

# The effect of litigation risks to earnings management using audit quality as moderating variable

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## ABSTRACT

In agency theory, a company, which separates the functions of governance and ownership, is going to be susceptible to the agency conflicts. The arising agency conflict causes the information, which is provided by manager becoming different or can be manipulated. One of common practice done by manager is earning management, where earning management is an accounting policy choice conducted by the managers for the variety of specific purposes. This study tries to reveal whether audit qualities are able to reinforce the association between litigation risks to the earning management practice. Auditor litigation has 14 characteristics of companies being able to be auditor litigation by calculating LITSCORE. Earnings management is proxied by The Modified Jones Model while audit quality is proxied by industry specialization. This study uses financial statements data of the manufacturing companies listed in Indonesia Stock Exchange in 2010-2012. Analysis, which is used in this study, is the MRA (Moderated Regression Analysis). The results of this study suggest that there is influence between litigation risk to earnings management while audit quality as measured by specialized auditors cannot strengthen relationship between litigation risk and earnings management. This is because audit quality as measured by specialized auditors did not show a strong relationship.

## ABSTRAK

Dalam teori keagenan, perusahaan, yang memisahkan fungsi pemerintahan dan kepemilikan, akan menjadi rentan terhadap konflik keagenan. Konflik keagenan yang timbul menyebabkan informasi yang disediakan oleh manajer menjadi berbeda atau dapat dimanipulasi. Salah satu praktek umum yang dilakukan oleh manajer adalah manajemen laba, di mana manajemen laba adalah pilihan kebijakan akuntansi yang dilakukan oleh manajer untuk berbagai tujuan tertentu. Penelitian ini mencoba mengungkap apakah kualitas audit dapat memperkuat hubungan antara risiko litigasi terhadap praktik manajemen laba. Auditor litigasi memiliki 14 karakteristik perusahaan yang mampu menjadi litigasi auditor dengan menghitung LITSCORE. Manajemen laba diprosikan dengan Modified Jones Model sementara kualitas audit diprosikan dengan spesialisasi industri. Penelitian ini menggunakan laporan keuangan data perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia pada tahun 2010-2012. Analisis yang digunakan dalam penelitian ini, adalah MRA (Moderated Regression Analysis). Hasil penelitian ini menunjukkan bahwa ada pengaruh antara risiko litigasi dengan manajemen laba sedangkan kualitas audit yang diukur oleh auditor khusus yang tidak dapat memperkuat hubungan antara risiko litigasi dan manajemen laba. Hal ini karena kualitas audit yang diukur oleh auditor khusus tidak menunjukkan hubungan yang kuat.

## 1. INTRODUCTION

Accrual accounting system as it existed in generally accepted accounting principles provide the opportunity for managers to make accounting considerations, which will give effect to the reve-

nue reported. In this case, the income can be manipulated through discretionary accruals (Gumanti 2000). Accrual earnings management will most likely attract the attention of auditors and regulators compared with the real decisions, such

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as that linked it to the pricing and production.

In addition managers who rely on accrual earnings management would be at risk if the actual year-end deficit between incomes that is not manipulated by the desired profit target exceeds the amount allowed to manipulate accruals after the end of the fiscal period (Roychowdhury 2006). The target is not achieved is considered the manager does not have a good performance so that the opportunity will be lost even get compensation could lead to the dismissal of manager.

Furthermore, earnings management through real activity is defined as the deviation from normal operating activities of the company are motivated by management's desire to provide an incorrect understanding to stakeholders that certain financial reporting objectives have been achieved through the company's normal operating activities (Roychowdhury 2006). Earnings management through real activities differs significantly from the accrual earnings management due to a direct impact on cash flow.

Graham et al. (2005) survey found that management would prefer to manage earnings through real activities (eg, reducing discretionary spending or capital investment) rather than through the accrual policy in conducting earnings management. Earnings management is done through real activities and it is more difficult to detect because it is indistinguishable from optimal business decisions. Accrual earnings management is limited by generally accepted accounting principles that encouraged management to manage earnings.

Earnings management can lead to a decrease in the quality of financial statements for earnings management are likely to provide misleading information that users of financial statements (DeFond and Park 1997; Becker et al. 1998; and Hearnly and Wahlen 1999 in Dahlan (2009)). In an effort to reduce the agency problem, it needs an independent party to bridge the conflict between the principal and the agent. Parties are independent public accounting firm or an independent auditor. Auditing process is expected to reduce the mismatch between the information in the form of management and shareholders by using the other side are the auditor to certify the financial statements (DeAngelo 1981).

The auditor is expected to provide a good quality audit by reducing the level of earnings management of a company. The user of information will be more trusting on financial statements information that is provided by a credible audi-

tor. Credible auditors can provide better which is useful for users in decision making process.

In the other side the audit quality is doubted because of the auditor involving in financial statements manipulation when the auditor doing audit process. Some manipulated financial scandal were happend in a number of large a company in the world, like Enron, Worldcom, and Merck Co& Inc (Kusmayadi 2012). The cases of earning manipulation have wide impact on global money market. Enron scandal that was revealed in 2001 causing the decline of stock price drastically at many stock exchanges in the world. All these financial cases affected on public trust to integrity and credibility and auditor competence for minimizing the earning management practices (Sulistiyanto 2008).

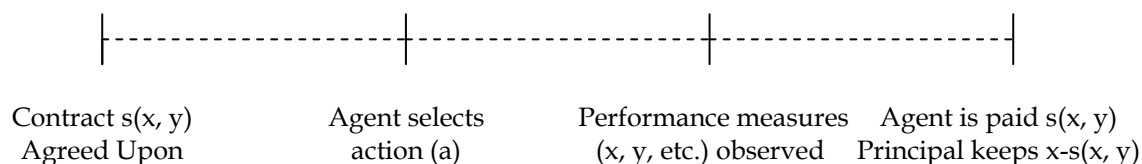
The strict rule of law is needed for minimized process of earning management practices. An auditor who is guilty in carrying out audit process gets lawsuits risk from third party like investor. Litigation risk was often happened in go public company. Litigation risk usually will be higher in the capital market with the good law enforcement application (Juanda 2007)

Sun and Liu (2011) reveal that earnings quality will rise up or higher when the litigation risk is high. It proven that earnings management was affected by litigation risk, because the good earning quality reflected the existence of earnings management in the company. The good audit quality can affect management for not doing earnings management. Thus the audit quality becomes moderate variable on the relation of auditor litigation and earnings management.

The threat of litigation encourages managers (agents) to disclose information. It is likely to lead to: (i) the disclosure of bad news immediately in the financial statements, (ii) delay the good news, (iii) selecting accounting policies tend to be conservative (Seetharaman et al. 2002). Environmental laws that apply to a particular region also have a significant impact on discretionary policy managers in financial reporting (Ball et al. 1999 and 2000). Manager (agent) will perform a balancing between the costs of litigation that will arise with the benefits obtained due to aggressive accounting. The problems are raised as the following. 1) Is there any influence of litigation risk on earnings management?, 2) Is the quality of audit can strengthen the relationship between litigation risk to earnings management ?

This research objective is 1) Empirically ex-

Figure - 1  
Principal-Agent Model



amine the effect of litigation risk on earnings management; 2) Empirically examine whether the quality of audit can strengthen the relationship between litigation risks to earnings management.

## 2. THEORETICAL FRAMEWORK AND HYPOTHESIS

### Agency Theory

Agency theory states that between management and owners have different interests (Jensen and Meckling 1976). Enterprises that separate the functions of management and ownership will be susceptible to agency conflicts (Lambert 2001). In the agency model devised a system involving both sides, until the required contract between the owner (principal) and management (agent).

In a deal, it is expected to maximize the utility of the principal, and to satisfy and guarantee agency to receive the reward of enterprise for revenue management activities. Conflicts of interest between the owners and management lies in the maximization of benefits (utility) of the owner (principal) with constraints (constraint) benefit (utility) and incentives that will be accepted by the management (agent). Due to different interests often appear in conflict of interest between shareholders/owners (principal) with management (agent).

Basically, agency theory is a model that is used to formulate the problem (conflict) between the management (agent) with the owner (principal). Principal-agent model can be depicted in Figure 1 (Lambert 2001).

In the Figure 1 "s" is a function of compensation that will be the basis and form of the function that links performance measurement to compensate agents; "y" indicates a vector measurement of performance under the contract. Based on the contract and the agent will select the activity or perform (an action "a"), which includes operational policies (operation decisions), the funding policy (financing decision), and the investment policy (investment decisions). Yet, the "x" indicates "outcomes" or results obtained by the company, and then used as a basis for per-

formance measurement and compensation agent (Sunanto 2009).

### Earnings Management

National Association of Certified Fraud Examiners defines earnings management as accidental errors or omissions in the report regarding material facts or misleading accounting data so that when all the information was used to make judgments that ultimately will lead to the person who reads it will replace or change an opinion or decision in Sulistyanto (2008).

According to Scott view (2003:351), understanding the behavior of opportunistic earnings management as a manager to maximize their utility in the face of the compensation contract, the contract money and political cost (opportunistic Earning Management), as well as looking at earnings management Earning Efficient Management, where it shows that earnings management gives manager a flexibility to protect themselves and the company in anticipation of the market value of the contract. So that managers can influence the market value of the stock of his company to perform earnings management, both for income smoothing by maximizing profits or minimizing profit.

### Audit Quality

The users of financial statements stating that the quality of the audit in question happens if the auditor can give a guarantee whereby no material misstatement (no material misstatements) or fraud (fraud) in the auditee financial statements. In the view of auditors, audit quality occurs when they work according to professional standards that exist, to assess the business risk auditee with the aim to minimize the risk of litigation, can minimize dissatisfaction of auditee and keep the reputation of the auditor.

De Angelo (1981) defines audit quality as the probability that an auditor discovered and reported on the existence of a violation of his client's accounting system. The probability of the discovery of a breach depends on the technical capabilities of the auditors and auditor inde-

pendence. Some studies such as De Angelo (1981); Goldman & Barlev (1974); Nichols & Price (1976) is generally assumed that the expertise and independent auditors will be able to find a violation. This shows that the ability of auditors are supported by experience, level of professionalism can precisely determine the level of materiality (Kartika 2010), so that the auditor can easily detect any violations.

### **Litigation Risk**

The litigation risk is defined as the risk attached to the company, that allowing the litigation threat by parties who concerned with company felt aggrieved (Juanda 2007). Those parties are creditors, investors and regulator. Juanda (2007) disclosed that the litigation risk often be experienced by go public companies, and could be measured by some financial indicator.

The financial statements become the basis for the conduct of lawsuits. The financial reporting errors because of disobedience against standard and delay of negative information could lead the litigation demands by the interested parties. Boynton et al. (2002:169) provide ways to minimize the risk of the auditor entangled in litigation:

1. Using the engagement letter to all types of professional services. The letter will be the basis of a contractual agreement and minimize the risk of misunderstanding about services that have been agreed.
2. Perform a thorough investigation into the prospective client. It is associated with a management that does not have integrity.
3. More interested in quality service than growth. The ability of an accountant's office to determine accurately in an alliance is essential for the quality of work produced. Acceptance of the new venture work with objects that will create the need for excessive overtime, on Normal workload, and lack of experienced professionals' supervision should be rejected.
4. Comply fully with the provisions of professionals. Compliance of the Statement on Auditing Standard (SAS) is important, so that the auditor must have the reason about providing any deviation.
5. Acknowledging the limitations provision professional. The auditor should use professional judgment steady during the audit and the issuance of the financial statements.
6. Establish and maintain a high standard of

quality control.

7. Pay attention to the prevention of the engagement of the client's involvement in the financial trouble.
8. Wary of audit risk because they contain important information about economic development.

### **Hypothesis**

#### **The Effect of Litigation Risk on Earnings Management**

Abbott (2006) suggests that auditors related to the magnitude of discretionary accruals in assessing an auditor litigation risk. Litigation risk inherent in the auditor would make the auditor to be able to disclose the fraud committed by the management of a company. Auditors who have a high risk of litigation is expected to work better in exposing the manipulation of financial statements so as to make the management in making earnings management will decrease.

The size of litigation risks inherent in the company will be able to influence the behavior of encouragement or manager. Cao and Narayamoorthy (2005), Skinner (1997) in Juanda (2007) stated that the company would voluntarily convey bad news information early will reduce the risk of litigation claims. It is also supported by Brown et al. (2004) who studied the effect of litigation risk on management earnings forecasts, finding that the litigation risk is positively associated with the likelihood of reveal forecasts relating to bad news. Based on this description, the hypotheses of this study are as the following.

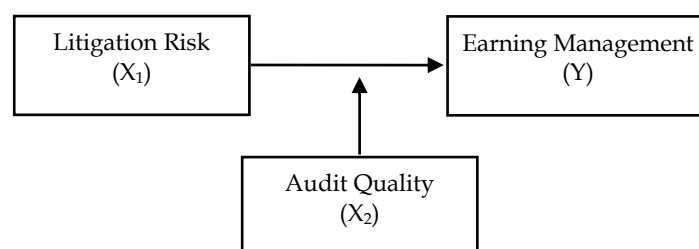
H1: Litigation Risk affects Earnings Management.

#### **Effect of Audit Quality on the Relationship of Litigation Risk to Earnings Management**

Boynton et al. (2002:169) in Modern Auditing book, explains that to minimize risk entangled in litigation, the auditor should emphasis more on service quality rather than growth. In this case, the company's ability to assign staff with the right to an engagement is essential to the quality of work. The acceptance of tasks with new business object can cause excessive workload set lack of supervision of an experienced. This is suggested by Boynton et al. that the firm refused the assignment. It can be analyzed that auditor's specification is very important in terms of the assignment to be done, so the quality of the audit will be generated will become better.

Luhgianto (2010) argues that the audit firm which having audit specialization in specific in-

**Figure 2**  
**Analysis Model**



dustry has much knowledge of understanding certain environmental conditions. This condition may imply that the specialist audit firm will provide quality assurance audit higher than the firm that does not specialize. This is in contrast to the findings Luhgianto (2010) which states that the big four and specialist audit firms are not able to restrict the practice of earnings management in the auditee at the time of an IPO.

Meutia (2004) stated that the higher audit quality possessed the lower earnings management occurs in a company, so this study predicts that audit quality affects the relationship between litigation risk and earnings management. High litigation risk on auditors assumed to reduce earnings management, supported by good audit quality auditor may be assumed to reveal the presence of corporate earnings manipulation. Based on this, the hypothesis of this study is as the following.

H2: Audit Quality affects the Relationship of Litigation Risk and Earnings Management.

### 3. RESEARCH METHOD

#### Research Approach

This study examines the effect of litigation risk on earnings management with audit quality as a moderating variable. The approach of this research is to use a quantitative approach to the Moderated Regression Analysis (MRA).

#### Unit of Analysis, Population and Sample

The unit of analysis in this study is the financial statements, while the entire population is a manufacturing company. Of the population, sampled in this study are all companies listed on the Stock Exchange in 2010-2012 in accordance with the characteristics expected of researchers' sample (purposive sampling). The sampling criteria, among others:

1. Listed manufacturing companies active in Indonesia Stock Exchange in 2010-2012.
2. The company has published/publish an annual financial report (annual report) consecu-

tive complete and publish the complete audited financial statements.

3. Have a net Income.

4. The Company does not undertake mergers or acquisitions during the period of the study, as it will affect the components of the financial statements as a measure of earnings management.

Manufacturing companies were choosing because the kind of this industry is the most in Indonesia, and has a different character than many other industries, so the researchers expect the results to describe the condition of Indonesian companies in general. Years of research only 3 (three) years, assuming better reflect the reality of the last few years.

#### Method of Data Collection, Data Types and Sources of Data

The data was collected using literature study and documentation. Literature study is conducted by processing literature, journals, articles and other written media associated with this study, while the documentation is done by collecting documentary data sources that the financial statements.

The type of data in this study is secondary data in the form of financial statements in 2010-2012, while the source of the data in this study is a secondary data obtained from the IDX site: [www.yahoo.finance.com](http://www.yahoo.finance.com), [www.reuters.com](http://www.reuters.com), ICMD 2010-2012.

#### Operational Definition and Measurement of Variables

##### Independent Variable (X1)

Litigation risk is defined as the risk triggered by the inherent potential of the company relating to the failure to meet the interests of investors and creditors, where the fight for the rights of investors can only do litigation and lawsuits against the company

Litigation risk was developed by Juanda (2007), which is calculated using factor analysis

(component factor analysis) of the variables. (1) Beta stock and stock turnover volume, both of which are a proxy for the volatility of the stock, (2) liquidity and solvency, both of which are a proxy of financial risks, (3) the size of the company which is a proxy of the political risk. The stages of litigation risk measurement are as follows:

1. Calculate BETA, share turnover (TURNOV), liquidity (LIK), leverage (LEV), firm size (UKR) by using formula:

$$RETit = a + \beta RMit + e \quad (1)$$

Description:

$RETit$  = share turnover of firm  $i$  at period  $t$

$a$  = intercept/free risk return

$\beta$  = beta of firm share  $i$  at period  $t$

$RMit$  = market return at period  $t$

$$TURNOVit = \text{average share volume } it / LBSht. \quad (2)$$

$$LIKit = \text{Current Liabilities} / \text{Current Assets} \quad (3)$$

$$LEVit = \text{Longterm Liabilities} / \text{Total Assets} \quad (4)$$

$$UKRit = \text{Log Natural Total Assets} \quad (5)$$

2. The five variables are composite by factor analysis to determine the index of the risk of litigation. Higher index value indicates a high risk of litigation, and vice versa for a low index value

### Moderating Variable ( $X_2$ )

Audit quality is proxied by industry specialist auditors with services on certain area concentration. This specialist visits Determination of frequency assignment KAP in conducting examinations on its peers. Industry specialist has a market share of at least 20% of the total number of clients who received a particular industry group (Rusmin 2010). Measurement of these variables using dummy variables, if the company is audited by specialist auditors then its value is 1, but if audited by a non-specialist it is worth 0. This industry specialist calculation was done by 6 (six) years data to see whether during this 6 (six) years the company often alternates the audit firms. The determination of six years was chosen because according to the government rules in Indonesia. Peraturan Menteri Keuangan (PMK) No. 17/PMK.01/2008 stated that the company have to change the audit firm (auditor switching) at least for 6 (six) years in a row (Ministry of Finance Republic Indonesia 2008). For simplifying the calculations and does not cause confusion in calculation, example switching was done in the third years of six years so that the researcher added another years. A calculation that was used by the researchers is if they use the same audit firm for 4 (four) years in a row, the company is audited by

the specialist auditors, if less than 4 (four) years, the company is not audited by specialist auditors.

### Dependent Variable (Y)

Earnings management is proxied by discretionary accruals and is calculated by the Modified Jones Model, where this model are regarded as the best model in detecting earnings management if be compared with other models and provide the most robust results (Dechow et al. 1995).

The steps to calculate discretionary accruals as bellow:

$$TA \text{ (total accrual)} = \text{Net income} - \text{Cash Flow from Operation} \quad (6)$$

$$Tat/At-1 = a1(1/At-1) + a2(\Delta REVt/At-1) + a3(PPEt/At-1) + e \quad (7)$$

Description:

$At-1$  = Total assets at period  $t-1$

$\Delta REVt$  = Change on revenue at period  $t$

$PPEt$  = Property, Plan and Equipment

$a1, a2, a3$  = Regression coefficient

$$NDA = a1(1/At-1) + a2((\Delta REVt - \Delta REct)/At-1) + a3(PPEt/At-1) \quad (8)$$

Description:

$\Delta REct$  = Change in net receivable on period  $t$

Then, Discretionary accruals is calculated as:

$$DACit = Tat/At-1 - NDA \quad (9)$$

Description:

$DACit$  = Discretionary accrual at period  $t$

$NDA$  = Non discretionary accruals

Discretionary accrual is a residual error ( $\epsilon$ ) of the results of the above regression equation, or the difference between total accruals with nondiscretionary accruals. In this case, the residuals are used as a proxy of earnings management. Companies with low discretionary accruals indicate lower levels of earnings management whereas if the values of discretionary accruals indicate higher levels of management in a high pass earnings management.

### Data Analysis and Techniques

#### Descriptive Analysis

The descriptive analysis in this study aims to provide an overview of the study variables were observed. This descriptive analysis provides an overview or description of the data that is seen from the average value (mean), standard deviation, variance, maximum, minimum, sum, range, kurtosis and skewness (Ghozali 2007:19).

#### Data Analysis Techniques

The research problems will be answered by adapted to the hypothesized model, which to test

**Table 1**  
**Litigation Risk Factor Analysis**

KMO and Bartlett's Test

<b>Kaiser-Meyer-Olkin Measure of Sampling Adequacy</b>		.497
Bartlett's Test of Sphericity	Approx. Chi-Square	92.262
	Df	10
	Sig.	.000

**Table 2**  
**Earning Management**

DA Value	Sample	Percentage
DA Negative	100	42,53
DA Positive	74	57,47
DA Null	0	0

Data Processed

**Table 3**  
**Effect of Earnings Management Regression against Listscore**

Coefficients

Model	B Unstd.	B Std.	t	Sig
1 (Constant)	0.617		0.082	0.935
X1	0.282	0.190	2.660	0.039
X2	-30.373	-0.151	-1.967	0.051
X1.X2	43.733	0.080	1.046	0.297

Dependent Variable: Y.

**Table 4**  
**Audit Quality**

Audit Firm	Market Share
Purwantono, Sarwoko & Sandjaja (E&Y)	31.03%
Aryanto Amir Jusuf & Mawar (AAJ)	13.79%
Osman Ramli Satrio & Rekan (Deloitte)	13.79%
Haryanto Sahari & Rekan (PWC)	7.69%
Mulyamin Sensi Suryanto (Moore Stephens)	6.89%
Siddharta, Siddharta & Widjaja (KPMG)	5.17%
Tanubrata Sutanto Sibarani (BDO)	5.17%

the hypothesis of this study uses Moderated Regression Analysis. This model determines the effect of moderating variable on Relationship of the independent variable and dependent variable. Moderating variables are variables that strengthen or weaken the relationship of independent variables on the dependent variable (Ghozali 2007).

Independent variable in this study is Litigation Risk, while the dependent variable is Earning Management and the audit quality as moderating variable. The analytical model in this study is described in the Figure 2.

The type of mathematical equation is regression analysis with moderation analysis (Moderated Regression Analysis) which is as the follow-

ing.

$$1. \text{ Testing Model Equation of Hypothesis 1: } Y = \beta_1 X_1 + e. \quad (10)$$

$$2. \text{ Testing Model Equation of Hypothesis 2: } Y = \beta_2 X_1 + \beta_3 X_2 + \beta_4 X_1 * X_2 + e. \quad (11)$$

Description:

$X_1$  = Litigation Risk

$X_2$  = Audit Quality

$X_1 * X_2$  = Interaction between Litigation Risk and Earning Management

$Y$  = Earning Management

$\beta_1$  = Coefficient of Simple Regression for testing Hypothesis 1

$\beta_4$  = Coefficient of MRA for testing Hypothesis 2

$e$  = Error

#### 4. DATA ANALYSIS AND DISCUSSION

Litigation risk factor analysis in Table 1 shows that Measures of Sampling Adequacy (MSA) value on each factor indicates the value of Kaiser-Meyer-Olkin - Measures of Sampling Adequacy (KMO-MSA) 0.497 or close to 0.5. The value of KMO and Bartlett's Test for correlations between the variables demanded is  $> 0.5$ . The significance of the study was 0.05. From the results above is obtained KMO value of 0.771, which means greater than 0.5. Meanwhile, the resulting significance of Bartlett's Test of Sphericity was 0.059

The results of the calculation of earnings management in manufactured companies that being sample of this study shows that the average value of the DA has a negative value. This indicates that the sample firms do earnings management with the pattern of decline in earnings management (income decreasing).

Table 3 shows that there is significant effect of litigation risk to earnings management with significant value below 0.039. This reveals that the risk of litigation owned by a company is able to make the management to reduce earnings management actions to perform. Based on Table 2 the value of earnings management companies manufacturing in 2010-2012 showed a negative DA values, which means that companies doing income decreasing.

The result of the calculation of the quality audit is showed in Table 4. From the whole samples of manufacturing firms over the years 2010 to 2012 showed that only Purwantono, Sarwoko & Sandjaja (E & Y) has a market share of 20% min. According to Rusmin (2010) who states that the firm that has min 20% market share indicates the specialist audit firm. From 58 companies there are 18 companies audited by Purwantono, Sarwoko & Sandjaja (E & Y) with a percentage of 31.03%.

The results indicate that the higher audit quality would be lower absolute discretionary accruals that occurred in the company. This is in line with research by Sun and Liu (2011) who found that high earnings management encourages litigation ex-post auditors higher. Khurana and Raman (2004) in Sun and Liu (2011) said that higher audit quality associated with the risk of litigation. The relationship between the qualities of auditors against profit management is also in line with research, Meutia (2004), found that the higher audit quality would be lower absolute discretionary accruals that occurred in the company but in this study showed no significant results.

This is because audit quality as measured by industry specialization does not guarantee that the company is audited by a qualified audit firm. It is also seen in the analysis of data related to the change which is done by the researchers' auditors where most companies audited by auditor same as those of different partners. This is done in order to avoid switching.

#### 5. CONCLUSION, IMPLICATION, SUGGESTION AND LIMITATION

Conclusions of this research in answering problem statements above are:

1. The influence between litigation risk on earnings managements

The result of this research states that hypothesis 1 is accepted which there is an influence between litigation risk on earning management that was explained in sig. 0.02

2. The quality of audit could strengthen the relationship between litigation risk and earnings management. The results of this research stated that audit quality that is measured by specialized auditors could not strengthen the relationship between litigation risk and earnings management supported sig. 0.244 Thus, hypothesis 2 is rejected.

This research gives the implication:

1. For the previous researcher in this study could add a reference in both terms of variable and variable indicator mentioned.
2. In addition as the reference, the previous researchers could use the stock beta value information in this research for the years 2009 – 2011. This is because unavailability of stock beta data.

This research has some limitations:

1. The stock beta data for the years 2009-2011 is not available, so that the researchers had to calculate manually.
2. Stock beta calculation in this research is done every month, because the limitation of research time so for the next research, stock beta should be calculated every day for more accurate in stock beta result.
3. This research did not include criteria for the companies which doing mergers / stock split, for the next research is expected could include these criteria in sampling so that calculation of earnings management is more precise.
4. The next researcher can select some other measures for audit quality variables, not only by audit specialization indicator, but also by



other measurements. The next researcher can add the time for this kind of research.

5. The calculation of earnings management that is conducted in this research still using the accrual earnings, so for the real earnings still not calculated yet. According to PSAK, the company has begun to be required to use real earnings since 2011. Due to this research began in 2009 and the presence of t-1 so that the earning calculation used by researcher still using the accrual earnings.

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