05 (0.00 <0.05) then H2 is accepted. Based on the provisions of decision making the second way, if t table> t count then H2 is accepted. Judging from the table (df = 60-1-1 (n-k-1); two sides / 0,025) = 2,002 and t count -3,944> 2,002 then H2 is accepted. This means that leverage has a negative effect on earnings management.

This states that every increase of 1 (one) on leverage, it will reduce profit management by -4,183. Based on the table above it can be seen that the Beta value for the Audit Quality variable is 4.511 with a significant value of 0.01. In accordance with the provisions of the first way of decision making, a significant value is less than 0.05 (0.01 <0.05) then H3 is accepted. Based on the provisions of decision making the second way, if t table> t count then H3 is accepted. Judging from the table (df = 60-1-1 (n-k-1); two sides / 0,025) = 2,002 and t count 3,410> 2,002 then H3 is accepted. This means that Audit Quality is able to moderate the relationship between Tax Planning and Leverage on Earnings Management.

Conclution and Recommendation

From the results of data analysis and the results obtained, the researchers made the conclusions of this study as follows:

1. Tax Planning has an effect on Profit Management with a significant level of 0.37. This is because companies that tend to do tax planning will also do earnings management to obtain a more efficient tax rate.
2. Leverage has an effect on Profit Management with a significant level of 0.00. This is because companies that tend to have high leverage ratios will do management because the company is threatened with default, ie it cannot fulfill its debt repayment obligations on time.
3. Audit Quality is proven to moderate the relationship between Tax Planning and Leverage simultaneously to Profit Management with a significant level of 0.001. Because companies audited by KAP Big Four tend to have a low level of fraud and tend to reduce the level of earnings management.

This research has implications both theoretically and practically, including the results of this study can expand previous research, especially in research related to earnings management. For the company, the results of this study are expected to be a consideration for both owners and managers, so that it can be used as material to increase knowledge and insight into Profit Management, so that company management can design mechanisms for implementing the company well, without illegally manipulating financial statements.

Moreover, limitations and sugesstions in this study include:

1. Use of measuring instruments that have been used in previous research, suggestions for further research in order to use proxies or other measuring devices so that they get different results and can be compared with the results of previous studies.
2. The research area is still limited to a particular industrial sector, so the researcher suggests further research to be able to use a broader sample of companies such as companies in the best category of 100 companies by Fortune Magazine, or expanding in the Asia Pacific region and a wider time span. long so that it can be generalized better.
3. Does not expand to other possibilities in the measurement so the results can be biased. Further research is suggested to be able to measure and calculate audit quality with different measurements such as comparing the composite measure and can be compared with conventional measures in a wider area and more observable periods.
4. Measurement of earnings management uses only one model, suggestions for further research can use other models such as the Jones model for robustness testing, so that it can be compared and concluded more accurately.
5. The research variables used are not too broad, so further research is suggested to add other independent variables such as information asymmetry, Good Corporate Governance, Corporate Social Responsibility or Knowledge Management Systems that are considered to influence earnings management, and are still rarely done in previous studies.

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