

The effect of audit quality and capital intensity ratio on earning management in sharia listed companies

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Abstract

Purpose - This study aims to determine the effect of audit quality and capital intensity ratio on earnings management in companies listed on the Indonesia Sharia Stock Index in 2017-2020.

Method - This study is quantitative research using secondary data obtained from the summary of audited financial statements. Data sampling was selected by purposive sampling method based on certain criteria. The analysis technique used is multiple linear regression.

Result - The results show that the size of the public accounting firm has a negative effect on earnings management; it is more credibility consideration. The audit tenure has a positive effect on earnings management. It creates an emotional connection that is reluctance to disclose misappropriation. The auditor industry specialization has a negative effect on earnings management; it is more in-depth various accounting policies to find earnings management. The capital intensity ratio does not affect earning management; it is business and finance consideration. Accounting policies in depreciation is carry out when management has decided to invest in fixed assets.

Implication - Sharia companies should pay attention to audit quality and capital intensity ratios in relation to earnings management.

Originality - This is a study to test the existence of earnings management in Sharia companies in terms of audit quality and capital intensity ratio factors.

Keywords: audit quality; capital intensity ratio; earning management



Introduction

The purpose of financial statements is to present information in the form of reports on the company's financial position, performance, and changes in the company's financial position that are useful for users in making economic decisions (Hery, 2012). Financial statements serve to report the performance of managers during the running of the company. Financial statements are also used to determine what strategies will be used in their companies. Therefore, financial statements must be easy to understand for all parties who have interests (Sulistyanto, 2008). Some information contained in the financial statements is about the company's earnings (wealth) distributed to shareholders or dividends. Company earnings are used as a tool to measure the performance of the company's administration over a certain period which is generally a concern for certain parties in assessing management's accountability in managing assets. The company's earnings can also be used to predict the company's performance in the future (Susanti & Margareta, 2019).

This earnings information is often the target of manipulation through the opportunistic actions of management to maximize its goals that can harm shareholders or investors. Such opportunistic actions are carried out by choosing a certain accounting policy so that the company's earnings can be organized, increased, or lowered according to their desires. Management's behavior to manage earnings according to their desires is known as earnings management (Suheny, 2019). The fact that is happening now is that there have been many violations in financial reporting or companies that have manipulated financial reports occurring in Indonesia and abroad. The Deputy Chairperson of the Supreme Audit Agency (BPK), Hasan Basri stated that fraudulent accounting calculations were often found in the financial statements of State-Owned Enterprises (BUMN). This fraud was carried out by reporting the profit received was greater than the actual profit (Kodriyah, 2015). In addition, the Case of Toshiba Corp Hisao proved the manipulation of financial statements. Earnings management is generally seen as negative due to agency problems and dissimilar information which causes owners and

investors unable to ascertain management's intention to carry out earnings management (Mustapha et al., 2019).

Earnings management actions have given rise to several widely known cases of accounting reporting scandals both in Indonesia and abroad. Earnings management is likely to occur if the public accountant is not objective and independent. Falsified information on financial statements can cause a lot of criticism of the public accountant profession which eventually results in a decrease in reliability of audit quality (Yuvita & Darmawati, 2017). Quality audits make quality financial statements as well, because financial statements that have been audited by reliable auditors should not contain any errors which may reduce earnings management (Yasser & Soliman, 2018).

One of the quality audit measurements is the size of public accountant firms, which can be categorized into 2: The Big Four and The Non-Big Four. The Big Four public accountant firm should have competent resources or workers (Yanthi et al., 2020) and are believed to have better knowledge, more experience, and trust than those which are Non-Big Four public accounting firm, so that the Big Four can produce quality audits (Pramaswaradana & Astika, 2017). Meanwhile, a study by Rahmawati et al. (2017) reveals that the quality of auditors measured by the size of the Public Accounting Firm (KAP/Kantor Akuntan Publik) affects earnings management. However, a study shows that the quality of audits measured by the size of the KAP does not affect earnings management (Pramaswaradana & Astika, 2017).

Another measurement of audit quality is the tenure audit or the duration of the auditor's relationship with the client (Ulina et al., 2018). The duration of the audit engagement with its clients will create excessive proximity to reduce the independence and objectivity of auditors (Pramaswaradana & Astika, 2017). Dinuka & Zulaikha (2014) state that tenure audits have a positive effect on earnings management, while a study conducted by Ulina et al. (2018) shows that tenure audits do not affect earnings management because before the issuance of Government Regulation (PP) No. 20 of 2015 concerning public accountant firm engagement which has no more

restrictions, public accountant engagement to a company was limited to 5 years. The assignment period limitation made the auditor unaware of the characteristics of the company well. Auditors needed more time in recognizing the characteristics of a company's management in presenting financial statements. Kurniawansyah (2016) states that audit tenure has influence on earnings management. An auditor who establishes a long relationship with the client will lead to a strong emotional relationship between the auditor and the client. Therefore, the question is whether the external financial audit conducted by a public accounting firm is able to prevent management policies that lead to earnings management.

The quality of auditors can also be measured through the specialization of the auditor industry. The specialization of the auditor industry is one of the dimensions of audit quality. Auditors who have the same knowledge and experience in corporate audits make them skillful in that area. Specialist auditors have the same knowledge of corporate auditing and a better understanding of the state of affairs of the company. Clients who use the services of industry specialization auditors are believed to be able to find errors in the audited financial statements (Khanh & Khuong, 2018). Marsetio & Yuliati (2022) state that the specialization of the auditor industry has a positive effect on earnings management, while the research conducted by Indra Astuti & Djojo (2021) states that the specialization of the auditor industry does not affect earnings management because there are still many manufacturing companies in this study that are not audited by public accountants who are specialized in industry. Therefore, the specialization of the auditor industry does not affect earnings management.

Earnings management as a phenomenon has received a lot of attention from users of financial statements, including academics, due to their actions related to management policies in manipulating earnings. So that financial reports whose purpose is to provide financial information can result in misinterpretation in using them. Meanwhile, users of financial statements rely on the role of financial audits to prevent financial statement misstatements. Earnings management can be performed by controlling

accrual transactions carried out by the company or through the company's accrual policy (Firman et al., 2020). Accrual-based transaction activities which can be widely used are the fixed assets of the company. The percentage of fixed assets owned by the company can be known by calculating the financial ratio, one of which is by calculating the capital intensity ratio (Ramadhani et al., 2017). Based on this background, it is interesting to research the effect of audit quality and capital intensity ratio on earnings management.

Literature Review

Positive Accounting Theory

According to Watts & Zimmerman (1990), Positive Accounting theory is a company's strategy and action regarding the selection of management policies in the future. For companies, the selection of accounting policies is important in the preparation of financial statements (Purnama, 2017).

The correlation of positive accounting theory with this study is positive accounting theory explains that company management is free to choose the corporate governance taken including in determining accounting policies. Because of this freedom, the company's management will tend to carry out opportunistic actions for personal gain. Therefore, the practice of earnings management occurs due to the existence of personal interests in some circles (Nurmanto, 2018).

Earnings Management

The definition of earnings management, according to Coperland (1968), is the manager's effort in playing with the company's earnings according to the wishes of the manager for personal or corporate interests (Lestari & Murtanto, 2018). Meanwhile, according to Sulistyanto (2008), earnings management is a process of making financial statements that aim to obtain personal interests. Scott (2003) describes earnings management as an act chosen for the benefit of a particular individual by elevating the market value of the company.

Audit Quality

Audit quality is the skill of an auditor in detecting fraud that occurs in the client's financial statements (Monoarfa, 2018). The detection of fraud is measured by the experience of auditors, professionalism, and the audit structure of the company. The ability of the auditor to report fraud which is contained in the company's financial statements depends on the independence of the auditor. Quality audit is an audit carried out by a competent and independent person. A competent auditor is an auditor who has skills, understands, and runs audits well according to auditing standards (Tandiantong, 2015).

Size of a Public Accounting Firm

Public Accounting Firms affiliated with Big Four Company are believed to have good quality because they have high skills and its attitude of independence (Dewi & Aryanto, 2017). Public accounting firms that include in the Big Four in Indonesia are public accounting firms that collaborate with international public accountants (Hadi & Tifani, 2020), that is: a) Public Accounting Firm Tanudireja, Wibisana & Partners collaborating with Pricewaterhouse Coopers, b) Public Accounting Firm Sidharta and Wijaya collaborating with KPMG (Klynfeld Peat Marwick Goedelar), c) Public Accounting Firm Purwantono, Suherman & Surja collaborating with Ernst and Young, and d) Public Accounting Firm Imelda & Partner collaborating with Delloitte Touche Tohmatsu.

Audit Tenure

The definition of audit tenure, according to Dewi & Aryanto (2017), is a time of engagement between auditors and clients which is measured by the number of years. Sarwoko states that The audit tenure is a period of engagement between the Public Accounting Firm and the client regarding the agreed audit service or can also be interpreted as the period of the auditor and client relationship.

Auditor Industry Specialization

Balsam et al. (2003), Christiani & Nugrahanti (2014), and Mukhlisin (2018) explain that specialist auditors have higher expertise and knowledge about the client's business industry specifications when compared to non-specialist auditors. Specialist auditors are also more able to find errors and fraud in financial statements. If it has clients with a percentage of total assets greater than 20% of the total assets of the entire company in an industry, the auditor is said to have an industry specialization. The specialization of the auditor industry is inseparable from auditing clarity because auditors who have high experience in auditing clients in the same business line will be easier to detect irregularities compared to non-specialist auditors in the industry (Rinadi & Nurbaiti, 2018).

Capital Intensity Ratio

According to Widyaswati et al. (2016), capital intensity is an investment activity carried out by a company that is associated with an investment in the form of fixed assets. By increasing the company's fixed assets, the company's productivity will increase as well so that the company's income will also increase. The use of fixed assets gives rise to the presence of depreciation expense. Depreciation can be accelerated to increase cash flow (Hidayat & Fitria, 2018).

This research develops the research by Ramadhani et al. (2017) and Kurniawansyah (2016) using the independent variables audit quality and capital intensity ratio because they are related to management decisions in determining accounting policies that have an impact on financial reporting. Thus, management's discretion in choosing accounting policies is tested whether its actions have a tendency to take opportunities for personal gain.

Hypotheses Development

The role of the Big Four Public Accountants is very important in the implementation of audits (Kurniawansyah, 2016). Companies audited by the Big Four Public Accountants generally avoid deviant actions. The Big Four is

believed to have good performance to maintain its reputation. So, if the auditee commits fraudulent acts, it will be easy to find (Lufita et al., 2018). Auditors can immediately detect irregularities if management practices earnings management (Dewi & Aryanto, 2017). According to Kono & Yuyetta (2013), the Big Four KAPs have experienced auditors so that there are restrictions on earnings management. Thus, accounting policies made by management will avoid opportunistic actions of management for personal gain. Based on the description above, a hypothesis can be formulated as follows:

H1: The size of the public accounting firm negatively affects earnings management

Audit tenure is the length of time a Public Accounting Firm has a relationship with the same company (Yanthi et al., 2020). Auditors will generally stand with management when they have a long engagement period (Ulina et al., 2018). Kurniawansyah (2016) states that a comfortable relationship and emotional connection with his client can occur if the auditor has a long-audit tenure relationship with the company. The competence and quality of auditors will decrease in auditors with long audit tenure when auditors begin to make incorrect assumptions instead of objective evaluations of the evidence (Kurniawansyah, 2016). Auditors will tend to cover up the client's irregularities on the financial statements when their relationship has been going on for a long time. Auditors will gradually adjust to the interests of clients by legalizing the practice of accrual accounting policies (Tambunan & Yuyetta, 2021). Audit tenure has influence on earnings management. An auditor who establishes a long relationship with the client will lead to a strong emotional relationship between the auditor and the client. Therefore, a long relationship between a public accounting firm and management can lead to a reluctance to be critical of the auditor on the accounting policies made by management, so that management can freely make policies that are personally beneficial (Ramadhani et al., 2017). Based on the description above, a hypothesis can be formulated as follows:

H2: Audit tenure has a positive effect on earnings management

Another proxy for audit quality measurement is an auditor industry specialty. Auditors with industry specialization have higher knowledge of client business line specifications, are more compliant with applicable audit standards, understand risks and problems in client business, and are easier to find deviations made by clients compared to non-specific industry auditors (Pusparini et al., 2016). Opportunistic actions of management and earnings management detection can be controlled by the specialization of the auditor industry by providing a better quality of audit services (Yasser & Soliman, 2018). Industry specialization contributes to improving the quality of audits (Garcia & Josep, 2018). Thus, with industry specialization auditors who better understand business process in client business, this will reduce management's opportunistic actions in making accounting policies that lead to personal gain. Based on the description above, a hypothesis can be formulated as follows:

H3: Auditor industry specialization negatively affects earnings management

Earnings management can be carried out using accrual methods and policies on financial statements (Sulistyanto, 2008; Firman et al., 2020). The biased method of accounting is chosen using the policy on the accrual component following the desire of those who make financial statements. Management can choose elements in the financial statements with the estimated value used and it is believed that fraud in financial statements can occur if accommodated and facilitated by accounting principles. In the practice, earnings management is to carry out accrual transactions on the company through the accounts of retained assets held since the depreciation of fixed assets can reduce the amount of earnings. Thus, the larger the company's fixed assets, the higher the company's suspicion of earnings management. The percentage of fixed assets owned by the company can be calculated using ratios, one of which is the capital intensity ratio (Ramadhani et al., 2017). A study by Santoso et al. (2016) reveals that companies with high fixed asset investment have a tendency to manipulate earnings through

accounting policies that benefit management personally. Based on the description above, a hypothesis can be formulated as follows:

H4: Capital intensity ratio positively affects earnings management

Research Methods

This study aims to test the influence of independent variables, namely audit quality and capital intensity ratio on dependent variables, namely earnings management. Data used in this study is quantitative data with secondary data sources, namely companies that are included in the Indonesian Sharia Stock Index (ISSI) group during 2016 to 2020. Purposive sampling method is used that meets the following criteria: 1) Consistently included in the Indonesian Sharia Stock Index for four consecutive years in 2017-2020; 2) Manufacturing companies that publish complete financial statements on the Indonesia Stock Exchange and the company's website for 2017-2020; 3) Companies that issue financial statements denominated in rupiah; 4) Companies that earned profit or did not losses in 2017-2020; and 5) Companies that provide research variable data. With these criteria, the data that were successfully collected and used in the study were 25 companies for 4 years, the total sample were 100 firms.

Size of Public Accounting Firm are distinguished into two groups. First, KAP affiliated with the Big Four and other KAPs that are not affiliated with the Big Four. The measurement of the KAP size variable uses a dummy variable, the value of 1 if the company is audited by the Big Four KAP and 0 if other (Yasser & Soliman, 2018).

Audit tenure is the length of the relationship between auditors and clients as measured by the number of years. By counting the number of years, an auditor audits a company's financial statements in a row during the research period (Kurniawansyah, 2016).

Auditors with industry specialization have a better understanding of the characteristics of the industry because an auditor with industry specialization has specific and in-depth knowledge in a particular industry field, and an

auditor with industrial specialization has more experience in auditing in a particular industry field. This variable is measured with dummy variable. Value 1 if the auditor has 20% or more market share and 0 if the auditor has below 20% market share. Market share is measured by the sales of the company i in year t divided by the total sales for the entire enterprise within an industry (Habbash & Alghamdi, 2017).

Capital intensity is an investment activity carried out by a company that is associated with investments in the form of fixed assets or capital. The Capital Intensity Ratio (CIR) is calculated in the following way:

$$CIR = \frac{\text{Total Fixed Assets}}{\text{Total Assets}}$$

Earnings management is an act of interference on the part of management in the financial preparation and reporting to achieve a certain level of earning. Earnings management is measured using discretionary accrual (DA) calculated by the modified Model Jones (Habbash & Alghamdi, 2017; Firman et al., 2020).

The model used in this study is a multiple regression analysis to examine the influence of independent variables on dependent variable. The multiple linear regression equations used as models are:

$$EM = \alpha + \beta_1 PASIZE + \beta_2 TENURE + \beta_3 SPECIND + \beta_4 CAPINT + e$$

with: EM = Earnings management, PASIZE = KAP Size, TENURE = Audit Tenure, SPECIND = Auditor Industry Specialization, CAPINT = Capital Intensity Ratio, α = Constant, β_1 β_2 β_3 β_4 = Regression coefficient of each variable.

Results and Discussion

The size of public accounting firm variable has a minimum value of 0 and a maximum of 1. The mean in the variable size of public accounting firm is 0.4875 and the standard deviation is 0.50300, meaning that almost half of the sample is audited by the Big Four. The audit tenure variable has a minimum value of 1 and a maximum of 4 and an average value of 2.3875 with a

standard deviation of 1.11938, meaning that most KAPs have audited more than 2 times. The auditor industry specialization has a minimum value of 0 and a maximum of 1, an average value of 0.0500 with a standard deviation of 0.021932, meaning that 5% of the sample is audited by auditors with industry specialization. The capital intensity ratio variable has a minimum value of 0.03 and a maximum value of 0.63, an average value of 0.3822 with a standard deviation of 0.16380, meaning that more than 50% of the sample has considerable fixed assets. The earnings management variable has a minimum value of 0.00 while the maximum score is 0.00, and the average value is 0.0005 with a standard deviation of 0.00107, meaning that the sample has a low-earnings management.

Table 2 shows that the magnitude of the correlation between independent variables and dependent variables of 0.296 or 29.6% proxied with the value of earnings management, that is also influenced jointly by independent variables the size of the public accounting firm, audit tenure, auditor industry specialization, and capital intensity ratio. The remaining 70.4% can be explained by other variables that were not present in this study.

Table 1. Descriptive Statistics

Variables	N	Min	Max	Mean	Std. Dev
PASIZE	100	0,00	1,00	0,4875	0,50300
TENTURE	100	1,00	4,00	2,3875	1,11938
SPECIND	100	0,00	1,00	0,0500	0,21932
CAPINT	100	0,03	0,63	0,3822	0,16380
EM	100	0,00	0,00	-0,0005	0,00107

Table 2. Coefficient of Determination Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,573 ^a	0,328	0,296	0,00087469

Table 3 Statistical F-Test Results

	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	0,000	4	0,000	4,619	0,002 ^b
	Residual	0,000	95	0,000		
	Total	0,000	95			

Table 4 Statistical T-Test Results

	Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	0,001	0,000		3,525	0,001
	PASIZE	-0,000	0,000	0,151	1,446	0,090
	TENURE	0,000	0,000	-0,368	-3,908	0,000
	SPECIND	-0,001	0,000	-0,166	-1,636	0,050
	CAPINT	0,000	0,000	-0,045	-4,700	0,320

From the results of the F test above, it is known that the F-count is 4.619 with a significance value of $0.002 < \alpha 0.05$. Then, there is a simultaneous effect between the size of the public accounting firm, audit tenure, auditor industry specialization, and the capital intensity ratio on earnings management.

The Effect of Public Accounting Firm Size on Earnings Management

Table 4 shows that public accountant firm size variable has a negative regression coefficient (β_1) with a p value of $0.090 < \alpha 0.05$, so that H1 is rejected. This means that the public accounting firm size does not affect earnings management. It shows that the Big Four has not been able to reduce earnings management actions.

There is a possibility that earnings management practices occur because of the company's efforts to show that financial reports look good to investors, regardless of the existence of the Big Four KAP. The existence of the Big Four is not intended to reduce earnings management, but the company wants to

increase the credibility of financial statements, thereby increasing the reliability of financial statements (Christiani & Nugrahanti, 2014).

The results of this study are in line with the research conducted by Kalbuana & Yulistiani (2020), Yasser & Soliman (2018), and Christiani & Nugrahanti (2014) which state that the public accounting firm size does not affect earnings management. Companies audited by large public accountants may not necessarily be able to limit the occurrence of earnings management actions. This is because the decision to use accounting policies is the authority of the company, where the auditor can accept these policies as long as they comply with accounting standards. This can be explained that research data showing the number of companies audited by the Big Four public accounting firm is 48.75% or less than half. Research data also show a low level of earnings management, which means that even though the company is not audited by the Big Four who have high expertise and independence, the company does not carry out earnings management. The low average earnings management also shows that the accounting policies made by managers do not consider whether the company is audited by the Big Four public accountants or not.

The Effect of Audit Tenure on Earnings Management

Table 4 shows that the tenure variable has a positive regression coefficient (β_2) with a p-value of $0.000 < \alpha 0.05$ then H2 is accepted, meaning that the audit tenure variable has a positive effect on earnings management. This happens because the length of the auditor's relationship with the client tends to create a strong emotional connection between the auditor and the client. A strong emotional connection will affect and degrade the quality and independence of the auditor. It may cause the auditor not to disclose the misappropriation that occurs in the company financial statements that manipulate earnings as the manager wishes. Managers can manipulate earnings through selected accounting techniques so that the earnings displayed on the financial statements can be higher or lower, according to the manager's wishes. This can be adjusted to the manager's

expected goals such as reducing tax rates, avoidance of monopolies, compensation and bonuses, pressures on debt covenants, and other objectives.

The results of this study are in line with the research by Dinuka & Zulaikha (2014), Kurniawansyah (2016), and Yasser & Soliman (2018) which state that Audit Tenure positively affect earnings management. This shows that long-term assignments of auditors will strengthen client relationships, thereby tending to reduce the level of auditor independence and ignore management actions that lead to earnings management. The research data show that the average sample companies are audited by the same KAP 2.3 times with the most being 4 times and the average earnings management is low, meaning that there is no emotional connection between the auditor and the client which causes a decrease in the level of auditor independence.

The Effect of Auditor Industry Specialization on Earnings Management

The test results in table 4 show that the regression coefficient (β_3) is negative with a p-value of $0.050 \leq \alpha 0.05$ then H3 is accepted, meaning that the specialization of the auditor industry has a negative effect on earnings management. Auditors will be better able to detect earnings management practices if those auditors have experience in the same industry. Auditors who specialize in the industry can reduce earnings management to increase the credibility of financial statements.

This research is inline with the research conducted by Kurniawansyah (2016) and Christiani & Nugrahanti (2014) which state that the specialization of the auditor industry affects earnings management negatively. In this case, the auditor's industry specialization can reduce the level of earnings management actions taken by the company. Although research data show that the average number of auditors industry specialization is quite low at only 5%, it shows that using KAPs that have auditors industry specializations will be very effective in detecting earnings management actions so as to improve the quality of financial statements (Christiani & Nugrahanti, 2014).

Auditors specializing in the client's industry are more in-depth into the various accounting policies implemented by the company, making it easier to find earnings management actions. According to Mukhlisin (2018) and Christiani & Nugrahanti (2014), auditors with industry specialization have more knowledge of the industry being audited which makes them have the ability to detect errors in accounting policies that lead to earnings management thereby reducing earnings management by clients. In addition, auditors also try to detect earnings management to maintain their reputation as auditors.

The Effect of Capital Intensity Ratio on Earnings Management

The test results in table 4 show a positive regression coefficient (β_4) with a significant value of $0.32 > \alpha 0.05$, then H4 is rejected. This means that the capital intensity ratio does not affect earnings management. Management has no motivation to carry out earnings management practices through the depreciation method. According to Ramadhani et al. (2017), companies with a high percentage of capital intensity ratio will tend to carry out earnings management practices. In this study, the average capital intensity ratio is 38.22% of all company assets, meaning that the sample of companies in this study had an average of low fixed assets. Among 100 samples, only 2 companies have high capital intensity ratio, namely Indospring Tbk and PT. Unilever Indonesia Tbk while the other sample companies are small. If the company's capital intensity ratio percentage value is high, the company tends to make deviations in the form of earnings management to obtain profit. But this does not happen to the manufacturing companies that are samples of this study, because the average has a low capital intensity ratio value.

The results of this study are in line with the research by Ramadhani et al. (2017) and Methasari (2021) which state that the capital intensity ratio has no significant effect on earnings management. The company's investment in fixed assets requires a very large cost. It requires a lot of consideration, especially related to business and finance, rather than just earnings management. The management considerations are more on accounting

policies in depreciation when management has decided to invest in fixed assets. Thus, with a low average value of fixed assets in the research sample, management cannot take opportunistic actions that benefit him personally through accounting policies, especially those related to depreciation of fixed assets.

Conclusion

The size of the public accounting firm does not affect earnings management. The Big Four have not been able to reduce earnings management actions. Earnings management practices occur because of the company's efforts to show that financial reports look good to investors. Rather, it increases the credibility and more reliability of financial statements. Audit tenure has a positive effect on earnings management. The length of the auditor's relationship with client tends to create a strong emotional connection between the auditor and the client. It may cause the auditor not to disclose the misappropriation that occurs in the company financial statements that manipulate earnings as the manager wishes. The specialization of the auditor industry negatively affects earnings management, meaning that auditors will be better able to detect earnings management practices if the auditor has experience in the same industry. Auditors who have an industry specialization can reduce earnings management practices to increase the credibility of financial statements. The capital intensity ratio does not affect earnings management. Companies with a high percentage of capital intensity ratio will tend to carry out earnings management practices. Most of sample of companies in the study on average had a low amount of fixed assets. Therefore, the results of capital intensity ratio show that it does not affect earnings management, because management is not motivated to carry out earnings management practices through the depreciation method.

This research in the future is expected to present higher quality research results with some input on several things including to extend the research period so that the data produced will tend to be high in validity level, to

consider the use of more companies listed on the IDX as a research population, to add other variables such as the audit committee and company size to obtain various results, and to avoid using dummy variables because the results tend to be less satisfactory.

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