

# FACTORS AFFECTING PROFIT MANAGEMENT IN THE HEALTHCARE SECTOR LISTED ON THE INDONESIAN STOCK EXCHANGE

Gery Ilham<sup>1</sup>, Andreas Bambang Daryatno<sup>1\*</sup>

<sup>1</sup>Accounting Professional Education, Universitas Tarumanagara, Jakarta – 11470, Indonesia

\*Email: andreasb@fe.untar.ac.id

Submitted: 31-07-2023, Revised: 15-09-2023, Accepted: 01-11-2023

---

## ABSTRACT

*This study aims to examine the effect of Audit Opinion, Size of Public Accounting Firm (KAP), Profitability and Leverage on Earnings Management of a company. This research was conducted using secondary data. The population in this study were healthcare companies listed on the Indonesia Stock Exchange in 2020 - 2022. The research method used in this research is multiple regression analysis with sampling using purposive sampling method. The selected samples from 3 periods were 63 samples, which will then be used as research material. The results of this study indicate that the profitability variable has a significant positive effect on the earnings management of a company, while the audit opinion variable, the size of the public accounting firm (KAP) and leverage have no significant effect on the earnings management of a company. The Adjusted R Square value is 0.110, this means that 11.00% of the dependent variable can be explained by the independent variable, while the remaining 89.00% is explained by other variables outside the model.*

**Keywords:** Earning Management, Audit Opinion, Accounting Firm Size, Profitability, Leverage

## 1. INTRODUCTION

Basically, companies have an obligation to present relevant information to internal and external parties that will be used in decision making. However, often stakeholders, especially investors, focus more on earnings information without paying attention to the procedures used to achieve these profits. This tendency encourages management to practice earnings management. Earnings management has become a central issue of financial statement manipulation that can harm interested parties.

Earnings management is motivated by agency problems that occur due to the misalignment of interests between shareholders (principal) and company management (agent). The principal wants to enter into a contract to make himself prosperous with ever-increasing profitability while the agent wants to maximize the fulfilment of his economic and psychological needs, including in terms of obtaining investment, loans, and compensation contracts (Salno and Baridwan, 2000).

In Indonesia, there are many cases of earnings management carried out by companies to cover up shortcomings or company performance that is not in good condition. Thus, financial reports are manipulated by management to be more attractive to readers and other users of financial statements. One of the earnings management cases is PT Garuda Indonesia, Tbk (2018) which was declared to have violated OJK Regulation Number 29 / POJK.04 / 2016 concerning Annual Reports of Issuers or Public Companies. Based on data sources from the Indonesian Ministry of Finance, starting from the results of Garuda Indonesia's financial statements for the 2018 financial year. In the financial statements, Garuda Indonesia Group posted a net profit of USD 809.85 thousand or equivalent to IDR 11.33 billion and in fact Garuda Indonesia Group still has a loss of US \$ 114.08 million or equivalent to IDR 1.6 Trillion. this clearly states that

Garuda Indonesia has committed fraudulent financial statements because it recognises receivables as income (Ministry of Finance, 2018).

Yasin et al. (2023) in her research on the Effect of Profitability, Leverage, and Company Size on Earnings Management in Property and Real Estate Companies Listed on the Indonesia Stock Exchange 2013 - 2015 obtained the results that Profitability and Leverage have a significant positive effect on earnings management and Company Size has no significant effect on earnings management in property and real estate companies listed on the Indonesia Stock Exchange for the period 2013-2015. This is in line with research conducted by Sinaga (2018) who in their research on Analysis of the Effect of Good Corporate Governance, Leverage and Profitability on Earnings Management in Manufacturing Companies Listed on the IDX obtained the same results that Leverage, Profitability, institutional ownership and managerial ownership have a positive influence on earnings management. Meanwhile, the independent Board of Commissioners has a negative and insignificant effect on earnings management.

Research conducted by Wijayanti and Triani (2020) on the Effect of Leverage, Company Growth, Audit Tenure, and Audit Opinion on Earnings Management (Study on Mining Companies Listed on the Indonesia Stock Exchange in 2013-2017) found that Leverage and Company Growth have a negative effect on earnings management. Meanwhile, Audit Tenure and Audit Opinion have no influence. According to research conducted by Siringoringo and Pangaribuan (2022) regarding the Effect of Company Size, Leverage, KAP Size on Earnings Management in Companies Listed on the LQ45 Index for the 2017-2020 Period, the results show that Company Size has a significant effect on earnings management, leverage partially has a significant effect on earnings management and KAP size has a significant effect on earnings management. Meanwhile, in the research of Christiani and Nugrahanti (2014), it states that Audit Quality proxied by KAP size has no effect on earnings management. However, Quality proxied by auditor industry specialization has a negative effect on earnings management. This is because the auditor's industry specialization has superior knowledge about certain industries. The ability of auditor industry specialization to detect earnings management will encourage clients not to carry out earnings management so that earnings quality improves.

Based on research that has been conducted by previous researchers on the effect of audit opinion, KAP size, profitability and leverage on earnings management, the results of which contradict one another, this study is motivated to re-examine the method of Audit Opinion, KAP Size, Profitability and Leverage on earnings management which describes the performance of healthcare companies on the Indonesia Stock Exchange for the period 2020-2022. This study aims to test and prove the influence of the Audit Opinion, KAP Size, Profitability and Leverage variables on Earnings Management. This is important for companies to know and disclose financial reports that are correct, reliable, fair and avoid elements of fraud, so as not to mislead users of financial statements in fulfilling their needs.

## **2. LITERATURE REVIEW**

### **Agency Theory**

In agency theory, it is stated that there are two individuals who are interrelated, one of these two individuals becomes the agent and the other is called the principal. In practice, company managers who act as agents with the responsibilities given to them, namely to increase the profits of the owners (principals), also have an interest in maximising their welfare (Ujiyantho

et al., 2007). When managers have an interest in maximising their welfare, it allows agents not to act in the interests of shareholders (principals). Therefore, management will do their work solely on the basis of their own interests, not for the benefit of the shareholders (principal) and this can lead to a conflict of interest between the principal and the agent.

### **The Theory of Cheating**

Fraud can be interpreted as a deviant act in the form of applying negative behaviour (actions) that often occur in life, society and in the work environment. According to the Generally Accepted Auditing Standard (GAAS) Guide (2006) fraud can be interpreted as an act committed intentionally that can result in material misstatement in the financial reporting of a company.

### **Earnings Management**

In general, according to Sulistyanto (2008), earnings management can be defined as an attempt by company managers to intervene or influence information in financial reports with the aim of tricking stakeholders who want to know the company's performance and condition. Meanwhile, according to Kusumaningtyas (2012), earnings management is the manager's action by presenting a report that increases or decreases the current period profit of the business unit he is responsible for, without causing an increase or decrease in the unit's economic profitability in the long term. This is generally closely related to the conflict of interest that occurs in a company, namely between the agent (management) of a company and its principal (stakeholders).

### **Audit Opinion**

Audit opinion is an opinion conveyed by the auditor on the fairness of the client company's financial statements in accordance with auditing standards. In accordance with generally accepted auditing standards set by the Indonesian Institute of Certified Public Accountants (IAPI), auditors are required to convey to users of their reports important information that the auditor thinks needs to be disclosed. This information is conveyed by the auditor through the audit report. The opinion given is a statement of fairness, in all material respects, of the financial position and results of operations and cash flows in accordance with Financial Accounting Standards (IAPI, 2011).

### **Public Accounting Firm Size**

KAP size (Accounting Firm Size) is something that distinguishes public accounting firms into large or small sizes based on the number of clients managed and the number of professionals (partners and staff) it has (Colbert and Murray, 1999). In general, large public accounting firms (KAP) require faster and shorter time in completing their audit work, because these public accounting firms (KAP) are believed to be able to carry out audit work more efficiently and have a higher level of flexibility in time schedules in completing audit work on time. In addition, large KAPs get a price premium in completing their audits because they are faster than other KAPs, timely audit time, better quality and quantity of human resources (auditors) so that it will affect the quality of the services produced.

## **Profitability**

Profitability is the company's ability to earn profits in relation to sales, total assets and own capital. Profitability can be used in measuring the effectiveness of overall management which is generally indicated by the size of the level of profit earned in relation to sales and investment. This profitability ratio can provide an overview of the effectiveness of a company's management (Harahap, 2006).

## **Leverage**

Leverage is a tool to measure how much a company depends on creditors to finance its assets. The higher the debt of a company, the more restrictions the company will have on the debt agreement. This encourages managers to take actions that can increase profits to violate the debt agreement. The higher the leverage level of a company, the higher the uncertainty of return. If the interest from the loan is large, it will have an impact on the company's profitability. The higher the level of company leverage, the greater the possibility of managers (agencies) practicing earnings management through manipulation.

## **Hypothesis Development**

### **The Effect of Audit Opinion on Earnings Management**

In general, the better the opinion received by a company, the lower the level of earnings management that occurs. Audit opinion is useful as a source of information that is used as a means of measuring the quality and fairness of a company's financial statements. The issuance of an opinion on a financial report by the auditor is expected to reflect the quality of the company's financial statements.

The existence of an audit opinion can suppress agency problems between the agent and the principal to minimise earnings management. Companies with an unqualified opinion are believed not to carry out earnings management. Because, the better the opinion received by the company indicates that the better the quality of the company's earnings, which indicates the less likely earnings management will occur. Based on this explanation, a hypothesis is formulated:

**H1: Audit Opinion has a significant negative effect on Earnings Management**

### **The Effect of KAP Size on Earnings Management**

Large KAPs are believed to have a large ability or capacity in auditing companies compared to smaller KAPs. In addition, large KAP also has a good name or good image in the eyes of the public so that this can provide added value or positive value to users of financial statements. The experience, knowledge, capacity, and good reputation of KAP included in the Big Four can produce higher quality audit results and can minimise earnings management actions. Companies will find it difficult to commit fraud in financial statements and earnings management if audited by a large KAP (Big Four). Because, large KAP is believed to be able to easily detect earnings management carried out by a company. Meanwhile, if the company is audited by a small KAP, the company generally easily commits financial statement fraud and earnings management. Based on the description above, the following hypothesis can be formulated:

**H2: KAP size has a significant negative effect on Earnings Management**

## The Effect of Profitability on Earnings Management

Profitability is the company's ability to generate profits. Profitability is an indicator of management performance in managing company assets as indicated by the profits generated by the company. If the profits generated by the company are not good, the managers will take earnings management actions in the form of profit smoothing, decreasing profits, or increasing profits to save their performance in the eyes of the owner or investor. Based on the explanation above, it is possible that profitability will influence managers to carry out earnings management actions. Therefore, the authors propose the following hypothesis:

**H3: Profitability has a significant positive effect on Earnings Management.**

## The Effect of Leverage on Earnings Management

Leverage is a tool to measure how much a company depends on creditors to finance its assets. The higher the debt of a company, the more restrictions the company will have on the debt agreement. This encourages managers to take actions that can increase profits to violate the debt agreement. The higher the leverage level of a company, the higher the uncertainty of return. If the interest from the loan is large, it will have an impact on the company's profitability. Therefore, to be able to avoid the lack of investment from stakeholders due to the high uncertainty of returns, management in a company carries out earnings management, this situation is usually caused by a conflict of interest between management and stakeholders (conflict of interest). From the explanation above, the higher the company's leverage level, the greater the possibility of managers practicing earnings management through manipulation. Therefore, the authors propose the following hypothesis:

**H4: Leverage has a significant positive effect on Earnings Management**

### 3. RESEARCH METHOD

The research methods used in this research are hypothesis testing and quantitative descriptive methods. This study will use the classic assumption test and hypothesis testing with multiple regression. The dependent variable used is Earnings Management, and the independent variables used are Audit Opinion, Size of Public Accounting Firm (KAP), Profitability, and Leverage. The population in this study are healthcare companies listed on the Indonesia Stock Exchange in 2020-2022. The samples of this study are healthcare companies listed on the Indonesia Stock Exchange in 2020-2022. In conducting data analysis, multiple linear regression analysis methods and simple linear correlation analysis will be used, to determine the effect between the dependent variable and the independent variable. The data collection method in this study is to use the documentation study method. The data used in this research is secondary data with purposive sampling.

### Operational Definition of Variables and Measurement

#### Earnings Management

Scott (2012) states that earnings management is an action by managers to select accounting policies or actions that affect earnings in order to achieve certain objectives in earnings reporting. Earnings management is proxied by discretionary accruals. Technically with earnings management to determine discretionary accruals as an indicator of earnings management is described in the following stages:

$$\text{TAC} = \text{Nit} - \text{CFOit} \dots\dots\dots (1)$$

The total accrual (TA) value is estimated with the OLS regression equation as follows:

$$\text{TACit} = \beta_1(1/(\text{Ait}-1)) + \beta_2(\Delta\text{Revt}/(\text{Ait}-1)) + \beta_3(\text{PPEt}/(\text{Ait}-1)) \dots\dots\dots (2)$$

Using the regression coefficients above the value of non-discretionary accruals (NDA) can be calculated by the formula:

$$\text{NDAit} = \beta_1(1/(\text{Ait}-1)) + \beta_2(\Delta\text{Revt}/(\text{Ait}-1) - \Delta\text{Recit}/(\text{Ait}-1)) + \beta_3(\text{PPEt}/(\text{Ait}-1)) \dots\dots\dots (3)$$

Discretionary Accrual (DA), can be calculated as follows:

$$\text{DAit} = \text{TACit} - \text{NDAit} \dots\dots\dots(4)$$

Description:

- Nit = Net income of company i in period t
- CFOit = Cash flow from operating activities of company i in period t
- TACit = Total accruals of company i in period t
- TAC = Total company accruals
- Ait-1 = Total assets of company i in period t-1
- $\Delta\text{Revt}$  = Change in Revenue of company i in period t
- PPEt = Fixed assets of company i in period t
- $\Delta\text{Recit}$  = Change in Receivables of company i in period t
- DAit = Discretionary accruals of company i in period t
- NDAit = Non-discretionary accruals of company i in period t

### Audit Opinion

Audit opinion is an opinion conveyed by the auditor on the fairness of the client company's financial statements in accordance with auditing standards. This variable is measured using a dummy variable. If the auditor gives an unqualified opinion to the client company, it is given a value of 1. Meanwhile, if the auditor gives an opinion other than unqualified to the client company, it is given a value of 0 (Che-Ahmad and Abidin, 2008).

### Public Accounting Firm Size (KAP Size)

KAP size (or Public Accounting Firm Size) is something that distinguishes public accounting firms into large or small sizes based on the number of clients managed and the number of professionals (partners and staff) it has (Colbert and Murray, 1999). KAP size is measured using a dummy variable which can be categorised into 2 (two) categories, namely if the company is audited by auditors who work for a large audit firm "big four" given a value of "1" and companies audited by auditors who do not work for a large audit firm "non big four" given a value of "0" (Colbert and Murray, 1999).

### Profitability

Profitability is the company's ability to earn profits in relation to sales, total assets and own capital. Profitability can be used in measuring the effectiveness of overall management which is generally indicated by the size of the level of profit earned in relation to sales and investment. Profitability is a ratio that can provide an overview of the level of effectiveness of company management. Profitability is a comparison of net income and income (Harahap, 2006). The Profitability equation is as follows:

$$\text{Profitability (PROF)} = (\text{Net Profit})/\text{Revenue}$$

## Leverage

Leverage is the ratio between total liabilities and total assets of the company. This ratio shows the amount of assets owned by the company that is financed by debt. The higher the leverage value, the greater the risk that investors will face. Leverage in financial statements consists of two types, namely operating leverage and financial leverage. The leverage measurement in the study adopts the debt to asset ratio formula (Indrawan and Rohayati, 2018), while the leverage equation is as follows:

$$\text{Debt Ratio} = \text{Total Debt} / \text{Total Assets}$$

## Data Analysis Method

Hypothesis testing in this study uses multiple regression analysis with the following model:

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_3X_4 + e$$

Description:

- Y = Earnings Management
- $\alpha$  = Constant
- $\beta_1X_1$  = Audit Opinion
- $\beta_2X_2$  = Public Accounting Firm Size
- $\beta_3X_3$  = Profitability
- $\beta_3X_4$  = Leverage
- e = Confounding Variable

## 4. RESULT AND DISCUSSION

### Description of Research Objects

This study uses a sample of healthcare companies listed on the Indonesia Stock Exchange with an observation period from 2020 to 2022. The results of sample selection using purposive sampling method during the observation period 2020-2022 obtained a total sample of 63 healthcare companies on the Indonesia Stock Exchange (IDX) that published complete annual financial reports along with their financial statement notes.

**Table 1.** Sampling with Purposive Sampling

No.	Description	Total
1.	Healthcare companies listed on the Indonesia Stock Exchange in 2023	30
2.	Healthcare companies that do not have complete data	(9)
3.	Healthcare companies that publish reports by not using Rupiah as the reporting currency	0
4.	Healthcare companies that do not publish financial statements as of 31 December	0
	Total companies sampled	21
	Research period (3 years)	3
	Total data that can be sampled (21 samples x 3 years)	63

## Descriptive Statistics

Descriptive statistics is an overview or description of data seen from the average value (mean), minimum value (minimum), maximum (maximum), standard deviation (deviation standard), and so on. By calculating descriptive statistics, a description of each variable is obtained.

**Table 2.** Descriptive Statistical Test Results

<b>Descriptive Statistics</b>					
	N	Minimum	Maximum	Mean	Std. Deviation
ML	63	-3.9169	3.8079	-0.8556	0.9989
OPINI	63	.00	1.00	.8730	.3356
KAP	63	.00	1.00	.4286	.4988
PROF	63	-0.8854	0.8915	0.0974	0.1961
LEV	63	0.045	0.9437	0.3516	0.2093
Valid N (listwise)	63				

Source: Secondary Data Processed, 2023

## Data Eligibility Test

### Normality Test

Normality test is a statistical test that aims to test whether the research model is normally or abnormally distributed. A good model for use in research is a normally distributed model.

**Table 3.** Normality Test Results

<b>One-Sample Kolmogorov-Smirnov Test</b>		
		Unstandardized Residual
N		63
Normal Parameters <sup>a,b</sup>	Mean	.0000000
	Std. Deviation	.91166309
Most Extreme Differences	Absolute	.089
	Positive	.083
	Negative	-.089
Test Statistic		.089
Asymp. Sig. (2-tailed)		.200 <sup>c,d</sup>

Source: Secondary Data Processed, 2023



Based on the results of normality testing using residuals in the table above, it is known that the residuals of the regression equation model have an Asymp. Sig 0.200 ( $> 0.05$ ). Therefore, the distribution of residual values in the regression equation model is declared normally distributed. This shows that the multiple regression model on the dependent variable and the independent variable has a normal distribution, so the normality assumption required by the model is met.

### Classical Assumption Test

#### Multicollinearity Test

Multicollinearity test is a condition where between two or more independent variables in the regression model there is a perfect or near perfect linear relationship. A good regression model requires the absence of multicollinearity problems. To detect the presence or absence of multicollinearity by looking at the Tolerance and VIF values.

**Table 4.** Multicollinearity Test Results

Model	Coefficients <sup>a</sup>					Collinearity Statistics	
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Tolerance	VIF
	B	Std. Error	Beta				
(Constant)	-1.319	.427		-3.091	.003		
OPINI	.038	.357	.013	.107	.915	.996	1.004
1 KAP	.321	.249	.160	1.291	.202	.930	1.075
PROF	1.990	.613	.391	3.246	.002	.991	1.009
LEV	.280	.592	.059	.472	.639	.932	1.073

a. Dependent Variable: ML

Source: Secondary Data Processed, 2023

Based on the test results, it can be seen that the Tolerance value of audit opinion, KAP size, profitability, and leverage is more than 0.1 and VIF  $<$  than 10, so it can be concluded that there is no multicollinearity problem in the regression model. In other words, the independent variables in the multiple regression model do not have a very strong correlation with other independent variables.

#### Heteroscedasticity Test

Heteroscedasticity indicates that the variance of each error is heterogeneous, which means that it violates the classical assumption which requires that the variance of the error must be homogeneous.

**Table 5.** Heteroscedasticity Test Results

Model	Coefficients <sup>a</sup>			T	Sig.
	Unstandardized Coefficients	Std. Error	Standardized Coefficients		
	B		Beta		
(Constant)	.649	.190		3.424	.001
OPINI	-.249	.159	-.191	-1.565	.123
1 KAP	-.069	.111	-.079	-.626	.534
PROF	-.482	.272	-.216	-1.768	.082
LEV	.437	.263	.210	1.661	.102

a. Dependent Variable: ABS\_RES

Source: Secondary Data Processed, 2023

Based on the table above, it is known that each independent variable used in the study has a sig value > 0.05, therefore, H0 is accepted, meaning that testing can be continued because there is an equal variance in each category in the independent variable. Thus, it can be concluded that this regression model is free from heteroscedasticity so that the use of regression analysis can be used for testing the research hypothesis.

#### Autocorrelation Test

The autocorrelation test aims to test whether in a linear regression model there is a correlation between confounding errors in period t and confounding errors in period t-1 (previous). If there is a correlation, it is called an autocorrelation problem. A good regression model is a regression that is free from autocorrelation.

**Table 6.** Autocorrelation Test Results

Model Summary <sup>b</sup>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.409 <sup>a</sup>	.167	.110	0.9425757	1.745

a. Predictors: (Constant), LEV, OPINI, PROF, KAP  
 b. Dependent Variable: ML

Source: Secondary Data Processed, 2023

Based on the table above, the Durbin-Watson value is 1.745. This value is then compared with the table value  $\alpha = 0.05$  with a sample size (n) of 63 companies and the number of independent variables (k) of 4, then the value of  $d_l = 1.4607$  and  $d_u = 1.7296$  is obtained. The value of d (1.745) is greater than the value of  $d_u$  (1.7296) and the value of d (1.745) is less than  $4 - d_u$  (2.255) or  $d_u < DW < (4 - d_u)$  or  $1.7296 < 1.745 < 2.255$ , so the decision is that there is no positive or negative autocorrelation.

## Multiple Regression Analysis

Multiple regression analysis is used to see the effect of a number of independent variables on the dependent variable, each of which has a ratio or interval scale.

**Table 7.** Results of Multiple Regression Analysis and Statistical Test

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-1.319	.427		-3.091	.003
1 OPINI	.038	.357	.013	.107	.915
KAP	.321	.249	.160	1.291	.202
PROF	1.990	.613	.391	3.246	.002
LEV	.280	.592	.059	.472	.639

a. Dependent Variable: ML

Source: Secondary Data Processed, 2023

Based on the table above, the regression equation developed in this study is:

$$Y = -1.319 + 0.038 \text{ OPINI} + 0.321 \text{ KAP} + 1.990 \text{ PROF} + 0.280 \text{ LEV} + e$$

From the results of the multiple linear regression equation, it can be explained that the constant of -1.319 states that if the independent variables of Audit Opinion (OPINI), Public Accounting Firm Size (KAP), Profitability (PROF), and Leverage (LEV) are considered equal to zero, it can reduce earnings management by -1.319. The coefficient for the OPINI regression is 0.038, meaning that if OPINI increases by 1 percent while other variables are considered constant, earnings management will increase by 0.038 rupiah. Meanwhile, the coefficient for the KAP regression is 0.321, meaning that if KAP increases by 1 percent while other variables are considered constant, earnings management will increase by 0.321 rupiah. The coefficient for the PROF regression is 1.990, meaning that if PROF increases by 1 percent while other variables are considered constant, earnings management will increase by 1.990 rupiah. Meanwhile, the coefficient for the LEV regression is 0.280, meaning that if LEV increases by 1 per cent while other variables are considered constant, earnings management will increase by 0.280 rupiah.

## Hypothesis Test

### Individual Parameter Significance Test (t-Statistical Test)

This test serves to test partially (separately) whether the independent variables included in the model have a significant positive effect on the dependent variable. Based on Table 6, the t test results can be explained as follows:

1. Based on the results of these calculations, the t-value for the Audit Opinion variable (OPINI) is 0.107 and a significant value of 0.915 (> 0.05). This means that the first hypothesis (H1) is rejected, so Ho is accepted, so Audit Opinion has no partially significant effect on Earnings Management.

2. Based on the results of these calculations, the t-value for the Public Accounting Firm Size variable (KAP) is 1.291 and a significant value of 0.202 ( $> 0.05$ ). This means that the second hypothesis (H2) is rejected, so  $H_0$  is accepted, so KAP size does not have a partially significant effect on earnings management.
3. Based on the results of these calculations, the t-value for the Profitability (PROF) variable is 3.246 and a significant value of 0.002 ( $< 0.05$ ). This means that the third hypothesis (H3) is accepted, so  $H_0$  is rejected, so profitability has a partially significant positive effect on Earnings Management.
4. Based on the results of these calculations, the t-value for the Leverage variable (LEV) is 0.472 and a significant value of 0.639 ( $> 0.05$ ). This means that the fourth hypothesis (H3) is rejected, so  $H_0$  is accepted, so leverage does not have a partially significant effect on Earnings Management.

### **Simultaneous Significant Test (F-Statistical Test)**

This test is conducted to see the joint influence between the independent variables on the dependent variable (Ghozali, 2021).

**Table 8.** Simultaneous Significant Test Results (F-Test)

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	10.334	4	2.584	2.908	.029 <sup>b</sup>
1	Residual	51.530	58	.888		
	Total	61.864	62			

a. Dependent Variable: ML  
 b. Predictors: (Constant), LEV, OPINI, PROF, KAP

Source: Secondary Data Processed, 2023

From the table above, the results of the simultaneous significant test (F-test) of the hypothesis above are known that the F-count is 2.908 with a significance value of 0.029 ( $< 0.05$ ). Therefore,  $H_0$  is rejected, which means that there is a joint influence between all independent variables, namely audit opinion, KAP size, profitability and leverage on earnings management.

### **Test Coefficient of Determination (Adjusted R<sup>2</sup>)**

Adjusted R<sup>2</sup> is adjusted determination, which means the magnitude of the influence of the independent variables that have been caused by the effect of the error term together on the dependent variable.

**Table 9.** Adjusted R<sup>2</sup> (Coefficient of Determination) Results

<b>Model Summary<sup>b</sup></b>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.409 <sup>a</sup>	.167	.110	0.94258	1.745

a. Predictors: (Constant), LEV, OPINI, PROF, KAP  
 b. Dependent Variable: ML

Source: Secondary Data Processed, 2023

From the table above, the amount of Adjusted R Square is 0.110. This means that 11.00 per cent of the variation in earnings management can be explained by the four independent variables, namely audit opinion, KAP size, profitability and leverage, while 89.00 per cent is explained by other variables outside the model. Thus, the ability of the independent variables to predict the dependent variable is very limited.

## Discussion

### The Effect of Audit Opinion on Earnings Management

Based on the regression output, it is known that the regression coefficient for the audit opinion factor is 0.038 with a significance level of 0.915. The results of this study indicate that the hypothesis (H1) that Audit Opinion has a significant negative effect on Earnings Management is rejected. So that the conclusion is obtained in the form of audit opinion has no influence on earnings management. In theory, the better the opinion received, the lower the level of earnings management that occurs. The issuance of an opinion on a financial report by the auditor is expected to reflect the quality of the company's financial statements. However, based on the results of this study, it can be concluded that the hypothesis formulation is rejected.

Agency theory is not supported in this resulting research. The existence of auditors cannot suppress agency problems between agents and principals to minimise earnings management. The auditor's opinion has no effect because earnings management is a form of activity that does not violate the rules and the financial statements prepared by issuers that carry out earnings management are still in the context of applicable regulations. This research is also in line with research conducted by Wijayanti and Triani (2020), that Audit Opinion has no influence on earnings management, because earnings management is included in an activity that does not violate the rules and financial reports made are still the same as the context of the rules set.

### The Effect of KAP Size on Earnings Management

Based on the regression output, it is known that the regression coefficient for the KAP size factor is 0.321 with a significance level of 0.202. The results of this study indicate that the hypothesis (H2) that KAP size has a significant negative effect on earnings management is rejected. So that the conclusion is obtained in the form of KAP size has no influence on earnings management. It is possible that earnings management practices occur because companies have a desire for the company's financial performance to look good in the eyes of potential investors, but ignore the existence of Big-4 auditors. In addition, the existence of Big-4 auditors is not to

reduce earnings management, but rather to increase the credibility of financial reports by reducing the disturbances in them so that they can produce more reliable financial reports (Christiani and Nugrahanti, 2014). This is not in line with research conducted by Siringoringo and Pangaribuan (2022) which states that KAP size has a significant effect on earnings management, which means that the larger the size of the KAP, the auditors who work in it have advantages in terms of education, experience and training, thus auditors who work in large KAPs are more competent to audit their clients.

#### The Effect of Profitability on Earnings Management

Based on the regression output, it is known that the regression coefficient for the KAP size factor is 1.990 with a significance level of 0.002. The results of this study indicate that the hypothesis (H3) that profitability has a significant positive effect on earnings management is accepted. So that the conclusion is obtained in the form of profitability has a significant positive effect on Earnings Management. This is in line with research conducted by Yasin et al. (2023), and Sinaga (2018), which state that profitability has a positive effect on earnings management. This is because profitability is an important measure to assess whether a company is healthy or not, which influences investors to make decisions. Companies that have higher profitability tend to average earnings compared to companies that have lower profitability because management knows how the ability to earn profits in the future, so that it will make it easier to delay or accelerate the desired profit. The results of this study are not in line with Joe and Ginting (2022), namely negative profitability on earnings management. The lower the level of profitability, the higher the possibility of companies doing earnings management. In this case, managers are required to provide good financial reports that investors want with the desire to get bonuses from the resulting performance. Therefore, companies that have a low level of profitability will be very easy to carry out earnings management.

#### The Effect of Leverage on Earnings Management

Based on the regression output, it is known that the regression coefficient for the LEV size factor is 0.280 with a significance level of 0.639. The results of this study indicate that the hypothesis (H4) that leverage has a significant positive effect on Earnings Management is rejected. So that the conclusion is obtained in the form of leverage has no influence on Earnings Management. Leverage is a measure of how much a company depends on creditors to finance its assets. So, in this condition, leverage is used as a reference to see the relationship between management and creditors and is not used as a reference to see earnings management in a company. This is not in line with research conducted by Sinaga (2018), Yasin et al. (2023), Joe and Ginting (2022). Leverage has a significant positive effect on earnings management. In this case, with the debt covenant hypothesis which states that if all other things remain the same and the closer the company is to breaching accounting-based debt covenants, it is more likely that company managers will choose accounting procedures that move reported earnings from future periods to the current period. This is done because the reported net profit increase will reduce the failure to pay its debts in the future. Meanwhile, according to Wijayanti and Triani (2020), and Siringoringo and Pangaribuan (2022), leverage has a significant negative effect on earnings management. This is because the existence of greater debt makes third parties carry out higher supervision so that the flexibility to carry out earnings management is reduced.

## 5. CONCLUSIONS, LIMITATIONS, AND SUGGESTIONS

Based on the results of data analysis regarding the effect of Audit Opinion, Size of Public Accounting Firm (KAP), Profitability and Leverage on earnings management in healthcare companies listed on the Indonesia Stock Exchange for the period 2020-2022, it can be concluded that Profitability has a significant positive effect on earnings management in healthcare companies listed on the Indonesia Stock Exchange for the period 2020-2022. Meanwhile, Audit Opinion, Size of Public Accounting Firm (KAP) and Leverage have no significant effect on earnings management in healthcare companies listed on the Indonesia Stock Exchange for the period 2020-2022.

This study has several limitations, namely: (1) This study has a limited time period, namely for 3 years between 2020-2022, so that the research results obtained only describe short-term conditions; (2) This study does not use all variables that can be used in detecting earnings management in financial statements; (3) Limitations on this research sample only use categories for healthcare companies whose annual report data is available on the IDX, so the results cannot be implemented in other business sectors. Based on this research, the authors provide advice if you are going to make further research with the same theme to be able to add periods, variables and research samples in order to obtain maximum results related to earnings management.

## ACKNOWLEDGEMENT

This work was supported by The Faculty of Economics and Business, Universitas Tarumanagara, West Jakarta - Indonesia, as well as The Committee of International Conference of Economics, Business, Social, and Humanities (ICEBSH) 2023.

## REFERENCES

- Che-Ahmad, A., & Abidin, S. (2008). Audit Delay of Listed Companies: A Case of Malaysia. *International Business Research*, 1(4), 32–39. <https://doi.org/10.5539/ibr.v1n4p32>
- Christiani, I & Nugrahanti, Y. W. (2014). Pengaruh Kualitas Audit Terhadap Manajemen Laba. *Jurnal Akuntansi Dan Keuangan*, 16(1), 52-62. <https://doi.org/10.9744/jak.16.1.52-62>
- Colbert, G., and Murray, D. (1999). “State Accountancy Regulations, Audit Size, and Auditor Quality: An Empirical Investigation”. *Journal of Regulatory Economics*, Nov. 1999; Vol.16 (3); pp. 267-285.
- Financial Accounting Standards (2011). IAPI: Jakarta.
- Ghozali, Imam. (2021). *Aplikasi Analisis Multivariate dengan Program SPSS*. Semarang: Universitas Diponegoro.
- Generally Accepted Auditing Standard (GAAS) Guide (2006).
- Harahap, Sofyan Syafri. (2006). *Analisis Kritis atas Laporan Keuangan*. Jakarta: PT. Raja Grafindo Persada.

- Indrawan, Andri, and Rohayati, Siti (2018) Pengaruh Debt-to-Equity Ratio terhadap Return on Asset (ROA) pada Perusahaan Sub-Sektor Farmasi yang Terdaftar di Bursa Efek Indonesia. *UMMI: Jurnal Penelitian dan Pengembangan Sains dan Teknologi*, XII (3). Pp. 5-16. Issn 1907-7750
- Joe, Sherly. and Ginting, Suriani. (2022), Pengaruh Ukuran Perusahaan, Leverage, dan Profitabilitas terhadap Manajemen Laba. *Jurnal Ilmiah Akuntansi Kesatuan*, Vol. 10 No. 3, pp. 567-574. IBI Kesatuan. ISSN 2337 – 7852. E-ISSN 2721 – 3048.
- Kusumaningtyas, Metta, (2012), Pengaruh Independensi Komite Audit Dan Kepemilikan Institusional Terhadap Manajemen Laba, *Prestasi* Vol. 9 No. 1 - Juni 2012
- Salno, H. M., dan Z. Baridwan. (2000). Analisa Perataan Penghasilan (Income Smoothing): Faktor-Faktor yang Mempengaruhi dan Kaitannya dengan Kinerja Saham Perusahaan Publik di Indonesia. *Jurnal Riset Akuntansi Indonesia*. Vol. 3. No. 1. Januari: 17-34.
- Scott, William R. (2012). *Financial Accounting Theory, 6<sup>th</sup> Edition*. Toronto: Pearson Canada.
- Sinaga, Doharman (2018), Pengaruh Good Corporate Governance, Leverage dan Profitabilitas terhadap Manajemen Laba pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia, Repositori Institusi Universitas Sumatera Utara (RI-USU), <https://repositori.usu.ac.id/handle/123456789/11746>.
- Siringoringo, Z. & Pangaribuan, H. (2022). Pengaruh Ukuran Perusahaan, Leverage, Ukuran KAP Terhadap Manajemen Laba Pada Perusahaan Yang Terdaftar di Indeks LQ-45 Periode 2017-2020. *Jurnal Pembangunan Ekonomi dan Keuangan Daerah*, Vol. 23 No. 2, pp. 1–14.
- Sulistyanto, Sri. (2008). *Manajemen Laba Teori dan Model Empiris*. Jakarta: PT. Grasindo
- Ujiyantho, Muh. Arief and Bambang Agus Pramuka (2007). “Mekanisme Corporate Governance, Manajemen Laba, dan Kinerja Keuangan (Studi pada Perusahaan *Go Public* Sektor Manufaktur)”. *Symposium Nasional Akuntansi X*, IAI, 2007.
- Wijayanti, D. E. & Triani, N. N. A. (2020). Pengaruh Leverage, Pertumbuhan Perusahaan, Audit Tanure, dan Opini Audit terhadap Manajemen Laba (Studi pada Perusahaan Pertambangan yang Terdaftar di Bursa Efek Indonesia Tahun 2013-2017). *Jurnal Akuntansi UNESA*, 8(3), 1–9.
- Yasin, B., Awwaliyah, I., Farida, L., & Singgih, M. (2023). Pengaruh Profitabilitas, Leverage dan Ukuran Perusahaan terhadap Manajemen Laba pada Perusahaan Properti dan Real Estate yang Terdaftar di Bursa Efek Indonesia. *VALUE: Journal of Business Studies*, 2(2), 178 - 186. DOI: 10.19184/value.v2i2.40339