THE INFLUENCE OF CORPORATE GOVERNANCE PERCEPTION INDEX, QUALITY AUDITOR, AND LEVERAGE ON PROFIT MANAGEMENT

(Empirical Study On Company Registered in The Indonesian Institute for Corporate Governance 2010-2014)

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ABSTRACT

This research aims to examine and analyze the effect of Corporate Governance Perception Index, quality auditors proxy with auditor independence and auditor reputation, as well as leverage on earnings management. Company size are used as control variables in research. Researchers used a sample of companies listed on the Indonesian Institute for Corporate Governance 2010-2014. Source data used are secondary data obtained from SWA and financial statement data comes from IDX. The sampling method using purposive sampling. About 35 companies sampled in the study. Data analysis method is by using multiple linear regression. The results showed variables CGPI and leverage have significant negative effect on earnings management. Auditor independence and auditor reputation have positive effect but not significant. Size as a control variable can not fix the model, so it does not function as a control variable.

Keywords: Corporate Governance Perception Index, Quality Auditor, Auditor Independence, Reputation Auditor, Leverage, Company Size, Earnings Management.

Introduction

The financial report is a summary of a process of recording financial transactions that occurred during the financial year in question. The financial statements of a medium for companies to submit financial information regarding the accountability of management to meet the needs of external parties, obtaining information company performance. The parameters used to measure performance of management in the financial statements is the earnings information that contained in the statement of Profit / Loss (Boediono, 2005: 107). Statement Profit / Loss is one component of the financial statements that are very important because it contains information useful for income information users of financial statements to determine the ability and performance of company financial.

The purpose of financial statements is to provide information about the financial position, financial performance, and cash flows of an entity that is useful to most users of financial statements in making economic decisions. Such information is often used to estimate a company's ability to generate cash and assets equated to cash in the future. Earnings in the financial statements are often used by management to attract potential investors and other parties, so that the profits are often engineered by management to influence decisions related parties. Measures concerned with their own interests (opportunistic) is done by selecting certain accounting policies, so that profits can be adjusted, increased or decreased as desired. Behavior management to manage earnings in accordance with his wishes known term earnings management (earnings management).

Earnings management is a condition where the management to intervene in the process of preparation of financial statements for external parties so that can flatten, raise, and lower earnings (Schipper, 1989). Meanwhile, Healy and Wahlen (1999) suggest that earnings management occurs when management uses certain decisions in financial reporting and the preparation of the transactions that change the financial statements, it is intended to mislead the stakeholders about the condition of economic performance of companies, as well as to affect earnings contractual which controls the reported accounting figures. Research related to earnings management become the attention of various

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circles both practitioners, investors, and shareholders who have an interest in the company's financial statements (Pambudi and Farid, 2014).

Earnings management arise as a result of agency problems that occur due to misalignment of interests between stockholders (principal) and management (agent). Principal parties to a contract are motivated to welfare himself with ever-increasing profitability, while the agent is motivated to maximize the economic needs and psychological, among others, in terms of acquiring an investment, loan, or contractual compensation (Salno and Baridwan, 2000). Under these conditions we need a control mechanism that can align the differences of the interests between the two sides.

The phenomenon of the earnings management practices interesting to study because many factors that influence earnings management such as the implementation of corporate governance, the use of an independent auditor and in good standing, as well as the extent to which the company is financed by debt. In addition, there have been widespread cases of companies that perform earnings management practices. Case in scandal Waskita Karya, one of the state services engineering construction was suspected in manipulate of financial statements should be observed in depth. Waskita case, which is touted as his Enron Indonesia showed that the Ministry of State Enterprises need to strive harder in detecting earnings management and the financial manipulation (m.tempo.co/read/news/2009/08/28/090194968/tiga-direksi-clairvoyant-disabled).

Discovery of this case began when examination of the balance sheets in order to issue the IPO in 2008. The new president of Waskita, M. Choliq who previously served as Finance Director of PT. Adhi Karya (Persero) Tbk, find a recording that do not comply, which found the recording excess of Rp 400 billion. Directors prior period suspected in financial engineering since the 2004-2008 fiscal year by entering a multiyear project revenue projections forward as income. That phenomenon shows that the parties who implement internal control do not perform its function well. Manipulation of financial statements and earnings management one of which can be controlled by the application of corporate governance that would create checks and balances in the supervision of the management of the company.

The application of the principles of good corporate governance effectively and efficiently is expected to dampen the opportunistic behavior of managers in carrying out acts of earnings management and reduce conflicts of interest and principal agent. According to the agency theory, to overcome the problem of misalignment of interests between the principal and the agent can be done through good corporate governance (Midiastuty and Machfoedz, 2003). As revealed by Veronica and Bachtiar (2004) corporate governance is one way to control opportunistic actions by management. Some studies suggest elements of corporate governance that can be used to resolve such conflicts agency, managerial ownership, institutional ownership, independent commissioner, and audit committee (Sari and Asri, 2014).

Measuring the level of corporate governance implementation using a measure developed by the Indonesian Institute of Corporate Governance (IICG). The measurement is called the Corporate Governance Perception Index (CGPI) in the form of a score. CGPI is an assessment of the implementation of corporate governance that is based on seven dimensions of corporate governance. GCG dimension in question is the commitment to corporate governance, the governance board of commissioners, functional committees, the board of directors, the treatment of shareholders, other stakeholders and the treatment of transparency, integrity and independence (Nuswandari, 2009).

Studies which examine the effect of good corporate governance on earnings management has a lot to do. Results of research by Jao and Pagalung (2011) shows that corporate governance is proxied by institutional ownership significant negative effect on earnings management. In contrast to the results shown by Agustia (2013) and Guna and Herawaty 2010, the positive influence is not significant to earnings management.

Results of research by Jao and Pagalung (2011) and Sari and Asri (2014) states that corporate governance is proxied by managerial ownership significant negative effect on earnings management. By contrast, a study conducted by Welvin and Arleen (2010) and Agustia (2013) states that managerial ownership significant negative effect on earnings management.

Corporate governance is proxied by the size of the audit committee. According to studies conducted by (Sari and Asri, 2014; Husni, 2011; Jao and Pagalung 2011; Aditya, 2014; Amaliyah, 2013) showed that the size of the audit committee

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significant negative effect on earnings management. In contrast to the results of research by Guna and Herawaty (2010) and Agustia (2013) who found that the size of the audit committee is not significant positive effect on earnings management.

Another proxy often used in corporate governance is the proportion of independent directors. Research related to the proportion of independent directors conducted by Sari and Asri (2014) found that the proportion of independent commissioners significant negative effect on earnings management. The results of the study are consistent with studies conducted by (Amaliyah, 2013; Jao and Pagalung 2011; Husni, 2011) The results shown in different studies (Guna and Herwaty 2010; Agustia, 2013; Aditya, 2014) that the proportion of independent commissioners no significant effect on earnings management.

Based on the findings of several studies on top is a component of the Corporate Governance Perception Index (CGPI). CGPI index is the result of research from an institution that is organized by The Indonesian Institute for Corporate Governance (IICG) in cooperation with SWA magazine, where CGPI has been made since 2001.Corporate governance perception index ranking aims to make the best index of every company that has implement corporate governance. If the higher CGPI, the company implementing good corporate governance practices, so that the possibility of earning management is getting smaller.

Another factor affecting earnings management, among others, leverage (Agustia, 2013), the independence of the auditor (Guna and Herawaty, 2010), and the reputation of auditors (Widyaningdyah, 2001). Examination of financial statements conducted by the auditor has different qualities. Therefore, the high-quality auditor (high-quality auditing) acts as an effective deterrent profit management, because reputation management will be destroyed and the company's value will drop if this erroneous reporting detected and exposed. High-quality auditors have a good reputation and be independent.

The quality audit with the auditor's independence proxy affect earnings management. According to Arens and Loebbecke (2000: 87) the auditor's independence can be identified into two aspects, including mental attitude of independence (independence in fact) and the appearance of independence (independence in appearance). The independence of mental attitude that auditors can maintain an impartial attitude in carrying out the examination, while the appearance of that auditor independence act impartially as perceived by users of financial statements. Likewise expressed by Mulyadi (2002: 26) the independence of the self honesty of the auditor when considering the facts and the existence of an objective consideration of an auditor to formulate and express their opinions.

Results of research conducted Nini and Trisnawati (2004) showed a significant relationship between the independence of auditors towards negative to earnings management. The different results contained in the study by Guna and Herawaty (2010) which shows that the independence of the auditor significant negative effect on earnings management.

In addition to the independence of auditors, other proxies that affect earnings management is a reputable auditor. According Widyaningdyah (2001), the reputation of the auditor will determine the credibility of financial statements. Reputation auditor will affect the detection of earnings management. Auditors are in good standing can detect the possibility of earnings management in a timely fashion. Research related to the auditor's reputation done by Aditya (2014) who found a significant relationship between auditor reputation on earnings management in a positive direction. In contrast to the results of research Widyaningdyah (2001) which indicates that the auditor's reputation no significant positive effect on earnings management.

Other factors that affect the management of profits is leverage. Leverage describe the source of funds used by the company's operations and shows the company's risk. Leverage used in this study is the ratio that indicates the extent to which the company is financed by debt (Horne and Wachowicz, 2005: 138). This size is related to the extent to the company's assets are financed by debt. Companies that have a high leverage ratio due to the large amount of debt compared to assets owned by the company, allegedly earning management as its default threatened the company can not meet debt payment obligations on time. Companies will try to avoid it by making the policy that can increase revenue and profit.

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Research related to leverage performed by Guna and Herawaty (2010) as well as Naftalia and Marsono (2013) found that leverage significant negative effect on earnings management. Different results indicated by (Agustia, 2013; Husni, 2011; Christiani and Nugrahanti, 2014; Jao and Pagalung 2011; Widyaningdyah, 2001) which found that leverage has no significant effect to earnings management.

Firm size as a control variable indicates the amount of experience and ability of the growth of a company that indicates the ability and level of risk in managing the investment given the stockholders to increase their prosperity. Size companies in this study using a proxy natural log of total assets. Total assets are used as a proxy for the size of the company with a total consideration of corporate assets relatively more stable compared to the amount of sales and market capitalization (Guna and Herawaty, 2010).

Research related to firm size (SIZE) is performed by (Guna and Herawaty 2010; Jao and Pagalung 2011; Aditya, 2014) found a significant relationship with the negative direction between the size of the company to earnings management. In contrast to the results of research, Ningsaptiti (2010), Christiani and Nugrahanti (2014) and Amaliyah (2013) indicates that company size has no significant effect on earnings management.

Based on the background, then the problem in this research is: How does the CGPI, the independence of auditors, auditor reputation, and leverage influence to earnings management? The purpose of this study is to examine the influence of CGPI, the independence of auditors, auditor reputation, and leverage to earnings management.

The arrangement in this study consists of: an introduction that provides research background, literature review and hypothesis development; The research method consists of the research object, the operational definition and measurement of variables; research and discussion which consisted of normality test results, the classic assumption test, and test models; and a closing consisting of conclusions, limitations, and implications of research.

Perspective agency theory (agency theory) is the basis used to understand corporate governance. According to Jensen and Meckling (1976) agency theory is a contract between the manager (agent) with the owner (principal). This contractual relationship in order to run smoothly, the owner will delegate decision-making authority to the manager. Conflicts of interest between owners and agents led to the need for proper planning contracts to align the interests of both, that is what is at the core of agency theory. To create the right contract is a difficult thing manifested, therefore the investors are required to provide residual control rights to the manager (residual control right) or the right to make decisions under certain conditions which previously have not been seen in the contract.

Agency theory is based on the assumptions, according to Eisenhardt (1989), these assumptions can be divided into three types, namely assumptions about human nature, organizational assumptions and assumptions of information. Assumption of human nature emphasizes that people have selfishness (self-interest), humans have a limited power of thought about the perception of the future (bounded rationality), and human beings always avoid the risk (risk averse). Organizational assumption is a conflict between members of the organization, as the criteria of effectiveness and efficiency of their information asymmetry between principal and agent. The assumptions of information of is that the update information as a commodity that could be traded.

Based on the assumption of human nature is explained that each individual is solely motivated by self-interest, giving rise to a conflict of interest between principal and agent. The owner (principal) is motivated to contract to prosper himself with ever-increasing profits. While the manager (agent) motivated to maximize the fulfillment of economic and psychological, among others, in terms of acquiring an investment, loan, or contractual compensation. Thus, there are two different interests in the company in which each party seeks to attain or maintain a desired level of prosperity.

Problems arising from the differences of interest between principal and agent called with agency problems. One of the causes of agency problems is the presence of asymmetric information. Asymmetric Information is an imbalance of information held by the principal and the agent, when the principal does not have enough information about agent performance, by contrast agents have more information about the capacity of self, work environment and overall company (Widyaningdyah, 2001).

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Agency theory seeks to answer the agency problem happens if the parties working together have a purpose and a different division of labor. In particular, the agency theory discuss about their agency relationships, in which a particular party (principal) delegate work to another party (the agent) who perform jobs. Agency theory is stressed to solve two problems that can occur in the agency relationship Eisenhardt (1989). First is the agency problem that arises when (a) the desires or goals of the principal and the opposite agent and (b) is something that is difficult or expensive for the principal to verify truthful about what actually performed by the agent. The problem is that the principal can not verify whether the agency has been doing something right. Second is the issue of dividing the risks arising from the principal and agent have different attitudes to risk.

Thus, the principal and the agent may have a preference of different actions because of differences in risk preferences. Relation to earnings management, according to the agency theory, the management has more power than the principal. Therefore, it is necessary to control if earnings management practices happens or not with corporate governance perception index, the independence of the auditor, the auditor's reputation, and leverage..

Hypothesis Development

Influence of Corporate Governance to Earning Management

The application of the principles of good corporate governance effectively and efficiently is expected to dampen the opportunistic behavior of managers in carrying out acts of earnings management and reduce conflicts of interest and principal. Good Corporate Governance agents can be proxied by a wide range of variables such as, managerial ownership, institutional ownership, the size of the audit committee, and independent commissioner.

Results of research by Jao and Pagalung (2011) shows that corporate governance is proxied by institutional ownership significant negative effect on earnings management. In addition, studies conducted by (Sari and Asri, 2014; Husni, 2011; Jao and Pagalung 2011; Aditya, 2014; Amaliyah, 2013) showed that the size of the audit committee significant negative effect on earnings management. Results of research by Jao and Pagalung (2011) and Sari and Asri (2014) states that corporate governance is proxied by managerial ownership significant negative effect on earnings management. Research related to the proportion of independent directors conducted by Sari and Asri (2014) found that the proportion of independent commissioners significant negative effect on earnings management.

Based on current developments, findings of several studies on top is a component of the Corporate Governance Perception Index (CGPI) CGPI .index is the result of research of an institution that was organized by The Indonesian Institute for Cirporate Governance (IICG) in cooperation with SWA magazine, where this CGPI already made since 2001. Corporate governance perception index ranking aims to make the best index of every company that has implemented corporate governance. Therefore, for the first hypothesis is stated as follows:
H1: Corpotate Governance Perception Index negatively affect earnings management

Effect of Auditor Independence Against Profit Management

According to Arens and Loebbecke (2000: 87) the auditor's independence can be identified into two aspects, including mental attitude of independence (independence in fact) and the appearance of independence (independence in appearance). The independence of mental attitude that auditors can maintain an impartial attitude in carrying out the examination, while the appearance of that auditor independence act impartially as perceived by users of financial statements. Likewise expressed by Mulyadi (2002: 26) the independence of the self honesty of the auditor when considering the facts and the existence of an objective consideration of an auditor to formulate and express their opinions.

The auditor's independence will affect the detection of earnings management. Independent auditors is one of the factors yangdapat reduce the occurrence of earnings management. Independence of auditors assessed the length of the assignment of the auditor for the same company. The longer the auditor conducting an audit of a company, the auditor is not considered independent. Results of research conducted Nini and Estralita (2009) showed a significant relationship between the independence of auditors towards negative to earnings management. Thus, the second hypothesis is:
H2: The auditor's independence negative effect on earnings management

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Effect of Auditor Reputation Against Profit Management

Reporting violations depend on the auditor wishes to disclose such breaches. This encouragement will depend on the reputation which is owned by the auditor. Auditor in good standing who are classified as the Big 4 is considered to reduce the incidence of earnings management practices while reducing assertion on auditors.

According Widyaningdyah (2001), the reputation of the auditor will determine the credibility of financial statements. Reputation auditor will affect the detection of earnings management. Auditors are in good standing can detect the possibility of earnings management in a timely fashion. Research related to the auditor's reputation done by Antonia (2008) who found a significant relationship between auditor reputation on earnings management in a negative direction. Then the third hypothesis is:
H3: Reputation auditor negative effect on earnings management

Effect of Leverage to Earning Management

Leverage describe the source of funds used by the company's operations and shows the company's risk. Leverage used in this study is the ratio that indicates the extent to which the company is financed by debt (Horne and Wachowicz, 2000: 138). Research done by the leverage associated with Naftalia and Marsono (2013) found that leverage significant positive effect on earnings management. The fourth hypothesis is:

H4: Leverage positive effect on earnings management

RESEARCH METHODS

Object of research

The object of this research is corporate governance perception index, the independence of auditors, auditor reputation, leverage and firm size in companies listed on the Forum Corporate Governance Indonesia (FCGI). While the population used in this study is a company registered in the Corporate Governance Forum Indonesia (FCGI) in 2010-2014, included in the ranking of corporate governance implementation undertaken by the Indonesian Institute for Corporate Governance (IICG) in 2010-2014 in the form of a score ranking CGPI (Corporate Governance Perception Index) and the Indonesia Stock Exchange (BEI) published by SWA magazine in 2010-2014.

Model samples used in this research is purposive sampling that is a sampling technique non-random sampling. Non-random sampling means that samples are not all members of the population have the opportunity to be selected into the sample. Purposive sampling method should specify the criteria that are determined to get a representative sample. Criteria specified in the sampling in this study was determined as follows:

1. The company has a complete data regarding corporate governance perception index, the independence of auditors, auditor reputation, leverage, and firm size needed to detect earnings management.

2. The Company did not experience a loss in the year 2010-2014.

Operational Definition and Measurement of Variables

The operational definition is the determination of the constructs so that it becomes a variable that can be measured. The operational definition describes a particular way that is used by researchers in operationalizing construck, making it possible for researchers to replicate measurements in the same way or to develop better measurement.

The operational definition is an indication of how a variable is measured, so that researchers can determine good or bad measurements. The operational definition is then broken down into indicators of empirical research, which includes:

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Earning management

Measurement of earnings management is done by measuring discretionary accruals by using Jones model, namely:

a. Total accruals (actual)
$TAC_{it} = N_{it} - CFO_{it}$
Where,
TAC_{it} = Total accruals l firm i in period t
N_{it} = Net Income firm i in period t
CFO_{it}Cash flow from operation firm i in period t

b. Total *accruals* are estimated by regression equation OLS (*Ordinary Least Square)* is:
$TAC_{it}/A_{it-1} = \beta_1(1/A_{it-1}) + \beta_2(\Delta REV_t/A_{it-1}) + \beta_3(PPE_t/A_{it-1}) + e$
Where,
A_{it-1} = Total asset firm i in year t-1
ΔREV_t = Change in income firm i from year t-1 to year t
PPE_t = Fixed asset *(property, plan, and equipment)* firm year t
$\beta_1, \beta_2, \beta_3$= Coefficient regression
e = error

c. Nondiscretionary accruals
$NDA_{it} = \beta_1(1/A_{it-1}) + \beta_2\{(\Delta REV_t - \Delta REC_t)/A_{it-1})\} + \beta_3(PPE_t/A_{it-1})$
Where,
NDA_{it} = *Non discretionary accruals* firm in period t
ΔREC_t = Change in receivable firm i from year t-1 to year t

d. Total Discretionary Accruals
$$DA_{it} = (TAC_{it}/A_{it-1}) - NDA_{it}$$
Where,
DA_{it} = *Discretionary Accruals* firm i in period t

Corporate Governance Perception Index
Index of corporate governance is the result of independent research conducted by IICG cooperation with SWA Magazine to determine the ranking of companies in the use of corporate governance in Indonesia.Hasil of research is a trustworthy ratings are classified into three categories. Here is the rating category level company in the CGPI:

Tabel 1
Kategori Pemeringkatan CGPI

Skor	Level Terpercaya
85-100	Sangat Terpercaya
70-84	Terpercaya
55-69	Cukup Terpercaya

Source:*Corporate Governance Perception Index*

Based on the rating of each year, the rating will be used as the value for the participating companies CGPI as corporate governance perception index value at the time of the announcement.

The independence of the Auditor
The auditor's independence is measured through the old audits using a nominal scale with dummy variables. The number 0 is used to represent a company that uses the same auditor in 3 years or more. Figures 1 is used for the company to replace its auditor before 3 years.

Auditor reputation

Auditor reputation is measured by the auditor KAP origin using a nominal scale with dummy variables. Auditor reputation is measured by whether the auditor origin of KAP KAP Big Four or non-Big Four. Point 1 is used when the

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auditor comes from KAP Big Four, while the number 0 is used when the auditor comes from non-Big Four accounting firm.

Leverage

Measurements of leverage using a ratio of total debt (liabilities) to the total assets of the company.

$$Leverage = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

Control variables (firm size (SIZE))

Company size is measured by ln of total assets.

SIZE = Ln (Total Asset)

RESULTS AND DISCUSSION

Normality Test and Classical Assumption Test

In this study consists of two models. The first model with the dependent variable earnings management (EM) and the independent variables corporate governance perception index (CGPI) and leverage (LEV). The second model is as dependent variable earnings management, corporate governance and leverage perception index as an independent variable, and firm size as control variables. Two other independent variables that auditor independence and auditor reputation is not included in the test for normality for these two variables are dummy variables are expressed with a zero or a one, so it is not a matrix of data. There are two models in the study to determine the test results before and after the control variables control variables. Is the control variables had an influence on other variables and can improve model or not.

In this study, there are test without dummy bank and test with dummy bank. Tests without a dummy bank is testing with a sample of companies from all sectors including the banking sector amounted to 90. The definition of testing with dummy bank is testing using a sample of companies from the banking sector alone. Dummy bank in question is not a dummy variable in research, but only to separate the banking sector and other sectors by giving the number 1 for the banking sector and the number 0 in addition to banking. The digits 0 and 1 are used only to separate the banking sector with other sectors, such categorization is not a dummy variable. Results study used is the result of dummy bank test after the outliers.

The normality test using Kolmogorov-Smirnov test showed a significance value of 0.958 model 1 and model 2 for 0,932.The result stated that model 1 and 2 can be said to be normally distributed.

Multicoloniarity test results show that under the tolerance value of the variable 1 CGPI and LEV at 0.695 and 1.440 of VIF. In the model of tolerance 2nilai CGPI variable of 0.608, LEV amounted to 0.586, SIZE amounted to 0.578, and the value of the variable VIF CGPI at 1.645, LEV amounted to 1,707 and 1,730 SIZE. Model 1 and Model 2 has a tolerance value is more than 0.1 and VIF is less than 10 then it can be said does not happen multicoloniarity in model 1 and model 2.

Autocorrelation test results show the value of dw in model 1 at 1,410 and the value of dw in model 2 at 1,422. This value is compared with the value of a table that uses the 5% significance, sample number 30 (n), the number of independent variables model 1 (k = 2) and model 2 (k = 3). Then in the table Durbin Watson values obtained in model 1, the value du amounted to 1.567 and dl at 1,284 while the value in model 2 values of 1.650 and dl du amounted to 1,214. Dw value in model 1 and 2, is greater than the value dl and less than the value du. Based on Table 4 it can be concluded that the value dl dw du shows no decision (no decision) positive autocorrelation in model 1 and 2.

Test results on the model glejser 1 shows CGPI variable significance of 0.995, LEV amounted to 0,308 and in model 2 shows CGPI variable significance of 0.691, LEV amounted to 0.134, and the SIZE of 0,146. In model 1 and 2 show that

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all independent variables in the model and the model of the two is not significant, meaning that statistically do not affect the dependent variable because the probability of significance above 5%. So we can conclude that in the regression model does not contain any heteroscedasticity.

The coefficient of determination, F test F and t test

The coefficient of determination and F test can be seen in Table 2.

Table 2
Multiple Linear Regression Analysis

Model	Model 1		Model 2	
	B	Sig.	B	Sig.
(Constant)	1.250	.001	1.200	.005
CGPI	-.008	.002	-.008	.003
LEV	-.608	.011	-.579	.027
SIZE	-	-	.002	.769
Uji F		6.486		4.208
Sig-F		.005[a]		.015[a]
Adjusted R^2		.275		.249

In Table 2 it can be said that the banking sector in the model 1, variables and leverage CGPI able to explain 27.5% of earnings management. Whereas in model 2, the variable CGPI, leverage, and size able to explain earnings management by 24.9%, the rest is explained by other variables.
F test results in Table 2 indicate the significance of the model 1 and model 2 0,005 and 0.15 so it can be said that as a whole or together on models 1 and 2, the independent variable has the ability to predict earnings management.

The result of the formulation of multiple linear regression analysis dummy bank models 1 and 2 can be seen in table 2.

Model 1: $EM = 1.250 - 0.008CGPI - 0.011LEV + e$

Model 2: $EM = 1.200 - 0.008CGPI - 0.579LEV + 0.002SIZE + e$

According to the table 2 it can be said that the size variable in model 2, could not fix the overall model. It was proved by the determinant coefficient are getting lower if variables included in the model size 2, so that it can be concluded that the size of the company does not serve as a control variable.

In addition to models 1 and 2, the researchers also used the model 3 to see the regression equation and to test hypotheses. The model chosen by the researchers is a dummy model of the bank after the outliers, because test results dummy bank after the outlier is the test that has the best results compared with prior test results in outlier.

Testing Model 3

Equation 3 models used in this study to test the hypothesis (t test) with earnings management (EM) as the dependent variable and the CGPI, the independence of auditors, auditor reputation, leverage as the independent variables, as well as the size of the company as a control variable.

The coefficient of determination, F test and t test

The coefficient of determination F test and t test models 3 can be seen in Table 3.

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Table 3
Multiple Linear Regression Analysis
Model 3

Model		Model 3	
		B	Sig.
	(Constant)	1.317	.009
	CGPI	-.008	.010
	IA	.009	.665
	RA	.047	.370
	LEV	-.628	.031
	SIZE	-.005	.670
Uji F		2.600	
Sig-F		.051[a]	
Adjusted R^2		.216	

Table 3 shows that the adjusted R-square for the better model 3 that is equal to 21.6%. That is to say, the variable CGPI, the independence of the auditor, the auditor's reputation, leverage, and size able to explain earnings management amounted to 21.6%, the rest is explained by the variable lain.Uji 3 F model is not significant at the level of 5%. However, significant at the 10% level so that it can be said that as a whole or together independent variables have the ability to predict earnings management in three models dummy bank.

Based on the results in Table 3, the regression model equation 3 can be formulated as follows:

$$EM = 1.317 - 0.008CGPI + 0.009IA + 0.047RA - 0.628LEV - 0.005SIZE$$

Model 3 after an outlier is an equation that is selected for use in hypothesis testing (t test) because it produces the best output from the outliers before and before in the dummy.

Hypothesis testing is done to determine how the influence of significance and direction of the influence of the independent variable on the dependent variable .In this study, the model used for hypothesis testing are 3 models after excluding outlier, results can be seen in Table 3 Table 3. Based on hypothesis test, results of this study as follows:

Influence of Corporate Governance Perception Index to Earnings Management

Variable corporate governance perception index (CGPI) has a beta coefficient of 0.010 -0.008 with a significance level of <0.05. Thus, these results suggest that the CGPI significant negative effect on earnings management and one can conclude that the hypothesis (H1) who stated variable corporate governance perception index (CGPI) negatively affect earnings management, **accepted**.

This study shows that the Corporate Governance Perception Index (CGPI) significant negative effect on corporate governance in the earning management. Valuation can from the accumulation of several aspects, namely self-assessment, document, paper, and observation. The higher the corporate governance score the lower the likelihood of companies doing earnings management. This study used a sample of companies that have CGPI, so most companies have done with a good corporate governance implementation and the possibility to make profits for the management of these companies was lower than companies that have not made the application of corporate governance. If it is associated with agency theory, the problems arising from the differences of interest between principal and agent one of which is asymmetric information which is owned by the principal and the agent. Asymmetric information can be

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overcome with the implementation of good corporate governance so as to control the attitude of Opportunistic management, providing information to the principal and agent, as well as overcome the differences of interest between principal and agent.

These results are consistent with research conducted by several researchers who use multiple proxies in corporate governance among others, Jao and Pagalung (2011) shows that corporate governance is proxied by institutional ownership significant negative effect on earnings management. In addition, studies conducted by (Sari and Asri, 2014; Husni, 2011; Jao and Pagalung 2011; Aditya, 2014; Amaliyah, 2013) showed that the size of the audit committee significant negative effect on earnings management. Results of research by Jao and Pagalung (2011) and Sari and Asri (2014) states that corporate governance is proxied by managerial ownership significant negative effect on earnings management. Research related to the proportion of independent directors conducted by Sari and Asri (2014) found that the proportion of independent commissioners significant negative effect on earnings management.

Effect of Auditor Independence Against Profit Management

Variable independent auditor (IA) has a beta coefficient of 0.009 with a significance level of 0.665> 0.05. Thus, these results suggest that auditor independence is not a significant positive effect on earnings management, and it can be concluded that the hypothesis of two (H2) which declared independence variable auditor (IA) negatively affect earnings management, **rejected**.

The auditor's independence is not a significant positive effect on earnings management. Independent auditor is one of the factors that can reduce the occurrence of earnings management. Independence of auditors assessed the length of the assignment of the auditor for the same company. The longer the auditor conducting an audit of a company, the auditor is not considered independent. The auditor's independence will affect the detection of earnings management. In this study, companies audited by the same auditor for 3 years or more only about 26%. The remaining approximately 74% of the company to replace its auditor before 3 years, it shows the independence of the auditor who audited the company. In agency theory, one thing that can correct the imbalance of information between principal and agent is the use of an independent auditor. However, this study shows that the independence of the auditor is unable to control the attitude of the management Opportunistic earning management, so the difference of interest between principal and agent could not be resolved using an independent auditor.

The results of this study contradict the research conducted by Nini and Esterlita (2009) which states that the independence of the auditor significant negative effect on earnings management. It is proved that when a company uses an independent auditor, earnings management practices still can not be detected by the auditor. The results of this study are consistent with research conducted by Guna and Herawaty (2010) which showed no significant positive relationship between the independence of the auditor to earnings management.

Effect of Auditor Reputation to Earning Management

Variable auditor reputation (RA) has a beta coefficient of 0.47 with a significance level of 0.370> 0.05. Thus, these results indicate that the auditor's reputation no significant positive effect on earnings management, and it can be concluded that the three hypotheses (H3) stating variable auditor reputation (RA) negatively affect earnings management, **rejected**.

Reputation auditor not significant positive effect on earnings management. Reputation auditor will determine the credibility of financial statements. Reputation auditor will affect the detection of earnings management. Auditors are in good standing can detect the possibility of earnings management in a timely fashion. Auditor good standing from the big four accounting firm considered to reduce the incidence of earnings management practices while reducing demands on auditors. Based on the sample, as many as 76% of companies using auditors from the big four accounting firm, the remaining approximately 24% using the auditor derived from non big four accounting firm. By the time companies use auditors from the big four accounting firm, fixed income management practices cu not be detected by the auditor. In agency theory, one thing that can correct the imbalance of information between the principal and the agent is using a reputable auditor. However, this study shows that the reputation of the auditor is unable to control the attitude of the management of opportunistic earning management, so the difference of interest between principal and agent could not be resolved by using a reputable auditor.

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Research supporting this hypothesis is the research conducted by Widyaningdyah (2001) found no significant positive relationship between auditor reputation and earnings management. These results are not consistent with the theory that has been put forward, the possible cause of a lack of influence between auditor reputation with earnings management is when companies use auditors from the big four accounting firm earnings management practices still could not be detected by the auditor.

Effect of Leverage to Earning Management

Variable leverage (LEV) has a beta coefficient -0.628 and significance of 0.031 <0.05. Thus, these results suggest that leverage significant negative effect on earnings management, and it can be concluded that the hypothesis of four (H4) stating variable leverage (LEV) negatively affect earnings management, **rejected**.

Leverage significant negative effect on earnings management. Leverage describe the source of funds used by the company's operations and shows the company's risk. Leverage used in this study is the ratio that indicates the extent to which the company is financed by debt. In agency theory, one thing that can correct the imbalance of information between principal and agent is to minimize the use of debt financing. However, this study shows that the leverage could not control the attitude of the management Opportunistic earning management, so the difference of interest between principal and agent could not be resolved by minimizing the use of debt financing. The results of the study are not consistent with the theory that a positive relationship between leverage and earnings management. Alleged differences in the direction the relationship is in companies with high leverage in the study, the tendency to do even more small profit management.

This can occur because the auditor can detect earnings management when the company will make earning management. Thus, the company has a low value of earnings management. The results of this study are consistent with research conducted by Guna and Herawaty (2010) and Widianingdyah (2001) showed a significant negative relationship between leverage to earnings management.

Influence Of Company Size on Earnings Management

The variable firm size (SIZE) as control variables have a significance value above 0.05, the results shown in the regression model 2 and the results of the regression model 3. On the results of the test model 2 and 3, the variable size does not function as a control variable because it could not fix the model.
Firm size (SIZE) as a control variable indicates the amount of experience and ability of the growth of a company that indicates the ability and level of risk in managing investments. The larger the size of a company, the less likely the company is doing earning management. The result indicates that company size is not a significant negative effect on earnings management and it consistent with research Ningsaptiti (2010) and Ingrid and Yesterina (2014). The results were not significant in model 2 and 3 shows that the size as the control variable could not fix the model, so size does not function as a control variable.

CONCLUSION AND FUTURE RESEARCH

Conclusion

Based on the results and discussion of research, it can be concluded as follows:

1. Corporate Governance Perception Index significant negative effect on earnings management. These results are consistent theory that higher corporate governance score the lower the likelihood of companies doing earnings management.

2. The auditor's independence and reputation management auditor positive effect on earnings, but the results are not significant. Possible causes are not significant when the auditor is already good reputation and those of the independent auditors, their earnings management practices can not be detected

3. Leverage significant negative effect on earnings management. The research result is not in line with the hypothesis. Alleged differences in direction of the relationship is a company with low leverage in the study, also have a tendency to perform earnings management.

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4. The size of the company as a control variable could not fix the model, so that the variable size does not function as a control variable.

Limitations of Research and Research Implications

As outlined in previous chapters, in this study has some limitations that need development and refinement for further research. Limitations of the study include:

1. The study was limited to companies registered in the Corporate Governance Forum Indonesia (FCGI) in 2010-2014, causing the study has shortcomings in some of the test including normality test, F test, and the determinant coefficient caused by data that is too diverse.
2. The number of variables is limited, so there are a number of other variables that have an impact on earnings management has not been used in research.

This study has limitations in several test, including normality test, F test, and a very low determinant coefficient. Allegations of these limitations cause by the sample so diverse that some tests produce output that is less good. Earnings management with regard to managerial decision making, increasingly diverse companies it will be different in earning management.

Suggestions for further research are separate characteristics /sector companies that were sampled, adding the study period, and add other variables that influence earnings management such as profitability. In addition, further research may use different test equipment to test, such as eviews in order to get a better output.

Based on the research results obtained in this study it is expected to be useful for many people and can be used as consideration for the management company to minimize their earnings management by implementing good corporate governance practices, so as to increase the score CGPI.

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