

ANALYSIS OF AUDIT QUALITY AND SALES GROWTH IN TAX LIABILITIES WITH EARNING MANAGEMENT AS AN INTERVENING VARIABLE

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ABSTRACT

The company still considers the obligation to pay taxes a burden because there is a transfer of resources from the business sector to the public or government sector so that management often makes various efforts to minimize the tax burden, even though the compliance of taxpayers in paying taxes will assist the government in conducting programs development that can be enjoyed by the citizen. This study aimed to analyze the effect of audit quality and sales growth on tax obligations with earnings management as an intervening variable. The population in this study were all property and real estate companies listed on the Indonesia Stock Exchange in 2013-2017. The sample was selected using a purposive sampling method and obtained 100 units of analysis. The analytical method used is descriptive statistical analysis and path analysis (path analysis) using IBM SPSS 24 application. The results showed that audit quality and sales growth did not significantly influence earnings management either partially or simultaneously. Furthermore, the audit quality variable does not have a significant effect on tax obligations, but the sales growth variable shows a significant positive effect on the tax liability variable. The results of the path analysis test show that each variable of audit quality and sales growth has no effect on tax liabilities through earnings management as a mediating variable. The conclusion of this study is the amount of tax liability borne by the company is influenced by the level of sales growth.

Keywords: *KAP Big Four; Earning Management; Working Capital Accrual; Tax Liabilities; Intervening Variable.*

1. INTRODUCTION

Taxpayers have an obligation as citizens to calculate, pay, and report an amount of money to the government in accordance with applicable taxation provisions. Tax payments reflect the role of the community in helping and succeeding government programs in terms of state funding and national development. The tax obligation is intended for tax subjects who have fulfilled various criteria. One of the types of Tax Subject is Corporate Entity. For every business established and domiciled in

Indonesia, it is certain to become a Domestic Tax Subject and the income derived from the said business entity is a tax object.

Santoso and Ning (2013: 2) revealed that the Taxpayers Agency still considers the obligation to pay taxes a fee because in tax payments there is a transfer of resources from the business sector or the business world to the public or government sector which results in reduced purchasing power of taxpayers, even though with the compliance of taxpayers in paying taxes will help the government in the

success of development plans that benefit many people.

Self Assessment System requires Corporate Taxpayers, Individual, and BUT to calculate, pay, and report their own taxes that have become their dependents. Based on data reported from www.detik.com at this time in Indonesia the level of taxpayer compliance still tends to be low, this can be seen from the level of tax coverage ratio (the ratio of realization to new potential), which is 72%. In addition, the level of tax ratio (the ratio of tax revenue to GDP) is also relatively low, which is only around 11% -12% or only increased 0.1% in the 2004-2014 range. This figure is still below some countries such as the Philippines, namely by 14%, South Africa by 27%, Malaysia by 16%, South Korea by 25%, Thailand by 17%, and Brazil by 34%. The tax ratio level in Indonesia is certainly far below the OECD country average of 34% or a minimum MDGs requirement of 25%. This shows that the enlarged economic pie has not been matched by high tax payment rates.

Research from Sari (2014) shows that auditor quality has a positive influence on a company's tax burden, which means that if the company is audited by the Big Four KAP or its affiliates, the company will be more likely to fulfill its tax obligations. Research from Putranti and Setiawanta (2015) shows a different matter, he found that if the audit is getting better the company is more likely to avoid tax. So when the level of corporate tax avoidance is high, the level of company tendency to fulfill its tax obligations is low.

Meutia (2004), Sanjaya (2008), and Agustin (2013) revealed that audit quality can affect corporate earnings management practices, while Sari (2014) examines that auditor quality that is also proxied by KAP size has no effect on earnings management variables. Research by Fahmie (2018) and Rahmawati and Hakim (2018) revealed that the variable of sales growth did not affect earnings management practices in the company. However Sari (2015) and Darmayanti, et al. (2017) showed different results, namely the sales growth variable had a significant positive effect on earnings management variables.

The purpose of this study is to examine the effect of audit quality and level of sales growth on corporate tax liability and use of

earnings management variables as a mediating variable. The originality of this test is that the researcher tries to examine the effect of earnings management with other factors, especially corporate tax liability because in previous studies generally only discuss certain factors that can affect earnings management variables. In addition, this study used property and real estate companies listed on the Indonesia Stock Exchange (IDX) in the 2013-2017 period as research objects.

2. LITERATURE REVIEW

2.1 Audit Quality

There are several definitions of audit quality from various previous studies as according to Meutia (2004) defines audit as a process to reduce the misalignment of information that exists between managers and shareholders by using outsiders to provide endorsement of financial statements. In addition, De Angelo (1981) defines audit quality as a joint probability to detect and report material errors in financial statements. Audit quality is seen as the ability to enhance the quality of corporate financial reporting.

2.2 Sales Growth

According to Savitri (2014) sales growth can be interpreted as a level of stability in the number of sales made by the company for each period of the financial year (Savitri, 2014). Sales growth is measured by comparing changes in sales this year with total sales of the previous year. Sales growth shows how big the increase in sales from year to year.

2.3 Tax Liability

The amount of tax payable that must be paid by the corporate taxpayer to the state treasury (PPh payable) is calculated based on the amount of profit earned by the company during a certain period reported in the statement of comprehensive income multiplied by the applicable tax rate. According to Law No. 36 of 2008 concerning Income Tax Article 17, for Corporate Taxpayers subject to a tariff of 28% in the tax year before 2010 and a rate of 25% for the tax year above 2010.

2.4 Earning Management

According to Scott (2000) earnings management is the selection of accounting policies by managers (Agustin, 2013). Scott revealed there are two ways to understand earnings management. First, as an opportunistic behavior of management to maximize its utility. Second, looking at earnings management from the perspective of efficient contracts, where earnings management gives managers a flexibility to protect themselves and the company in anticipating unexpected events for the benefit of the parties involved in the contract.

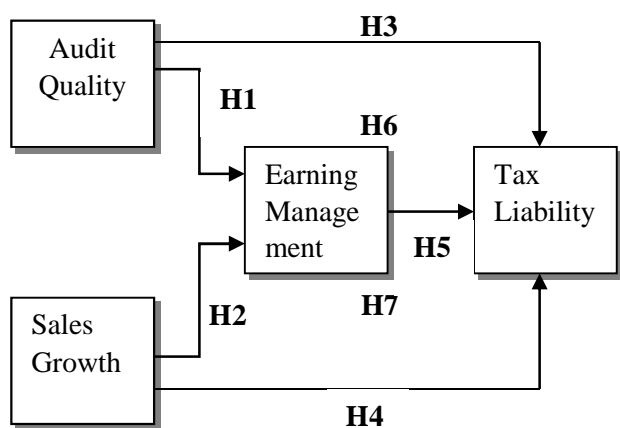


Figure 1. Research Paradigm

3. RESEARCH METHOD

3.1 Data Collection Technique

The data used are secondary data obtained from annual reports of Property and Real Estate companies listed on the Indonesia Stock Exchange (BEI) in 2013-2017 that have been audited by independent auditors.

3.2 Operational Definition of Variables

In this study, five variables are used, namely audit quality and sales growth as independent variables, tax liabilities as the dependent variable and earnings management with the accrual proxy for working capital as an intervening variable.

3.3 Sample Collection Technique

The population in this study are property and real estate companies listed on the Indonesia Stock Exchange (www.idx.co.id)

2013-2017 period consisting of 48 companies. Samples were selected using a purposive sampling method, and 27 companies were obtained and there were 35 data outliers so that the analysis units used were 100 analysis units. Sample selection criteria can be seen in table 2.

Table 1. Sample Selection Process

No	Criteria	Total
1.	Property and real estate companies listed on the IDX in the 2013-2017 observation period	48
2.	Property and real estate companies that do not list their financial reports consistently between 2013-2017	(9)
3.	Companies that are not audited by independent auditors	(0)
4.	Companies that suffered losses between 2013-2017	(12)
5.	Number of companies sampled	27
6.	Number of years of observation	5
7.	Total research data during 2013 – 2016	135
8.	Total outlier data during the study year	(35)
9.	Total Analysis Unit	100

Source: *Self Proceed*, 2019

3.4 Data Analysis Technique

a) Descriptive Statistics

Descriptive statistical analysis is an analysis that serves to describe or describe a data. Descriptive statistics used in this study are minimum values, maximum values, mean values, and standard deviation values.

b) Path Analysis

Path analysis is a form of development of regression analysis (Sugiyono, 2013: 297). Path analysis is used to describe and test the model of relationships between variables in the form of cause and effect. Through this path analysis

will be found which path is the most appropriate and brief of an independent variable to the last dependent variable.

4. RESULT AND DISCUSSIONS

4.1. Result

Table 2. Descriptive Statistics

	N	Mini	Maxim	Mean	Std.
KA	100	.0000	1.0000	.2700	.44620
PJ	100	- .2230	.9560	.1568	.24811
ML	100	-	1.7870	.1418	.4263
PJK	100	.0000	.6500	.1683	.1629
Valid N (listwise)	100				

Source: *Self Proceed, 2019*

The average (mean) value of audit quality, sales growth, and earnings management variables is smaller than the standard deviation value, this shows that the spread of data on these variables is heterogeneous. This explains that the sample data is quite different, so that the distribution of data for audit quality variables, sales growth, and earnings management becomes large. However, the mean value of the tax liability variable (mean) is greater than the standard deviation which indicates that the data distribution is homogeneous. This means that for the variable liability data distribution tends to be a small tax.

4.1.2 Test of Classical Assumptions

Table 3. Nomality Test Result

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized
N		99
Normal Paramete	Mean	-.1301988
	Std.	.81049395
Most	Absolute	.079
Extreme Differen	Positive	.051
	Negative	-.079
Test Statistic		.079
Asymp. Sig. (2-tailed)		.137 ^c

Source: *Self Proceed, 2019*

4.1.1 Descriptive Statistics Test Result

Descriptive statistics on variables of audit quality, sales growth, tax liabilities, and earnings management can be seen in Table 2.

The results of the normality test show that the Kolmogorov-Smirnov (K-S) value is 0.137 and this value is greater than the 0.05 significance

level so that it can be concluded that the data are normally distributed.

Table 4. Multikolinearitas Test Result

Model	Collinearity Statistics	
	Tolerance	VIF
1 (Constant)		
Lag_KA	.988	1.012
Lag_PJ	.989	1.011
Lag_ML	.979	1.022

Source: *Self Proceed, 2019*

In the multicollinearity test it is known that the VIF value <10 and tolerance value> 0.10 so that it can be concluded that the data are free from multicollinearity.

Table 5. Heteroskedastisitas Test Result

Model	T	Sig.
1 (Constant)	10.640	.000
Lag_KA	-.535	.594
Lag_PJ	.007	.994
Lag_ML	.329	.743

Source: *Self Proceed, 2019*

Heteroskedastisitas test is done by using the glacier test shows that from each variable the significance value is more than 0.5, this

shows that the data is free from the existence of heteroskedasticity.

1	.145 ^a	.021	.001	.40817
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Source: Self Proceed, 2019

Table 6. Autocorrelation Test Result

Model	Std. Error of	Durbin-
1	.82203	1.994

Source: Self Proceed, 2019

The autocorrelation test shows a value of 1.994. This value is greater than the value of dU in the Durbin Watson table (1.6337) and less than 4-dU (4-1.6337 = 2.3663). It can be concluded that in this research data there is no autocorrelation.

4.1.3 Hypotesis Test

Path Analysis

Structural Equation 1

t Test (Partial)

Table 7. t Test Result

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.026	.043		-.602	.549
	Lag_KA	.087	.083	.106	1.054	.295
	Lag_PJ	-.038	.038	-.102	-1.007	.317

Source: Self Proceed, 2019

F Test (Simultaneous)

Table 8. F Test Result

Model	Sig.
Regression	.360 ^b

Source: Self Proceed, 2019

Determination Coefficient Test Result

Table 9.

Determination Coefficient Test Result

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.334 ^a	.112	.084	

Structural Equation 2

T Test (Partial)

Table 10. T Test Result

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.144	.087		-1.659	.100
	Lag_KA	.207	.168	.120	1.236	.219
	Lag_PJ	.224	.077	.284	2.916	.004
	Lag_ML	-.226	.206	-.108	-1.102	.273

Source: Self Proceed, 2019

F Test (Simultaneous)

Table 11. F Test Result

Model	Sig.
Regression	.010 ^b

Source: Self Proceed, 2019

Determination Coefficient Test Result

Table 12. Determination Coefficient Test Result

Model	R	R Square	Adjusted R Square
1	.334 ^a	.112	.084

Source: Self Proceed, 2019

The sobel test is used to determine the strength of the indirect effect of the independent variable (X) on the dependent variable (Y) through the intervening variable (M). The sobel test results can be seen in the following Table 13:

Table 13. Sobel Test Result

Variables	Error Standard	Direct Influence	Indirect Influence	Total	Count of t
X1 ke M	0.083	0.087		0.087	
X2 ke M	0.038	-0.038		-0.038	
X1 ke Y	0.168	0.207	-0.019	0.118	0.288
X2 ke Y	0.224	0.224	0.008	0.232	0.0116
M ke Y	0.206	-0.226		-0.226	
M ke Y	0.206	-0.226		-0.226	

Source: *Self Proceed*, 2019

Table 13 shows that the direct effect of all independent variables namely audit quality and sales growth is stronger than the indirect effect of the independent variables on the dependent variable through mediating variables. In addition, the calculated t value of the audit quality variable and sales growth is not greater than the t table value so that it can be concluded that earnings management cannot mediate the effect of both audit quality and sales growth variables on tax obligations. The path analysis equation can be written as follows:

Structural Equation 1 :

$$Y = -0.026 + 0.087X1 - 0.038X2 + \varepsilon_1$$

Structural Equation 2 :

$$Y = -0.144 + 0.207 X1 + 0.224 X2 - 0.226 M + \varepsilon_2$$

4.2. Discussions

H1: The results show that the audit quality variable (KA) has a regression coefficient of 0.106 and a significance value of 0.295 which is greater than the confidence level of 0.05 (0.295 > 0.05). This shows that audit quality has no significant effect on earnings management. So, the first hypothesis is rejected.

H2: The results show that the regression coefficient of sales growth variable is -0.102 with a significance value of 0.317 which is greater than the confidence level of 0.05 (0.317 > 0.05), which means that the sales growth variable does not significantly influence earnings management. So, the second hypothesis is rejected.

H3: The results show that the audit quality regression coefficient value of 0.207 with a

significance value of 0.219 is greater than the level of confidence of 0.05 (0.219 > 0.05). This shows that audit quality does not significantly influence corporate tax liabilities. So, the third hypothesis is rejected.

H4: The results show that the regression coefficient of sales growth is 0.224 with a significance value of 0.004 where the significance value is less than 0.05 (0.004 < 0.05). This shows that sales growth has a positive effect on corporate tax obligations. Thus it can be concluded that the fourth hypothesis is accepted.

H5: The partial test results showed that the regression coefficient value showed a value of -0.226 and a significance value of 0.273 (sign. > 0.05). This shows that the earnings management variable does not significantly influence the company's tax liabilities. Thus the sixth hypothesis is rejected.

H6: The results show that the indirect effect of audit quality variable (X1) on the tax liability variable (Y) through earnings management (M) of -0.011, known t count of -0.612 while t table shows a number of 1.66 which means the value of t arithmetic < t table. These results indicate that the audit quality variable does not significantly influence tax liabilities through earnings management. That is, hypothesis six (H6) is rejected.

H7: The indirect effect of sales growth variable (X2) on the tax liability variable (Y) through earnings management (Y) shows a value of 0.011, known t count of 0.058 which means t arithmetic < t table. This shows that the sales growth variable does not significantly influence tax liabilities through earnings management. That is, hypothesis seven (H7) is rejected.

5. CONCLUSIONS

From this study it can be concluded that audit quality and sales growth does not significantly influence earnings management either partially or simultaneously which can be seen in structural equation 1. While the

structural equation 2 shows the results that the audit quality variable does not have a significant effect on tax liabilities, but the sales growth variable shows the results of a significant positive effect on the tax liability variable and simultaneously the audit quality and sales growth variables have a significant effect on tax liabilities. The path analysis test results show that each audit quality and sales growth variable does not affect tax liability through earnings management as a mediating variable. The researcher can then change the measurement of earnings management variables, such as the Jones model or the Jones model modification to replace the working capital accrual.

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