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CORPORATE GOVERNANCE, BIG4, AND EARNINGS MANAGEMENT

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A B S T R A C T

This study examines the effect of internal corporate governance on earnings management with Big4 as the moderating variable. This study uses a quantitative method using secondary data in the form of financial and annual reports of companies conducting Initial Public Offerings (IPOs) on the Indonesia Stock Exchange (IDX) from 2010 to 2017. Data obtained from www.idx.co.id and the website company official. Based on purposive sampling, the final sample was 251 observations. The results of this study contribute to the investment decision that it is necessary to be careful on shares that have just been IPO and a few years after. The results show that implementing internal governance in IPO companies does not affect earnings management. In addition, the services of Big4 auditors in IPO companies cannot show better audit quality. So that investors do not need to consider these factors in investment decisions.
Keywords: *earnings management, corporate governance, audit quality, Big4, IPO*

Penelitian ini bertujuan untuk menguji pengaruh tata kelola internal perusahaan terhadap manajemen laba dengan Big4 sebagai variabel moderasi. Penelitian ini menggunakan metode kuantitatif dengan menggunakan data sekunder yang berupa laporan keuangan dan laporan tahunan perusahaan yang sedang melakukan *Initial Public Offering* (IPO) di BEI tahun 2010 sampai dengan 2017. Data diperoleh dari www.idx.co.id dan website resmi perusahaan. Berdasarkan *purposive sampling* diperoleh sampel akhir sebesar 251 observasi. Hasil penelitian ini memberikan kontribusi pada keputusan investasi bahwa perlu berhati-hati pada saham yang baru IPO dan beberapa tahun setelahnya. Hasil menunjukkan bahwa penerapan tata kelola internal pada perusahaan IPO tidak berpengaruh terhadap manajemen laba. Selain itu, jasa auditor Big4 pada perusahaan IPO tidak mampu menunjukkan kualitas audit yang lebih baik. Sehingga investor tidak perlu mementingkan faktor tersebut dalam keputusan investasi.
Kata kunci: manajemen laba, tata kelola, kualitas audit, Big 4, IPO

INTRODUCTION

Indonesia has reformed the board of directors since 2007 with the issuance of the Public Company Law No. 40 of 2007 concerning Limited Liability Company, which is a follow-up to the 2006 National Committee on Governance Policy (KNKG) guidelines. Hu, Li, Taboada & Zhang (2020) found that board reform can reduce stock price falls by increasing financial transparency and implementing investment efficiency. In addition, board reform positively impacts firm value because it can increase board oversight and reduce agency problems.

Although the board reform has impacted in reducing agency problems, until this year, there are still frauds in accounting, especially in earnings management, for example, the case of PT Garuda Indonesia, PT Asuransi Jiwasraya, SNP Finance, PT Indofarma, and PT Pharmaceutical Chemistry. PT Garuda Indonesia recorded transactions with Mahata worth US$239.94 million in the revenue line. However, Garuda Indonesia has not received payment from Mahata until the end of 2018. As shown in Figure 1, it is stated that fraud and abuse of work cases have increased in this decade. Global

cases have fluctuated and increased from 677 cases in 2010 to 1948 in 2020. Likewise, Indonesia had 27 cases in 2010 to 36 in 2020 (Repot to Nation, 2010-2020).

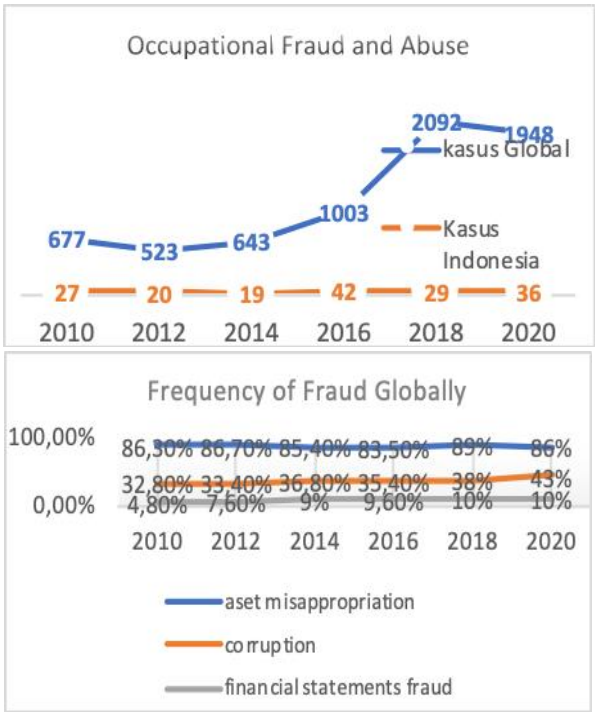
These cases generally occur in the following three categories: asset misappropriation, corruption, and financial statement fraud. Asset looting is the most common case, and manipulation of financial statements is the least. However, manipulation of financial statements causes the largest material loss of the two, while asset looting causes the smallest losses, as shown in Figures 2 & 3 below.

One of the causes of financial statement manipulation is earnings management behavior. Management uses earnings management to regulate profits according to their wishes (Mulyadi & Anwar, 2015). Management often uses this profit arrangement to maximize its interests, so it is feared that it can harm shareholders in the future. The cause of earnings management is agency problems where there are differences in interests and information asymmetry between management (agents) and shareholders (Knechel, Krishnan, Pevzner, Shefchik & Velury, 2013). Information asymmetry is an imbalance of information obtained by management and shareholders. The management has more information than shareholders, thus enabling management to be less transparent in conveying information to the principal and hiding information that is beneficial for itself. One effort to reduce this information asymmetry is to implement good corporate governance (El Diri, Lambrinoudakis & Alhadab, 2020).

Implementating of good corporate governance (CG) depends on the ability, integrity, independence, and objectivity of various elements, such as the board of commissioners, board of directors, committee board, corporate secretary, and internal auditor. The researchers call internal CG and external auditor, which we call external CG. Previous researchers generally tested the direct effect of several elements of internal CG on earnings management (Alareeni, 2018; Bajra & Cadez, 2018; Kolsi Mohamed & Grassa, 2017; Muda, Maulana, Sakti Siregar & Indra, 2018; Saftiana, Mukhtaruddin, Putri & Ferina, 2014) and very few combine testing of internal CG elements and external CG (Mersni & Ben Othman, 2016).

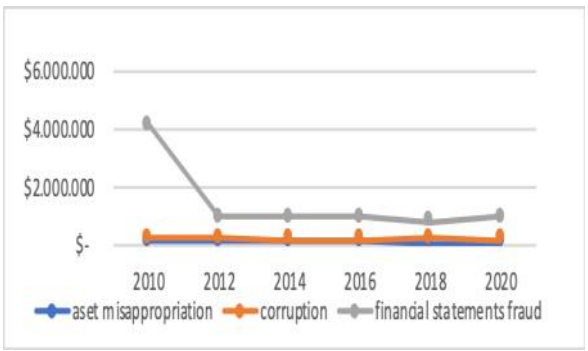
There is an inconsistency in the influence of Internal CG on earnings management. A larger board of directors and the existence of an audit committee can reduce the level of earnings management (Mersni & Ben Othman, 2016). The higher the level of independence and quality of the board of directors and the

Figure 1.
Cases of Fraud and Employment Abuse



Source: Data processed from Report to Nation 2010-2020

Figure 2.
Frequency of Fraud Globally



Source: Data processed from Report to Nation 2010-2020

quality of the internal audit function, the less likely it is that earnings management will occur (Bajra & Cadez, 2018; Nawari & Wardhani, 2022). In addition, audit committees that have high meeting intensity can control and control management to avoid the possibility of earnings management (Kolsi Mohamed & Grassa, 2017). Thus, good corporate governance negatively affects earnings management (El Diri et al., 2020). However, Alareeni (2018) finds that internal ownership and board independence positively affects earnings management. It means that the higher the internal ownership and the level of independence of the board, the higher the effort to carry out earnings management. In addition, evidence from Indonesia found that institutional ownership, managerial ownership, director meetings, audit committee meetings (Saftiana et al., 2014), and the composition of commissioners and audit committees (Muda et al., 2018) have no effect on earnings management in a partial test. However, simultaneously these variables significantly influence earnings management (Muda et al., 2018; Saftiana et al., 2014). The more elements of internal CG, the better in knowing the effect of the simultaneity of these variables. With this, the researchers adopted the measurement of the Indonesia Corporate Governance Index (ICGI) from Tanjung (2020) in measuring corporate governance.

The inconsistency of the effect of Internal CG on earnings management suggests that there are other variables capable of strengthening/weakening this relationship, one of which is the external auditor variable (external CG). External auditors referred to as public accountants, are the most appropriate profession as a third party in auditing financial statements. Financial statement audits aim to reduce information risk and improve the quality of financial reports. When the company has internal control or poor corporate governance (high corporate governance risk), the auditor will collect and evaluate more and more evidence to improve the quality of financial statements to a higher level (lower earnings management). However, when the company has good internal control, it will issue quality financial reports to convince the auditor to reduce the number of tests on transactions and estimated balances.

Agency theory explains information asymmetry between agents and principals (DeFond & Zhang, 2014). Companies with good internal control are not enough to reduce this information asymmetry because management will look for loopholes to influence the independence of internal control, so there is a need for audit assignments that provide high audit quality. Audit as one of the external CG mechanisms has different qualities between one office and another or Big4 and non-Big4. Big4 auditors have better quality than non-Big4 (DeFond & Zhang, 2014) because Big4 auditors assume all clients are equal, no one is more important, and large size can support a stronger audit methodology training program. On the other hand, the regulatory and professional standards of the two KAPs are the same, and both will comply with a reasonable level of audit quality (Eshleman & Guo, 2014). Therefore, most of the differences in audit quality are due to clients' different characteristics (DeFond, Erkens & Zhang, 2017). With that, researchers control the characteristics of clients with the level of corporate governance index.

This study aimed to examine the effect of internal corporate governance (CG) on earnings management with Big4 as the moderating variable. Agency theory explains that there is information asymmetry between management and shareholders. As a result, managers tend to manage earnings to fulfill personal goals such as remuneration and incentives. It can be detrimental to the company. Therefore, one way that can be done is to improve the quality of internal management through a better internal CG mechanism. However, empirical evidence states that CG cannot reduce the effect of earnings management (Muda et al., 2018; Saftiana et al., 2014). This is because the commissioners and audit committees, which should be independent, are not fully independent in carrying out their functions, so it needs the

role of external auditors in auditing financial statements. Apart from professional obligations that must be independent, there are supervision, control, and regulations that require external auditors to be objective so that good audit quality can improve the implementation of better internal corporate governance and reduce the effect of earnings management.

The difference between this research and previous research includes several things. First, this study adds Big4 as a moderating variable influencing internal corporate governance on earnings management. Big4 in this study is measured using a dummy (Kurniawati, Van Cauwenberge & Vander Bauwhede, 2020) which is 1 if the financial statements are audited by KAP Big4 (Delloitte, EY, PWC, and KPMG) and 0 otherwise. Big4's auditors are of superior quality and regard all clients as equal, thus providing a high-quality audit. With that in mind, this study is expected to provide evidence against the agency theory that good audit quality can strengthen the implementation of better internal corporate governance, thereby reducing information asymmetry.

Second, This study uses the corporate governance index (ICGM) in measuring internal CG, where this measurement has a more complex assessment measuring CG. A more complex assessment can measure the level of corporate governance in actual conditions. This study uses the ICG developed by Tanjung (2020) because this index has been tested on a sample of companies in Indonesia, and the results are quite effective in predicting firm value. Then, this study modifies the Tanjung (2020) framework by issuing an audit sub-index because an audit is a proxy for External CG.

Third, this study is limited to a sample of IPO (initial public offering) companies because these companies are motivated to carry out greater earnings management to attract investors' attention (Sletten, Ertimur, Sunder & Weber, 2018; Yu -Ho & Ziebart, 2020). DeFond and Zhang (2014) state that companies are motivated to perform greater earnings management at the initial public offering (IPO). This particular sample was selected to observe the effectiveness of CG in controlling major incentives to perform earnings management. Without significant special incentives for earnings management through the IPO event, the estimation of earnings management based on discretionary accruals cannot capture the managements' tendency to manipulate earnings opportunistically.

The results of this study contribute to the investment decision that it is necessary to be careful on shares that have just been IPO and a few years after. The results show that implementing internal governance in IPO companies does not affect earnings management. It is because the management of internal governance is not running as it should. For some companies, implementing internal governance is only seen as a formality (Saftiana et al., 2014). The audit committee and commissioners, which should be independent, do not carry out their functions properly, so they cannot reduce the effect of earnings management (Muda et al., 2018). In addition, the services of big4 auditors in IPO companies cannot show better audit quality. So that investors do not need to consider these factors in investment decisions.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Literature Review

Agency theory is a theory that explains the relationship between principal and agent. The principal is the party who gives the mandate to another party (agent) to carry out all activities on behalf of the principal in his capacity as a decision-maker. Agency theory states that principals will find it difficult to believe that management (agents) will always act in the interests of shareholders (Hu, Wang, Xiao & Zeng, 2020; Huu Nguyen, Thuy Doan & Ha Nguyen, 2020), so shareholders need monitoring. Therefore, regarding checking and monitoring activities carried out by the management, shareholders need an external party (independent auditor) to audit the financial statements. Agency theory also states that these auditors are

important for company owners because they will verify information about the financial statements provided by management to company owners. On the other hand, auditors are also important for management because auditors will provide legitimacy for their performance (in the form of financial statements), so that management can be judged worthy or not in getting incentives for such performance. In addition, creditors also need auditors to ensure that the money they provide in the form of debt to finance the company's activities is used following the agreement so that creditors can receive their money back and interest on the loan.

The Forum for Corporate Governance in Indonesia (FCGI, 2011) defines GCG as a set of rules controlling the company properly to regulate the relationship between internal and external stakeholders. Good Corporate Governance is a system consisting of inputs, processes and outputs and a set of rules that regulate the relationship between interested parties to achieve company goals. Corporate governance is a system that drives and manages company activities (Shank, Paul Hill & Stang, 2013). Following Tanjung (2020), the implementation of good governance can be measured by the disclosure of the code of ethics, anti-corruption regulations, insider trading policies, the largest shareholder, free float, employee share ownership, CSR, whistleblowing, sanctions, ultimate beneficiary ownership, independent commissioner, the size of the board of directors, and the size of the board of commissioners.

Earnings management is an effort made by management to benefit itself (Nikbakht, Sarkar, Smith & Spieler, 2021). Scott (2015) said that earnings management is a choice of managers regarding accounting policies or a real action that can affect earnings so that company profits can be regulated. However, some say earning management is a window dressing or lipstick accounting to beautify financial statements. Earnings management is one of the factors that can reduce the credibility of financial statements. Managers are motivated to do earnings management to get several things: bonus purpose, political motivation, taxation motivation, CEO turnover, and initial public offering (IPO) (Scott, 2012).

Audit quality is much-debated but little understood (Knechel et al., 2013). Auditing standards define that audit quality is achieved by issuing appropriate audit reports on the client's compliance with generally accepted accounting principles. However, audit quality is a complex concept and cannot be reduced to a simple definition (DeFond & Zhang, 2014; Lamba, Seralurin, Lamba & Pattiasina, 2020). There is a gradation of audit quality across a continuum from low to high audit quality, and that quality is influenced by regulators, clients, and auditors (DeFond & Zhang, 2014).

Hypothesis Development

Agency theory explains that managers tend to do earnings management to fulfill their goals, so information asymmetry occurs between management and shareholders (DeAngelo, 1981; Jensen & Meckling, 1976). To reduce the negative effect of this information asymmetry, one way that can be done is by increasing the quality of internal management through a better internal CG mechanism. Bajra and Cadez (2018) found that good corporate quality is a mechanism that can prevent earnings management behavior. The independence of the board of directors and its expertise which is a proxy for internal corporate governance, has a negative relationship with earnings management (Lin & Hwang, 2010). When the internal CG index score (Tanjung, 2020) is higher, it can reduce the effect of earnings management.

Conversely, when the internal CG index score is low, the company has weak control and supervision of managers, so they cannot control the opportunistic attitude of management to carry out earnings management. Therefore, implementing better corporate governance will reduce the possibility of earnings management behavior. With that said, the first hypothesis of this study is as follows:

H1: Internal governance has a negative

effect on earnings management.

Agency theory explains that agents and principals have different goals and information asymmetry (DeAngelo, 1981; Huu Nguyen et al., 2020). Companies with good internal control are not enough to reduce this information asymmetry because management will look for loopholes to influence the independence of internal control. In addition, management can choose accounting methods. Therefore, they tend to have incentives to take action, even though it does not maximize shareholder wealth (Dey, 2008) to reduce this effect. Therefore, it is necessary to carry out an external audit. An agency theory states that a quality audit can reduce information differences between agents and principals (DeAngelo, 1981; Tepalagul & Lin, 2015).

Audit as an external CG mechanism has different qualities between one office and another or Big4 and non-Big4. Big4 auditors have better quality than non-Big4, for example (DeAngelo, 1981), because big4 auditors perceive all clients as equal, no one is more important, and large size can support a stronger audit methodology training program. Furthermore, companies implementing good internal governance will reduce management's opportunistic actions to carry out earnings management. Therefore, Big4 auditor services have a superior quality that can support the implementation of internal governance to run well and reduce earnings management. With that in mind, this study is expected to provide evidence against the agency theory that high audit quality can strengthen the influence of corporate governance on earnings management.

H2: Audit quality is able to strengthen the negative influence of internal governance on earnings management.

RESEARCH METHODS

This research is quantitative research. The type of data used in this research is secondary data. The data used are during the IPO (t) and two years after the IPO (t+1 & t+2). Managers tend to be opportunistic in conducting earnings management two years before, during, and two years after the IPO (Sletten et al., 2018; Yu-Ho & Ziebart, 2020). The researcher only focuses on the annual and financial reports for the year of the IPO and the two years after it because in the years before the IPO, the availability of public data was very complicated to find for the sample in Indonesia.

The population in this study are companies listed on the Indonesia Stock Exchange (IDX). The sample used in this study is a company that conducted an Initial Public Offering (IPO) on the Indonesia Stock Exchange in 2010-2017. The sample selection since 2010 is because companies have effectively implemented good governance after three years of Indonesia's reform of the board of directors since 2007 (J. Hu et al., 2020). Sampling used the purposive sampling technique based on the following criteria: The company was not delisted for two years after the IPO on the Indonesia Stock Exchange (IDX); The company is not engaged in the financial industry; and the Company does not use currency other than rupiah in its financial statements. Based on these criteria, a final sample of 251 companies was obtained.

Operational Definition and Measurement of Variables

Corporate governance is a structure and process that involves a series of relationships between company management, the board of directors, shareholders, and other stakeholders to direct and control the company (ICGM, 2017). This study follows Tanjung (2020) in calculating corporate governance by adding the total score of elements of the Indonesian CG Index (ICGI) except for the audit sub-index and dividing by 14. The audit sub-index is excluded from ICGI because the audit is a measurement of external CG, where external CG in this study was used as a moderating variable with Big4 measurement. The CG element or requirement is a dummy variable, with a score of “1” if the company meets the required governance compliance and “0” if it does not. It can be explained in detail in table 1 (attachment). CG calculation is

presented as follows:

CG = Total index scores of CG ÷ 14

Earnings Management is a managers' action to influence and intervene in financial statements (Kurniawati et al., 2020). Earnings management can be seen through the value of discretionary accruals and non-discretionary accruals. This study uses the Modified Jones Model to detect companys' earnings management (Ding, Shen & Suardi, 2022; Song, Lee & Cho, 2013). This model is carried out by identifying or measuring discretionary accruals through several stages, described in detail in the appendix, where the calculation of the modified Jones model (1).

$DA_{it} = (TA_{it} \times A_{it}) - NDA_{it}$ .....(1)

Audit quality is a complex concept and cannot be reduced to a simple definition (DeFond & Zhang, 2014). There is a gradation of audit quality across a continuum from low to high audit quality. That quality is influenced by every element ranging from audit inputs, audit processes, auditing firms, auditing industries and markets, institutions or institutions that make policies, and the economic consequences of audit results (DeFond & Zhang, 2014). Audit quality in this study was measured using a dummy from the Big4 proxy (Kurniawati et al., 2020), which is 1 if the financial statements are audited by Big4 KAP (Delloitte, EY, Pwc, and KPMG) and 0 otherwise.

The control variables used in this study are SIZE, LEV, and SalesGrowth. SIZE is the size of the company based on total assets. Firms with larger total assets have more predictable operations, and thus earnings should be of higher quality and better communicated to stakeholders (El Diri et al., 2020; Song et al., 2013). SIZE is measured from ln_total asset. LEV is total debt divided by total assets (Prawitt, Smith & Wood, 2009). Following previous research (Prawitt et al., 2009), leverage can affect earnings management. Sales Growth is an increase in sales from time to time. SalesGrowth is measured from sales of the current year minus the previous year's sales minus the increase in receivables divided by the previous year's sales (El Diri et al., 2020). Companies wIth higher Sales Growth will engage in more earnings management to meet market expectations (El Diri et al., 2020).

Data Analysis Technique

The analysis technique used in this research is a descriptive statistical test and hypothesis testing using multiple regression and moderated regression analysis. The data analysis technique used to answer the problems in this research is multiple regression analysis and moderated regression analysis (MRA). Multiple linear regression analysis is an analysis used to measure the effect between variables involving more than one independent variable on the dependent variable while moderating regression analysis is an analysis that involves moderating variables in building the relationship model. The moderating variable acts as a variable that can strengthen or weaken the relationship between the predictor variable and the dependent variable. Moderation variables can be classified into four types, namely pure moderation (pure moderation), quasi moderation (pseudo moderation), homologist moderation (potential moderation), and predictor moderation (moderation as a predictor). Each moderation classification can be identified in the regression equation as follows:

Model 1

$$EM_{it} = \beta_{01} + \beta_1 CG_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + \beta_4 SalesGrowth + \varepsilon$$

Model 2

$$EM_{it} = \beta_{02} + \beta_5 CG_{it} + \beta_6 BIG4_{it} + \beta_7 SIZE_{it} + \beta_8 LEV_{it} + \beta_9 SalesGrowth + \varepsilon$$

Model 3

$$EM_{it} = \beta_{03} + \beta_{10} CG_{it} - \beta_{11} BIG4_{it} + \beta_{12} CG_{it} * BIG4_{it} + \beta_{13} SIZE_{it} + \beta_{14} LEV_{it} + \beta_{15} SalesGrowth + \varepsilon$$

Description: EM: Earnings management; β_0: Constanta; CG: Corporate Governance BIG4: Big 4 audit firm; SIZE: Size Corporate; LEV: Leverage; SalesGrowth: Sales Growth; and ε : Error.

ANALYSIS AND DISCUSSION

Descriptive Analysis

Descriptive analysis was conducted to provide an overview of the research

variable data. This study uses the SPSS 16.0 application, and the following results are known:

Table 1 shows the results of the descriptive statistics of this study. EM is an earnings management variable measured using the modified Jones model equation. The EM variable in this study shows that the average IPO company performs earnings management of 0.043, which means that the earnings management behavior of IPO companies is still low (<50%). Therefore, it can be concluded that earnings management in companies that have IPOs from 2010 to 2017 is still good.

Big4 is a proxy for measuring audit quality which is measured by giving a score of 1 if audited by Big4 KAP and 0 other than Big4. The statistical results show that of the 251 samples of IPO companies that use the services of a Big4 auditor, 69 (27.8%) companies and 182 (72.2) companies use the services of a non-Big4 auditor. The proportion of IPO companies using the services of big4 auditors consists of 25 Deloitte (9.9%), 31 Ernst&Young (12.3%), 7 KPMG (2.7%), and 6 PricewaterhouseCoopers (2.3%), meaning the use of KAP services Big4 in IPO companies is still low (27.1%).

CG is a measurement of corporate governance variables, which shows that the average IPO company has an internal governance level of 0.730, meaning that the internal governance of IPO companies is quite good (>50%). Therefore, it can be concluded that companies that have IPOs from 2010 to 2017 have good governance. In addition, researchers used control variables including SIZE, LEV, and Sales Growth. The results of descriptive statistics show that the companys' average size (SIZE) is 28.225 or 3.93 trillion rupiah. Then the LEV value from the statistical results shows 0.410, which means that the average use of debt compared to equity in IPO companies is 41% in financing its assets. While the statistical results of sales growth (Sales Growth) in IPO companies are 0.334, meaning that IPO companies experience sales growth of 33.4% from the previous year.

Hypothesis Test

Hypothesis testing in this research used multiple regression analysis and moderated regression analysis which consists of three regression equations described in the previous chapter. The first equation is used to test hypothesis 1. In contrast, the third equation is used to test hypothesis 2, where the model in the second equation is used to determine the comparison in determining the moderating variable.

Based on table 2, the regression

Table 1
Descriptive Statistics Results

Panel A: Proportion of financial statements audited by Big4

Auditor	Deloitte	Ernst & Young	KPMG	PWC	Total
Big4	0.099	0.123	0.027	0.023	0.278
Non Big4					0.721

Panel B: Descriptive Statistic

Variable	Mean	Median	STD	Min	Max
EM	0.043	0.013	0.178	-0.570	0.999
CG	0.730	0.786	0.099	0.357	0.929
BIG4	0.275	0.000	0.447	0.000	1.000
CGxEM	0.205	0.000	0.337	0.000	0.929
SIZE	28.225	28.247	1.300	24.610	31.220
LEV	0.410	0.400	0.188	0.011	0.930
SalesGrowth	0.334	0.104	1.850	-1.130	24.511

Source: Processed data (2021)

equation that can be made is as follows:

Model 1

$EM_{it} = 0{,}334 + 0{,}001CG_{it} - 0{,}010SIZE_{it} - 0{,}033LEV_{it} - 0{,}004SalesGrowth + \varepsilon$

Model 2

$EM_{it} = 0{,}303\beta_{02} + 004CG_{it} - 0{,}007BIG4_{it} - 0{,}009SIZE_{it} - 0{,}036LEV_{it} - 0{,}004SalesGrowth + \varepsilon$

Model 3

$EM_{it} = 0{,}326 - 0{,}041CG_{it} - 0{,}167BIG4_{it} + 0{,}215CG_{it}*BIG4_{it} - 0{,}008SIZE_{it} - 0{,}039LEV_{it} - 0{,}004SalesGrowth + \varepsilon$

Table 2, model 1 shows the results of testing the 1st hypothesis (H1). The positive CG coefficient is 0.001, and the significance is 0.993 (> 0.1), so the 1st hypothesis, which states that internal governance has a negative effect on earnings management, is rejected (H1 is rejected). While the variables SIZE, LEV, and SalesGrowth show negative coefficients of (-0.01, -0.033, & -0.004) and are not significant with a significance value of (0.272, 0.599, & 0.558), meaning that company size, leverage, and sales growth does not effect on earnings management.

The results of this study indicate that internal governance does not affect earnings management. It supports the research of Muda et al. (2018); Saftiana et al. (2014), which states that partially institutional ownership, managerial ownership, director meetings, and audit committee meetings (Saftiana et al., 2014). The composition of commissioners and audit committees (Muda et al., 2018) does not affect earnings management in a partial test. It is because the management of internal governance is not running as it should. For some companies, implementing internal governance is only seen as a formality (Saftiana et al., 2014). The audit committee and commissioners, which should be independent, do not carry out their functions properly, so they cannot reduce the effect of earnings management (Muda et al., 2018).

The Big4 coefficient in the equation 2 model shows a negative 0.167 and is insignificant, with a significance value of 0.432 (p-value> 0.10). The coefficient of interaction variable between CG and Big 4 (CGxBig4) in the model equation 3 shows a positive of 0.215 and is not significant, with a significance value of 0.449 (p-value> 0.10). These results indicate that the moderating variable in this study can be classified as Potential Moderation, meaning that audit quality does not interact with internal governance and earnings management. These results support research (Louis, 2005) that there is no difference between Big4 and non-Big4 audit quality. The selection of Big4 auditors to reflect audit quality does not affect earnings management. Client characteristics influence good audit quality (DeFond et al., 2017). The use of Big4 proxies in this study cannot explain audit quality. So this rejects agency theory which states that information asymmetry in the company can be minimized by having good audit quality (Jensen & Meckling, 1976).

Based on the results of the coefficient

Table 2

Multiple Regression Results and Moderation Regression Analysis Test

Variable	Earnings Management					
	Model 1		Model 2		Model 3	
	β	Sig.	β	Sig.	β	Sig.
CG	0.001	0.993	0.004	0.973	-0.041	0.752
BIG4			-0.007	0.792	-0.167	0.432
CGxBIG4					0.215	0.449
SIZE	-0.010	0.272	-0.009	0.381	-0.008	0.403
LEV	-0.033	0.599	-0.036	0.571	-0.039	0.541
SalesGrowth	-0.004	0.558	-0.004	0.548	-0.004	0.566
_cons	0.334	0.202	0.303	0.290	0.326	0.258
R-Squared		0.0087		0.009		0.0113

of determination test presented in table 2, it shows that the R-Squared value for model 1 is 0.0087, which means that the earnings management variable can be explained by internal governance (CG), firm size (SIZE), leverage (LEV), and sales growth (SalesGrowth) of 0.87%, while other variables can explain the remaining 99.13% outside of this study. In model 2, the R-Squared value is 0.009, which means that the earnings management variable can be explained by internal governance (CG), Big 4 (Big4), firm size (SIZE), leverage (LEV), and sales growth (SalesGrowth) of 0.9%, while other variables outside this study can explain the remaining 99.1%. While model 3 shows an R-Squared value of 0.0113 which means that the earnings management variable can be explained by internal governance (CG), Big 4 (Big4), internal governance interactions with Big 4 (CGxBig4), firm size (SIZE), leverage (LEV), and sales growth (SalesGrowth) of 0.87%, while other variables can explain the remaining 99.13% outside of this study.

In addition, the existence of the Big4 variables in this study is important. It is indicated by the value of each R-Squared in models 2 and 3 is always increasing. Initially, the R-Squared value was 0.87%. With the Big4 variable interacting with internal governance, the R-Squared value became larger, namely 0.9% and 1.13%, so it can be concluded that the Big4 variable can strengthen the model's ability to explain variations in earnings management variables.

CONCLUSION

Companies currently conducting an IPO are more likely to carry out earnings management (Sletten et al., 2018; Yu-Ho & Ziebart, 2020). Agency theory states that there is information asymmetry between management and the details, so implementing good governance is expected to reduce the information asymmetry. The study results indicate that in companies currently in IPO, the implementation of corporate governance (CG) does not affect earnings management. It is because the company's management has room to choose accounting methods. In addition, the board of commissioners and the audit committee, which should be independent, are not objective in carrying out their functions. It is done based on motivation to get more funding. In addition, the study results show that the selection of Big4 auditors to reflect audit quality does not affect earnings management. The use of Big4 proxies in this study cannot explain audit quality. It is in line with research (Louis, 2005) that there is no difference between Big4 and non-Big4 audit quality. Client characteristics largely influence good audit quality (DeFond et al., 2017).

LIMITATIONS AND SUGGESTIONS.

The limitation of this research is that the researcher cannot access the company's financial statement data before the IPO on the Indonesian stock exchange. Managers tend to be opportunistic in conducting earnings management two years before, during, and two years after the IPO (Sletten et al., 2018). Future research is expected to use samples from other countries that can review financial statements before the IPO to make the results obtained more complex. In addition, further researchers can use other proxies in measuring audit quality because the study results show no difference in audit quality between Big4 and non-Big4. Therefore, Big4 variables should be used as control variables.

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Appendix 1
Definition of Governance Index Indicator

Sub-indexes	Acronym	Description
Code of Ethics	ETHIC	A dummy variable equal to 1 if a company has a formal code of ethics, 0 otherwise
Anti Corruption	ANTICOR	A dummy variable equal to 1 if a company has an anti-corruption and anti-bribery policy, 0 otherwise
Insider trading	INSIDER	A dummy variable equal to 1 if a company has a policy against insider trading, 0 otherwise
Largest shareholder	LSHARE	A dummy variable equal to 1 if the largest shareholder of a company owns less than 50% of the rights, 0 otherwise
free float	PUBLIC	A dummy variable equal to 1 if shareholders minority (public investors) have more than 7.5% of the total voting rights, 0 otherwise
Employee share ownership	ESOP	A dummy variable equal to 1 if the company issues an employee stock option program, 0 otherwise
CSR	CSR	A dummy variable equal to 1 if the company discloses its CSR program in its annual report, 0 on the contrary
Wistleblowing	WSB	A dummy variable equal to 1 if firm has an internal whistleblowing mechanism, 0 otherwise
Sanctions	SANCTION	A dummy variable equal to 1 if the company discloses information about violations of stock market regulations or regulations, 0 otherwise
Disclosure of the ultimate beneficiary shareholders	DISCLOSURE	A dummy variable equal to 1 if a company discloses the ultimate beneficiary shareholder, 0 otherwise
Independent director	IDIR	Independent director IDIR dummy variable equal to 1 if a company has more than one independent director, 0 otherwise
Independent commissioner	ICOM	A dummy variable equal to 1 if the independent commissioner is more than 30% of the total board, 0 otherwise
Size of the Board of directors	BODSIZE	A dummy variable equal to 1 if a company has 5 to 9 directors on the board, 0 otherwise
Size of the Board of Commissioner	BOCSIZE	A dummy variable equal to 1 if a company has 4 to 8 commissioners on the board, 0 otherwise

Sumber: Tanjung (2020)