



The Influence of Audit Quality on Profit Quality in Sharia Banks Listed on the Indonesia Stock Exchange

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ABSTRACT

A healthy company will have good earnings quality, and an independent public accountant will give a good value to the company's earnings quality. This study aims to determine the effect of audit quality on earnings quality in sharia banks. This study uses explanatory research based on hypothesis testing. The data source is secondary data from sharia banking companies listed on the IDX for the 2021-2022 period and is based on quarterly financial reports. The sampling technique was purposive sampling with a total sample of 4 sharia banks. The analysis used is descriptive, simple linear regression, and hypothesis testing. The results showed that there was no significant effect between audit quality variables on earnings quality. The audit quality of sharia banking companies listed on the IDX cannot be determined from the quality of the auditors. This is indicated by the formation of sharia banking which must have reliable governance to encourage strong and effective sharia compliance so that the public image, namely the interests of stakeholders, can realize economic activities in accordance with sharia principles.

Keywords: Sharia Bank, Audit, Profit Quality

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INTRODUCTION

The sharia banking sector can grow higher than the national banking industry. The growth of sharia banking assets was recorded to grow 14.21% on an annual basis in July 2022 (Gunardi, 2022). Sharia financial institutions, especially banks, must have reliable governance to encourage strong and effective sharia compliance. This aims to maintain the public image, namely the interests of stakeholders to realize economic activities that are in accordance with sharia principles and investment activities that are free of usury (Akbar et al., 2015). The series of processes to fulfill sharia compliance needs through the implementation of sharia audits. A sharia audit is carried out to ensure that sharia banking can enforce governance to increase stakeholder trust.

Sharia banks in Indonesia are developing by implementing a dual banking system that carries out activities based on conventional and sharia principles (Law No. 10 of 1998).

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This policy is an opportunity for conventional banks to provide sharia services through the Islamic window mechanism by forming sharia business units (Majid, 2014). Nationally and internationally, there is a ranking of sharia banking and financial conditions in various countries, namely the IFCI (Islamic Finance Country Index). The increasing number of customers and the sharia banking rating system encourages sharia banks to increase public trust. Increasing trust can be done through improving the quality of corporate earnings as reflected in the quality of financial statements. Improving the quality of financial reports can minimize manipulation and misinterpretation (Sari & Indarto, 2018).

The quality of financial reports is an important factor to foster investor confidence. Attention to the quality of financial reports increased with the scandals in the United States and Europe (Dezoort, 2002). Earnings management practices cause the financial reports produced to not meet the quality standards of faithful representation (Sumayyah & Ladepi, 2020). Financial reports should be able to provide reliable information so that it can be used for decision making. The implementation of audit quality practices by the audit committee in good corporate governance is expected to improve the quality of financial reports. The audit committee plays a role in the company's financial reporting process and is the focus of regulation (Chandar et al., 2012).

In Indonesia, the establishment of an audit committee structure and work implementation is regulated in OJK (Financial Services Authority) regulation Number 55 of 2015. In this regulation, the audit committee is tasked with providing recommendations for the appointment of an accountant to the Board of Commissioners. The Indonesian Corporate Governance Forum (FCGI) explained the duties of the audit committee, namely providing recommendations for external auditors and conducting audits related to external auditors. Since the existence of this regulation, all public companies and issuers have an audit committee in the corporate organizational structure including sharia banking. The banking sector crisis from 2017 to 2000 raised demands for good management of sharia banks (Maradita, 2014). The preparation of good reports comes from good records and is supported by the quality of accountants and supervision received during bookkeeping (Ohaka & Imaerele, 2018). Oversight of the company's accounting and financial reporting quality policies and practices is carried out by the audit committee (Eyenubo et al., 2017).

The audit committee is one of the factors that affect the quality of financial reports. The influence of the audit committee on the quality of financial reports is measured by many characteristics including the financial expertise of the audit committee, the size of the audit committee, and the frequency of audit committee meetings. In carrying out its duties, the audit committee must have qualified expertise (Mutmainnah & Wardhani, 2013). The financial expertise possessed by the audit committee will make it easier to carry out financial reporting supervision, can reduce the level of fraudulent practices, and have strong internal controls (Kibiya, 2016). However, problems often arise due to differences in interests between management and users of financial statements

regarding the gaps in available information, so that a competent and independent third party is required to examine financial reports (Thuneibat & Baker, 2011).

Financial reports are a component of published information as a result of management performance. The management performance measure listed in the financial statements is called profit (Jogiyanto, 2014). Company profits can provide important information for a company, and sometimes it makes management manipulate actual company profit information. Profit manipulation is carried out to attract investors to invest in the company (Rislawati & Subowo, 2015). Quality profits are profits that are in accordance with the conditions of the company without intervention from interested parties in the submitted financial reports (Taruno, 2013).

Audit quality receives special attention from accountants, government, the public, and all users of financial reports. The auditor is tasked with monitoring and providing opinions on financial statements, and considering the viability of the company (Rudyawan & Badera, 2008). However, the auditor is also one of the factors that helps managers to commit fraud. Auditors who audit the same company and for a long period of time or tenure will form a special relationship between the client and the auditor so that the opinion given is not objective and results in a decrease in audit quality, and can eliminate auditor independence.

Public accountants are the right profession as a third party who acts as an auditor to carry out the sharia audit function. Public accounting services are needed to provide guarantees and reliability of Islamic bank financial reports, prove and present financial reports that are free from material misstatement, so that it will increase the trust of parties related to Islamic banks. So far, audit quality is closely related to the KAP (Public Accounting Firm) assigned to conduct the audit. KAP is divided into big four and non-big four. In general, the public considers that the big four KAPs have better audit quality than non-big four KAPs. However, cases of financial scandals that occurred provide evidence that the calculation of audit quality by classifying the big four and non-big four auditors does not always provide a measure of the emergence of financial statement manipulation (Aprillia, 2013). Baridwan & Hariani's research (2010) found a quality audit is more effective in reducing earnings manipulation. Furthermore, Indriani & Kusumaputra (2016) found that tenure and audit quality affect earnings quality. The financial expertise possessed by the audit committee shows that audit quality affects the quality of company profits (Salehi & Shirazi, 2016); (Kusnadi et al., 2016). Meanwhile, research by Inawati et al. (2021) and Hasan et al. (2020) found that audit quality has no effect on earnings quality.

This research is important to do because there are still gaps in previous studies. This research was conducted in the Islamic banking sector listed on the IDX as many as 4 banks, namely PT Bank Aladin Syariah Tbk, PT Bank Syariah Indonesia Tbk, Bank BTPN Syariah Tbk, and PT Bank Panin Dubai Syariah Tbk. The financial report data analyzed is based on reports from the fourth quarter of 2020 to the first quarter of 2023. Based on the background description above, the purpose of this study was to examine the effect of audit quality on the earnings quality of sharia banking listed on the IDX.

LITERATURE REVIEW

Sharia banks are banks whose activities are based on Islamic principles (Rivai & Arivin, 2010). Sharia banking emphasizes business activities that do not conflict with sharia principles, including business activities that do not contain usury, maisir, gharar, haram and munkar (Wangsawidjaja, 2012). Riba is the addition of income illegally, for example in lending and borrowing transactions which require the customer receiving the facility to return the funds received in excess of the principal amount due to the passage of time (nasi'ah). Maisir is a transaction that depends on a condition that is uncertain. Gharar is a transaction with an object that is not clear and is not owned when the transaction is made. Haram, namely transactions carried out with objects that are prohibited in sharia. While unjust is a transaction that causes injustice to other parties. The role of sharia banks includes: (1) as a fund depository institution that implements a profit-sharing system (mudharabah); (2) as a financing institution for the public for business capital purposes; and (3) as a service provider in serving customer needs related to the needs of Islamic banking services.

Audit quality is proxied in the Big 4 KAP. To measure audit quality using the size of a Public Accounting Firm (KAP) which uses a dummy variable, namely, using a value of 1 for companies audited by Big 4 KAPs and a value of 0 for those audited by Non Big 4. The following are the names of KAPs who are included in the Big 4 KAP ranks: (1) Purwantono, Suherman & Surja affiliated with Ernst and Young International (E & Y); (2) Tanudereja, Wibisana & partners affiliated with PriceWaterhouse Coopers (PWC); (3) Shidharta and Widjaja are affiliated with Klynveld Peat Marwick Goeldener (KPMG) International; and (4) Osman, Bing, Satrio, and colleagues affiliated with Delloitte Touche and Tohmatsu. Auditing can reduce the information asymmetry that exists between management and stakeholders by enabling external parties to verify the validity of financial reports, so that auditing can reduce the positive bias in pre-audit net earnings and net assets, as well as increase the precision of financial statement measurements. Auditors with high quality are believed to have more ability to detect accounting practices that are suspicious and prone to fraud compared to auditors with low quality. High quality auditing is considered as a deterrent to effective earnings management (Ardiati, 2005). Quality audits are carried out by people with competence and independence. Competent auditors have technological capabilities, understand and carry out correct audit procedures, and understand and use sampling methods correctly (Widiastuty & Rahmat, 2010). Independent auditors, namely auditors who, if they find a violation, will report the violation.

Earnings quality is the company's ability to report actual company profits, which can be used to predict the company's future earnings (Jonathan & Machdar, 2018). Profit as part of the company's financial statements must be of good quality because it will reflect the continuation of future profits and the company's actual performance. Earnings or net income indicates company profitability (Subramanyam & John, 2014). Low earnings quality has an impact on decision-making errors made by users. Published earnings will provide a varied response as a form of market reaction to the profit information received. Factors that affect the quality of company earnings include

systematic risk, company size, accrual quality, earnings persistence, profit growth, capital structure, auditor quality, and liquidity (Dira & Astika, 2014). Quality profit has three characteristics (Warianto & Rusiti, 2013) which include being able to accurately reflect the company's current operating performance, being able to provide good indicators of company performance in the future, and being able to be a good measure of company performance. In this study, the measurement of DA (Discretionary Accrual) as a proxy for earnings quality is calculated using the Modified Jones Model (Dechow et al., 1995). This model is used because it is considered the best model in detecting earnings management. The companies used are companies that have positive and negative discretionary accrual values or that perform earnings management by increasing profits and decreasing profits. The steps for calculating the value of discretionary accruals using the Jones model (1991) modified by Dechow et al., (1995) are as follows: (1) To find the value of α_1 , α_2 and α_3 can be done with the regression technique. This regression is to detect the presence of DA and NDA; (2) To calculate discretionary accruals, enter the values α_1 , α_2 , and α_3 obtained from the regression. This calculation is performed for all sample companies in each period; (3) For further calculations, the value of discretionary accruals used is the absolute value of discretionary accruals. In looking for discretionary accruals, the company's total accruals must be looked for first with the following equation:

$$TA_{it} = NI_{it} - OCF_{it}$$

Information:

TA_{it} = Total Accruals of company i in year t

NI_{it} = net profit of company i in year t

OCF_{it} = company i operating cash flow in year t

As stated in theoretical and empirical studies, the reconstruction is based on the foundation of the corporate financial reporting framework as a philosophy that emphasizes the importance of the relationship between audit quality and earnings quality.

Hypotheses of the research

Audit quality is capable of being an external detection tool for the manipulation of financial reports by company management. The big four KAPs are said to be more skilled at detecting fraud in financial reports than non-big four KAPs (Hasty & Herawaty, 2017). A quality KAP and an attitude of auditor independence can be taken into consideration for management to take opportunistic actions because at any time their actions will be uncovered by external auditors and cause problems. Susanti & Margareta (2019); Tarigan & Saragih (2020); Agustin & Widiatmoko (2022) state that audit quality has a significant negative effect on earnings management. Rismansyah (2018); Indriani & Kusumaputra (2016); Salehi & Shirazi (2016); and Kusnadi et al. (2016) found that tenure and audit quality have a significant positive effect on earnings quality. Meanwhile, research by Inawati et al. (2021) and Hasan et al. (2020) found that audit quality has no effect on earnings quality.

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H1 : Audit quality affects profit quality

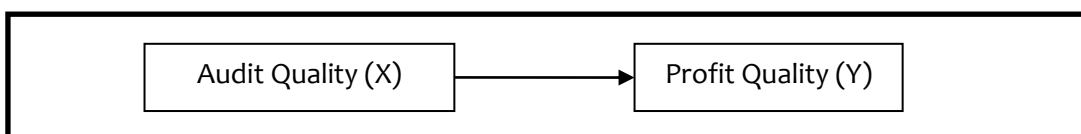


Figure 1. Research Model

METHODOLOGY

This type of research is explanatory research based on hypothesis testing. The research is aimed at explaining the causal relationship between the research variables and testing the formulated hypotheses (Sugiyono, 2019). This research was conducted on sharia banking companies listed on the IDX and published financial reports. The research data source is in the form of secondary data taken from sharia banking companies listed on the Indonesia Stock Exchange. The data used is in the form of an annual report for the fourth quarter of 2020 to the first quarter of 2023. The research data source was obtained from the IDX website. The population in this study were 4 sharia banks listed on the IDX and presented in Table 1 below.

Table 1. List of Islamic Banking on the IDX

| No | Code | Banking Name |
|----|------|---------------------------------|
| 1 | BANK | PT Bank Aladin Syariah Tbk |
| 2 | BSI | PT Bank Syariah Indonesia Tbk |
| 3 | BTPS | PT Bank BTPN Syariah Tbk |
| 4 | PNBS | PT Bank Panin Dubai Syariah Tbk |

Source: Indonesia Stock Exchange, 2020-2023

In determining the sample using the purposive sampling method with the criteria of Islamic banking companies that are listed on the IDX and have published financial reports since 2020. The data collection technique is documentation. This study involved two research variables namely audit quality and earnings quality. The following is an operational definition that clearly describes the measurement of the variables used:

Table 2. Variable Operational Definitions

| Variable | Definition | Measurement Indicator | Source |
|----------------|--|---|---|
| Audit Quality | Types of Public Accounting Firms (KAP) that carry out checks on sharia banks | – Score 1: Auditor KAP Big 4 – Score 0: Auditor NonKAP Big 4 – Score 2 : Audit Internal | Annual report for the fourth quarter of 2020 to the first quarter of 2023 |
| Profit Quality | Earnings quality proxies are calculated using the Modified Jones Model | TAit (Total Accruals) = Niit (Net profit) - OCFit (Operating cash flow) | Annual report for the fourth quarter of 2020 to the first quarter of 2023 |

The research analysis was carried out descriptively to provide a general description of each variable. The next stages of analysis are simple linear regression analysis and hypothesis testing. This study uses one independent variable, namely audit quality (X) and one dependent variable, namely earnings quality (Y). Simple linear regression analysis involves the dependent variable with one independent variable (Sujarweni, 2015). Test the hypothesis using the F test with a significance value of 0.05 or 5%.

RESULTS

Descriptive Analysis

Descriptive analysis carried out on the audit quality variable obtained the results shown by the calculation of the following frequency values.

Table 3. Audit Quality Frequency Analysis

| | Frequency | Percent | Cumulative Percent |
|-------|-----------|---------|--------------------|
| Valid | 0 | 4 | 10.0 |
| | 1 | 8 | 20.0 |
| | 2 | 28 | 70.0 |
| Total | 40 | | 100.0 |

Source: Data processed in 2023

Based on the frequency analysis table, the audit quality of sharia banking companies shows a value of 0, 1, and 2. A value of 0 indicates that out of 40 sharia banking financial reports published quarterly, 10% or as many as 4 financial statements audited by Non-KAP Big 4. Value 1 is 20% or 8 financial statements audited by KAP Big 4, and value 2 is 70% or 28 financial statements of sharia banking that are not audited by both KAP Big 4 and Non-KAP Big 4. However, each sharia banking company internally has an audit committee.

The descriptive analysis performed on the earnings quality variable obtained the results shown in the following descriptive statistical calculations.

Table 4. Descriptive Statistic

| | N | Range | Minimum | Maximum | Mean | Std. Deviation |
|----------------|----|------------|------------|-----------|--------------|----------------|
| Profit Quality | 40 | 1017815567 | -814670914 | 203144653 | -10499972.75 | 134785228.050 |

Source: Data processed in 2023

The quality of sharia banking profits recorded on the IDX has a range of 1.017.815.567 meaning that sharia banking companies, when viewed from the profit calculation, have suffered losses and some have made profits. In general, it can be concluded that some sharia banks have very good earnings quality and some have very poor earnings quality as indicated by the minimum value at negative 814.670.914.

Simple Linear Regression Analysis Results

The results of a simple linear regression analysis test are used to analyze the effect of audit quality on earnings quality presented in Table 5 below.

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Table 5. Simple Linear Regression Analysis Test Results

| Variable | B | Stdr. Error | SC. Beta | t value | Sig. | Inf.. |
|----------------|------------------|--------------|----------|---------|---------|-----------------|
| X → Y | 31457074.628 | 18952292.805 | .260 | 1.660 | .105 | Not Significant |
| Constanta | : - 82851244.395 | | | | F value | : 2.755 |
| R | : 0.260 | | | | Sig. F | : 0.105 |
| R ² | : 0.068 | | | | | |

Source: Data processed in 2023

From the data from the regression analysis test results, the description of the regression model is:

$$Y = - 82851244.395 + 31457074.628X$$

Then the regression equation shows:

1. Constanta of - 82851244.395 states that if the audit quality variable is constant, the earnings quality will decrease.
2. The regression coefficient of audit quality is 31457074.628, meaning that if audit quality increases by one percent, earnings quality will increase.

Hypothesis Test

Table 5 shows that the hypothesis test in this study was rejected, meaning that audit quality has no significant effect on earnings quality with a calculated F value of 2.755 and a significance value of 0.105 greater than 0.05.

DISCUSSION

The results of the descriptive analysis show that the audit quality in this study in terms of annual reporting is very good because of the 4 sharia banks listed on the IDX, 3 of them have used the Big 4 KAP services. However, for quarterly reporting, all sharia banks do not use independent audit services. They entrust financial reporting to the company's internal audit committee. The condition of the quality of the company's earnings shows a good condition when viewed from the development of the company's profits every quarter. Even though there were banks that experienced sizable losses, over time all sharia banks listed on the IDX showed very good quality profit growth. The growth that has occurred in sharia banking is classified as very good when viewed from the establishment of sharia banks which have only occurred in the last few years.

Based on the data analysis, the results show that there is no significant effect between audit quality variables on earnings quality. This can be proven by the significance value of audit quality less than the alpha value. The results of this study are in line with the research of Inawati et al. (2021) and Hasan et al. (2020) who found that audit quality has no effect on earnings quality. However, the research results are not in line with the research of Susanti & Margareta (2019); Tarigan & Saragih (2020); Agustin & Widiatmoko (2022) state that audit quality has a significant negative effect on earnings management. Meanwhile Rismansyah (2018); Indriani & Kusumaputra (2016); Salehi & Shirazi (2016);

and Kusnadi, et.al. (2016) found that audit quality has a significant positive effect on earnings quality.

The audit quality of sharia banking companies listed on the IDX cannot be determined from the quality of the auditors. This is indicated by the establishment of sharia banking which must have reliable governance to encourage strong and effective sharia compliance so that the public image, namely the interests of stakeholders, can realize economic activities that comply with sharia principles and investment activities that are free of usury (Akbar, et.al., 2015). With the existence of a sharia foundation, the reporting carried out is quality and actual profit reporting so that it is free from certain interests to manipulate company profits. Quality profit reporting is profit that is in accordance with the company's conditions without intervention from interested parties in the submitted financial reports (Taruno, 2013).

So far, auditors with high quality are believed to have more ability to detect accounting practices that are suspicious or prone to fraud. However, this cannot be implemented in sharia banking, where the results of the research show that the implementation of internal or independent audit quality, both Big 4 and Non Big 4 KAPs, has no effect on the quality of profits earned and generated by sharia banking. This means that when there is no profit manipulation in financial reporting, the implementation of internal audits and independence does not have an impact on the quality of the company's earnings.

CONCLUSIONS

The quality of sharia banking audits has no significant effect on earnings quality, showing that the research results are in line with previous studies. This indicates that sharia banking entrusts financial reporting to the company's internal audit committee. The quality of internal or independent audits has no effect on the quality of profits earned and generated by sharia banking. The profit quality of sharia banking listed on the Indonesia Stock Exchange has shown quite significant growth. Sharia banking that is founded on sharia foundation or Islamic principles is free from acts of profit manipulation and the results of financial reporting are carried out truthfully so that the implementation of internal audits or the use of independence services does not have an impact on the quality of company profits. This indicates that the establishment of sharia banking with reliable governance has encouraged strong and effective sharia compliance so that public image such as stakeholder interests can realize economic activities in accordance with sharia principles.

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