THE EFFECT OF AUDITOR'S REPUTATION AND GROWTH COMPANY ON INCOME SMOOTHING

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ABSTRACT
This study aims to examine the effect of Auditor Reputation and Company Growth on Income Smoothing (a case study on a manufacturing company in the consumer goods industry sector listed on the Indonesian stock exchange in 2015-2019). The factors tested are Auditor Reputation and Company Growth. This study used 17 companies as samples. Hypothesis testing using Logistics Regression Analysis model to test the effect of Auditor Reputation and Company Growth on Income Smoothing. The results of this study explain that the auditor's reputation has no significant effect on Income Smoothing. Meanwhile, company growth has a significant effect on income smoothing.

Keywords: Auditor Reputation, Company Growth, Income Smoothing.

1. INTRODUCTION

The rapid development of the business world in Indonesia today, causing competition between companies to be increasingly tight. This encourages the company's management to display the best performance of the company it leads. Because the good performance of the company will affect the value of the company and will also influence investors to plant or withdraw their investment from a company. In addition to having to display the best performance of the company, the company's management is also responsible for providing financial statements for interested parties to the company.

The recent financial statement manipulation scandal occurred at Olympus Corporation, Japan's largest optical company that produces cameras, microscopes, memory cards and camera lenses. In October 2011, the Olympus financial scandal came to the fore, the public was shocked about the practice of equalizing profits with a very large amount of funds that had been smuggled to cover Olympus' losses in stock investments. Japan's Nikkei newspaper put the amount of hidden losses at 130 billion yen ($1.68 billion). The losses were covered by using merger and acquisition fee (M&A) funds that were mark-up in 2008. The scandal came to light after former chief executive Michael Woodford announced publicly that Olympus had improperly contributed US$687 million in payments related to mergers and acquisitions(advisory/financial advisory fees). (http://m.koran-jakarta.com/).

Large companies listed on the Indonesia Stock Exchange will generally audit their financial statements to give the report user confidence in the published financial statements. Companies that use Public Accounting Firm (KAP) which is classified as KAP the big four tend not to do income smoothing, because KAP the big four has high audit quality and has a good reputation so that the risk of fraud committed by management is greater than using kap non big four (Marpaung and Yeni, 2014).

The growth of the company becomes another factor that affects income smoothing, according to Sumarna, (2017) The growth ratio (growth) shows the percentage increase in sales this year with sales last year, the higher this ratio the better the level of sales (Syafri, 2013). The objectives of the problem in this research are as follows:

1. To analyze the effect of Auditor Reputation and Company Growth on Income Smoothing.
2. To analyze the effect of Auditor's Reputation on Income Smoothing.
3. To analyze the effect of Company Growth on Income Smoothing.

The benefits to be achieved in this research are:

1. Theoretical Benefits
   a. For Writers
   This research is an application of theory that has been obtained in lectures and in order to be able to analyze Auditor Reputation and Company Growth on Income Smoothing so that each auditor must have an independent attitude (not easily influenced) and that attitude must be maintained because auditors should not side with anyone's interests (especially management who wish to perform earnings management (income smoothing) and auditors are obliged to be honest so that the audit process can be trusted by all interested parties, especially the public.
   b. For Further Researchers
   This research is expected to be useful for students in general as an additional material for consideration and thought in further research in the same field, namely Auditor Reputation and Company Growth on Income Smoothing.
2. Practical Benefits
   Provide instructions for companies to be more selective in choosing external auditors. Because the research was conducted during the Covid 19 pandemic, it is hoped that it will be able to help external parties and management to run the company's business better and external parties to be able to see the capabilities carried out by internal parties.

2. LITERATURE REVIEW

The Company is the center of contract agreements between various parties who each have different interests, namely shareholders as principals and management represented by managers as agents, suppliers and other parties including potential investors and employees. The theory that explains the relationship between the parties (the principal and the agent) is called agency theory. The underlying problem of agency theory is the conflict of interest between owners and managers within the company. Managers called agents and owners who are called principals are two parties who each have different goals in controlling the company, especially regarding how to maximize the satisfaction and interest of the results achieved through business activities. As a result of the conflict of interest that basically continues to occur between the principal and the agent, then in this case the manager seeks to make certain efforts in maintaining the balance of the expected conditions. Common efforts made by managers are through earnings management (profit management) one of which is profit leveling (Pratiwi, 2013: 3).

Income Smoothing

In the decision-making process, profit is one of the performance measures that are often used. This is because profit figures can represent the company's overall performance. The company's performance is a manifestation of management performance so that profits can also be interpreted as a gauge of effectiveness and management efficiency in managing the resources entrusted to them (Pratiwi, 2013: 1).

According to Biedleman in Sumarna, (2017: 66), profit leveling is a deliberate attempt to make the profit level good without sharp fluctuations in change. In this case, profit alignment indicates that management reduces abnormal variations in profits within the desired limits. The flattening of profit will not occur if the expected profit is not too different from the actual profit.

Auditor Reputation

Jensen and Mackling (1976) Yuliana et al (2017: 130) argue that auditing is a process of supervision and improving the alignment of information that exists between management and shareholders. The importance of auditor supervision for the company makes the quality of the audit an important thing that must be considered.

According to De Angelo (1981) Yuliana et al (2017: 130) audit quality is the ability of an auditor to find a violation in the client's financial reporting and report the violation. Audit quality measurements so far generally use KAP (Big Four vs non-Big Four) size proxies. This is based on the assumption that KAP big four has better knowledge, experience, and reputation than other KAP. As stated by De Angelo (1981) that the quality of audits increases in line with the size of KAP, because large KAP has more ability to specialize and innovate through technology thus increasing the possibility of KAP large to find violations in the company's accounting system. With the advantages of resources owned by auditors with a large scale, auditors will be better able to detect and correct the company's financial reporting errors.

The Growth of the Company

The growth of the company is one of the objectives that are highly expected by internal and external parties of a company because it has a good impact on the company and interested parties to the company, namely investors, creditors and shareholders. The company's growth is the result of the flow of company funds from operational changes caused by growth or decrease in business volume, (Helfert, 1997). From an investor's point of view, a company's growth is a sign that the company has a favorable aspect, and they expect the rate of return from their investments to deliver better returns. As for the internal parties themselves, positive company growth indicates that the company's survival remains guaranteed.

3. DATA AND RESEARCH TECHNIQUE ANALISYS

The population in this study is all manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange during the period 2015-2019.

Logistics Regression Analysis

Logistic regression analysis to explain the relationship between bound variables or odds (dependent) in the form of dichotomous or binary scaled data with free (independent) variables in the form of interval-scale and/or categorical data. A binary-scale bound variable is a bound variable (Y) that produces two categories (dichotomous) noted as Y=1 stating the event "successful" and Y= declaring the event "failed". This is known as binary logistic regression. The logistic regression model is used to test whether the independent variables studied influence the success of income smoothing.

Overall Model Fit Test / Simultaneously (LR test)

This statistical test is to find out whether all independent variables in logistic regression simultaneously or simultaneously affect dependent variables as the F test in linear regression. The overall test of the fit model is based on a statistical value of -2LL or an LR value. Simultaneous tests of logistic model coefficients are calculated from the difference in values of -2LL between models with only constants and the estimated model consists of constants and independent variables (Widarjono, 2010).

Partial Variable Testing (Wald Test)

The Wald Test is a parametric statistical test named by Abraham Wald with a wide variety of uses. Whenever a relationship in or between a data item can be expressed as a statistical model with the estimated parameters of the test sample. The Wald test can be used to test the actual value of parameters based on sample estimates.

R^2 Test (Coefficient of Determination)

To see how much influence independent variables have on dependent variables partially the coefficient of determination is used. The Coefficient of Determination is the square of the correlation coefficient as a measure to determine the ability of each variable used. In this study the test used was McFadden R-squared because according to Ghozali (2013), the value of McFadden R-squared can be interpreted like the value of R2 in multiple regression.

4. RESULT AND DISCUSSION

Analysis of the results of this research will be in the form of outlines in table 1 to table 6 :

Logistics Regression Analysis

ARDL model test of use for long term analysis, at the got results of the relationship between GDP and consumption variables for a meticulous data as follows:

Table 1 : Logistics Regression Coefficient Test Results

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	**-0.488275**	0.208698	-2.339628	0.0193
REPUTATION_AUDITOR	**-0.113363**	0.304234	-0.372617	0.7094
GROWTH_COMPANY	**3.165177**	1.332940	2.374584	0.0176

McFadden R-squared	0.077220	Mean dependent var	0.364706
S.D. dependent var	0.484204	S.E. of regression	0.470378
Akaike info criterion	1.281419	Sum squared resid	18.14292
Schwarz criterion	1.367630	Log likelihood	-51.46029
Hannan-Quinn criter.	1.316095	Deviance	102.9206
Restr. deviance	111.5332	Restr. log likelihood	-55.76661
LR statistic	8.612644	Avg. log likelihood	-0.605415
Prob(LR statistic)	0.013483		
Obs with Dep=0	54	Total obs	85
Obs with Dep=1	31		

Source : Self Proceed

From Table 1, the logistic regression equation is obtained as follows:
IS = Ln R/(1-R)= -0,488275-0,113363(X1)-3,165177(X2)

Overall Fit Test Results

Table 2 : LR test results

McFadden R-squared	0.077220	Mean dependent var	0.364706
S.D. dependent var	0.484204	S.E. of regression	0.470378
Akaike info criterion	1.281419	Sum squared resid	18.14292
Schwarz criterion	1.367630	Log likelihood	-51.46029
Hannan-Quinn criter.	1.316095	Deviance	102.9206
Restr. deviance	111.5332	Restr. log likelihood	-55.76661
LR statistic	8.612644	Avg. log likelihood	-0.605415
Prob(LR statistic)	**0.013483**		
Obs with Dep=0	54	Total obs	85
Obs with Dep=1	31		

Source : Self Proceed

From Table 2 obtained the statistical probability value LR (0.013483) < α (0.05). This shows that the variables of The Auditor's Reputation and Company Growth simultaneously have a significant effect on Income Smoothing.

Wald Test

In logistic regression the Wald test is used to test the absence of the effect of free variables on partially bound variables.

Table 3 : Wald Test Results

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	-0.488275	0.208698	-2.339628	0.0193
REPUTATION_AUDITOR	**-0.113363**	0.304234	-0.372617	**0.7094**
GROWTH_COMPANY	**3.165177**	1.332940	2.374584	**0.0176**

Source : Self Proceed

Table 3 can be explained as follows:

The Wald test on the Auditor's Reputation variable has a coefficient = -0.1133363 < 0 Chi-Square Prob sig (0.7094) > α (0.05). This shows that the Auditor's Reputation variable has no effect on the Income Smoothing variable.

In the Growth variable the Company has a coefficient = 3.165177 > 0 and a value of Chi Square Prob Sig (0.0176) < α (0.05). This shows that the Company's Growth variables have a positive and significant effect on the Income Smoothing variable.

McFadden Coefficient R-squared

Table 4 : McFadden R-squared . Coefficient Test Results

McFadden R-squared	**0.077220**	Mean dependent var	0.364706
S.D. dependent var	0.484204	S.E. of regression	0.470378
Akaike info criterion	1.281419	Sum squared resid	18.14292
Schwarz criterion	1.367630	Log likelihood	-51.46029
Hannan-Quinn criter.	1.316095	Deviance	102.9206
Restr. deviance	111.5332	Restr. log likelihood	-55.76661
LR statistic	8.612644	Avg. log likelihood	-0.605415
Prob(LR statistic)	0.013483		
Obs with Dep=0	54	Total obs	85
Obs with Dep=1	31		

Source : Self Proceed

Table 4 shows that mcfadden R-squared value of 0.077220 which means 7.7% percent variation in auditor reputation and company growth can be explained by independent variable (y) namely Income Smoothing and the remaining 92.3% influenced by other variables not studied in this study.

5. CONCLUSION

Based on the results of data analysis and research discussion entitled "The Impact of Auditor Reputation and Company Growth on Income Smoothing on Manufacturing Companies of consumer goods industry sector listed in IDX 2015 - 2019", it can be concluded that:

The Auditor's Reputation variable has no positive and significant effect on the Income Smoothing variable. This can be seen where the Auditor Reputation variable has a coefficient of -0.1133363 negative with a Prob value. (0,7094) > α (0,05). This means that if the value of the Auditor's Reputation in the company increases, then the more likely the company does not practice income smoothing.

The Company's Growth Variables have a positive and significant effect on the Income Smoothing variable. This can be seen where the Company's Growth variable has a coefficient of 3.165177 positive with a Prob value. (0,0176) < α (0,05). This means that if the value of the Company's growth in the company increases, then the more likely the company to practice profit leveling (Income Smoothing).

There is a positive and significant influence together between the Reputation of the Auditor and the Company's Growth on Income Smoothing in the Manufacturing Company of the Consumer Goods Industry Sector Listed in the IDX 2015 - 2019. This is evidenced by the probability value of LR Statistic of 0.013483 < from the alpha value of 0.05 this shows the variable of The Auditor's Reputation and Company Growth simultaneously has a significant effect on Income Smoothing, it is said simultaneously if the LR Statistic is smaller than the alpha value.

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