Contagion Effect Of Decrease In Auditor Quality And Earnings Management

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Abstract: This research aimed at examining the contagion effect of a decrease in auditor quality on the earnings management practices. The number of research samples was 79 companies within 2012-2015. The earnings management was measured using Jones Modified Model. The decrease in auditor quality is measured by the misstatement of financial statements. Based on the results of the regression analysis, the contagion effect of a decrease in auditor's quality in the previous period and the current period, increasing the practice of earnings management. These results indicate that the contagion effect of a decrease in auditor quality indicates misstatement that provides a gap for companies to practice earnings management. The misstatement was carried over to the following financial reporting period, there by improving earnings management practices in the following period. The misstatement was carried over to the financial statement of other companies with the same auditor. Accordingly, it increases the earnings management Index Terms— Contagion Effect; Auditor Quality, Earnings Management, Misstatement

1 INTRODUCTION

The financial statement becomes a media for the company to deliver the performance of company management to the party using financial statements. The main purpose of financial statements is to provide information about the financial position, financial performance, and corporate cash flows that are beneficial for most of the report users in economic decision making (Ikatan-Akuntan-Indonesia, 2013, para. 7)One of the information in the financial statement is the information regarding the company earnings. Earnings is an indicator used to measure the operational performance of a company. Statement of Financial Accounting Concept (SFAC) number 1 on "Objectives of Financial Reporting by Business Enterprises" explains that the earnings information is an important factor to assess the performance, managerial responsibility, assisting the owner or other parties to conduct interpretation on the earning power of the company in the future. The importance of earnings information for the financial statement users make the entrepreneurs strive to improve their earnings. This motivates companies to report earnings that do not reflect the actual condition of the company. Companies report earnings that do not reflect the actual condition of the company through earnings management. This is increasing because of the company as an internal party which provides the financial statement information has more information compared to the external financial statement users. Earnings management is important to be studied due to the existence of several cases related to earnings manipulation. One of the cases of earnings management in Indonesia is the case of PT. Kimia FarmaTbk. In 2001, the financial statement of PT. Kimia FarmaTbk reported a net income of IDR 132 billion.

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The Capital Market Supervisory Agency (BAPEPAM) considers that the net earnings are too large and contains elements of engineering. Financial statements of PT. Kimia FarmaTbk is re-audited. Financial statement of PT. Kimia FarmaTbk was restated. On the new financial statement, the earnings presented was only IDR 99.56 Billion, IDR 32.6 Billion less (24.7% from the previous earnings reported) (Ahmad, 2011).Another case of earnings management also occurred in foreign companies namely the cases of Enron, WorldCom, and Merck Co Companies. Enron company is a company in the field of the energy industry. The Enron company made earnings management by reporting profits of US $ 600 million and covering actual losses (Ahmad, 2011). The WorldCom company is one of the largest telecommunications companies in the United States. WorldCom companies do financial manipulation by covering the expenditure of US $ 3.8 billion to convince investors that the company generates profits and covers existing losses (Ahmad, 2011). The Merck Co company is the biggest pharmaceutical company in the United States. Merck Co company did an income markup as much as US$ 14.1 Billion for 3 years (Ahmad, 2011). The Enron case impacted on the loss, even the bankruptcy of the Enron company. The auditor role is significantly important in detecting the earnings management. The audit process is beneficial to detect and reveal the practice of manipulation performed by a company (Lin, Liu, & Wang, 2009). One of the manipulation acts which can be prevented by the auditor is accrual earnings management. Accrual earnings management is an earnings management by the company management through the utilization of weakness of the applicable accounting standard. (Roychowdhury, 2006). According to the main objective of the audit which is to ensure the financial reporting in accordance with accounting applicable standards, then the auditor can detect and decrease the practices of accrual earnings management. One of the aspects determining whether the auditor is able to detect and decrease the practices of earnings management is the quality of an auditor. The high-quality of an auditor can decrease the practice of earnings management, on the other hand, the low-quality auditor can increase the earnings management. Danayani and Warsono(2013) state that quality auditors are specialist auditors with high reputation; investment in high recruitment, training, information technology, and audit technology, and the ability to detect high manipulations. Previous research states that in 29 countries, auditors who have a high reputation are able to reduce earnings management practices (Kanagaretnam, Lim, & Lobo, 2010). In Turkey, the high-quality of the audit is shown by the big-four auditor who is more capable of detecting the earnings management compared to the non-big four auditors(Memiş&Çetenak, 2012; Yaşar, 2013). In Indonesia, auditors with industrial specialties are capable of reducing the level of earnings management (Christiani & Nugrahanti, 2014; Pujilestari & Herusetya, 2013).The research focused on the decrease in the auditor quality, as well as the impact on the earnings management. Cassell et al.(2012) state that the supervision of the management of the company is more focused on reducing auditor quality compared to improving the quality of the auditors. This study discusses the existence of contagion effects from a decrease in auditor quality. Contagion effect of a decreasing audit quality shows that auditors who have low quality cause misstatement and bring the impact of the misstatement to the following year (Li, Qi, Tian, & Zhang, 2017) or causes the same misstatement on other companies audited by the same auditor (Du & Lai, 2018; Francis & Michas, 2013; Gul, Lim, Wang, & Xu, 2015). Contagion effect of a decrease in the audit quality causes the increase in the practices of earnings management. This occurs since the existence of misstatement describes the inability of the auditor in detecting and reducing the earnings management.

2 THEORETICAL BASIS

2.1 Agency Theory

Agency theory is a theory explaining the relationship of the agency as a contract between one or more parties (principal) which binds other parties (agent) to run the company management based on principal interests, including the delegation of decision-making authority to the agent (Jensen & Meckling, 1976). The principal will give an incentive to the agent and incur costs for monitoring so that the agents do not do violations (Jensen & Meckling, 1976).The principal does not have sufficient information on the agent's performance. The agent has more information on the self-capacity, work environment, and company as a whole. This is what results in the imbalance of information held by the principal and the agent. This information imbalance is called information asymmetry. The assumption that individuals act to maximize themselves causes the agent to take advantage of the information asymmetry the agent has to hide some information unknown to the principal. Information asymmetry and conflicts of interest that occur between the principal and the agent encourage the agent to present information that is not true to the principal, particularly when the information is related to the measurement of agent's work performance. One of the forms of agent acts is earnings management. One of the mechanisms to reduce the agency conflict is the existence of an independent party who examines the financial statement arranged by the agent. The independent party is the auditor. The auditor is also an agent for the principal to oversee other agents (management) because agency theory explains that the principal does not fully trust management (The-Insititute-of-Chartered-Accountants-in-England-and-Wales, 2005). The audit process is one type of assurance service that aims to improve the quality of information produced by management. One of the mechanisms to reduce the asymmetrical information of financial statement is by conducting a financial statement audit, by evaluating the company financial statement and releasing opinions on the results of the audit..

2.2 Earnings Management

Scott (2014) reveals that there are two ways to comprehend the earnings management. First, opportunistic behavior of management to maximize its utility in facing the compensation contract, debt contract, and political costs. Second, looking at earnings management from an efficient contract perspective, where earnings management gives managers the flexibility to protect themselves and the company in anticipating unexpected events for the benefit of the parties involved in the contract. Factors that influence earnings management according to Watts and Zimmerman (1990) is a bonus based on earnings achievement, violation of debt contracts, and political costs. While Scott (2014) states that several motivations for the occurrence of earnings management namely bonus, political management, tax motivation, CEO replacement, and Initial Public Offering (IPO). Scott (2014) explains the pattern of earnings management is performed through taking bath, income minimization, income maximization, and income smoothing. The selection of earnings management in each company depends on the needs owned by the company related to the generated earning statements.Roychowdhury (2006) explains that earnings management can be conducted by accrual earnings management and real earnings management. The accrual earnings management measures discretionary accrual which does not have an impact on the direct cash flow (Roychowdhury, 2006). Accrual earnings management is done at the end of the period when the manager knows the earnings before being engineered so that it can be found out how much manipulation is needed so that the earnings target is reached (Roychowdhury, 2006). One of the manipulations that auditors can prevent is accrual earnings management. Accrual earnings management is profit manipulation by company management through the use of weaknesses of applicable accounting standards (Roychowdhury, 2006). According to the main objective of the audit, which is to ensure the financial statement is according to the applicable accounting standard, then the auditor is able to detect and reduce the practices of accrual earnings management. Prepare your paper before stylingBefore you begin to format your paper, first write and save the content as a separate text file. Keep your text and graphic files separate until after the text has been formatted and styled. Do not use hard tabs, and limit use of hard returns to only one return at the end of a paragraph. Do not add any kind of pagination anywhere in the paper. Do not number text heads-the template will do that for you.Finally, complete content and organizational editing before formatting. Please take note of the following items when proofreading spelling and grammar.

2.3 Contagion Effect of low-quality audits

The main objective of the auditor in financial stamen audit is to make sure that the financial statement is presented naturally and according to the applicable accounting standards. (Ikatan-Akuntan-Publik-Indonesia, 2015; International-Auditing-and-Assurance-Standards-Board, 2009). In order for these objectives to be achieved, the auditor must have high quality. There are several measures regarding auditor characteristics that describe audit quality such as auditor specialization(Andayani & Warsono, 2013; Christiani & Nugrahanti, 2014; Pujilestari &Herusetya, 2013)auditor reputation(Kanagaretnam et al., 2010), as well as the auditor office(big four and non-big four) (Memiş& Çetenak, 2012; Yaşar, 2013).Based on the audit results, the audit quality can be seen from the quality of the financial statement. One measure of the financial statement quality related to the auditor performance is the misstatement of financial statement (revealed on the following period as a restatement) as the signal of the low-quality audit (Du & Lai, 2018). Misstatement reflects the violation of accounting standards and financial reporting regulations; accordingly, it can be used as an overview of auditor quality (Francis & Michas, 2013). This describes that misstatement is a failure in achieving the main objective of financial statement audit, or audit failure. There are two explanations ofa misstatement in an auditor office. First, the misstatement indicating the low quality of audit engagement (or idiosyncratic factors from the client-company)(Francis & Michas, 2013), such as the complexity of accounting standards, internal control, changes in materiality levels, auditor conservatism, earnings management, transaction complexity, and company management policies (Plumlee & Yohn, 2010). Second, related to the contagion effect, the misstatement indicates there is a systematic problem in the auditor office due to the general characteristics of an auditor office (Francis & Michas, 2013).Contagion effect of a decrease in audit quality shows that the auditor has a low quality causes the existence of misstatement and impacts on the misstatement in the following year (Li et al., 2017) or causes the same misstatement on other company audited by the same auditor (Du & Lai, 2018; Francis & Michas, 2013; Gul et al., 2015). Contagion effect of a decrease in audit quality can occur due to the general characteristics of an auditor's office which indicates a lack of auditor competence, quality control procedures, which causes low audit quality (Francis & Michas, 2013). This causes the low performance in the auditor office. The existence of contagion effect of a decrease in audit quality has been proven by Du & Lai (2018) as well as Francis &Michas(2013) who found that the auditor's office conducting an audit of the financial statements that experienced misstatement would affect the quality of the company's financial statements audited by the same auditor's office. Li et al.(2017) found that financial statements that experienced misstatement had a low quality of the financial statements in the following period if audited by the same auditor. This study observed the contagion effect of a decrease in audit quality at the office level and not testing at the individual auditor level. In Indonesia, based on the Minister of Finance Regulation No.17 / PMK.01/2008 and Government Regulation PP No. 20/2015, individual auditors cannot conduct financial statement audits without taking shelter under a Public Accounting Firm (KAP) and conducting audits on behalf of the KAP. Based on the conditions in Indonesia, most probably the contagion effect of a decrease in audit quality occurs on the office level compared to the individual level. Units

- Use either SI (MKS) or CGS as primary units. (SI units are encouraged.) English units may be used as secondary units (in parentheses). An exception would be the use of English units as identifiers in trade, such as “3.5-inch disk drive.”
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- Do not mix complete spellings and abbreviations of units: “Wb/m2” or “webers per square meter,” not “webers/m2.” Spell units when they appear in text: “...a few henries,” not “...a few H.”
- Use a zero before decimal points: “0.25,” not “.25.” Use “cm3,” not “cc.” (bullet list)

2.4 Development of Hypotheses

There is information asymmetry between the owner and the management of the company. The information asymmetry triggers the practice of earnings management carried over by the company management. One independent party that can reduce the information asymmetry is the auditor. Auditor holds responsible to maintain the quality of information, particularly financial statement so that the asymmetry between the owner and the management becomes lower. The auditor’s role is very important, particularly in detecting and decreasing the practice of earnings management. The success of the auditor in decreasing the earnings management practices is determined by the auditor quality. Danayani and Warsono (2013) state that quality auditors are specialist auditors with high reputation; investment in high recruitment, training, information technology, and audit technology, and the ability to detect high manipulations. Previous research states that in 29 countries, auditors who have a high reputation are able to reduce earnings management practices (Kanagaretnam et al., 2010). In Turkey, high audit quality indicated by big four auditors is able to detect earnings management better than non-big four auditors (Memiş & Çetenak, 2012; Yaşar, 2013). In Indonesia, the auditor with the industrial specialization is able to reduce the level of earnings management (Christiani & Nugrahanti, 2014; Pujilestari & Herusetya, 2013). The high-quality auditor can reduce the practice of earnings management, on the other hand, the auditor who has a low quality tends to fail to detect and reduce the practice of earnings management. The decrease in audit quality is important to be observed. Cassell et al.(2012) mention that the supervision of company management more focuses on the decrease in auditor quality than to the improvement of auditor quality. This is because an increase in audit quality will be followed by an increase in the quality of financial statements, accordingly, it is not the biggest focus. One measure of the decline in auditor quality is a misstatement. Misstatement shows a decrease in the performance of auditors who fail to meet the main objectives of financial statement audits. A misstatement is indicated by the misstatement of financial statements (Francis & Michas, 2013). Misstatement shows the financial statement has a malpresentation due to the miscalculation or not according to the applicable accounting standards.The aspect that needs a deeper observation is the existence of contagion of the decrease in a misstatement, namely the contagion effect of a decrease in auditor quality. Li et al.(2017) found that financial statements that had experienced the previous period's misstatement had a low quality of financial statements in the current period if audited by the same auditor. The contagion effect of the decline in auditor quality has an impact on the practice of earnings management. Misstatement shows that the auditor also has the potential to fail to detect and reduce earnings management practices. With the misstatement from the previous period carried over/contracting to the current period, then there will be an improvement of earnings management practices in the current period. H1: Contagion effect of a decrease in auditor quality in the previous period affected the earnings management practices. Du & Lai (2018), as well as Francis &Michas(2013), found that the auditor office who conducts the audit on the financial statements that experience misstatement will affect the quality of the company's financial statements audited by the same auditor's office. This shows that the contagion effect of a decrease in auditor quality also causes transmission of misstatements in one auditor's office in the same period. With the transmission of the financial misstatement, other companies audited by the same auditor who has conducted a misstatement experience the increase in the practices of earnings management. H1: Contagion effect of a decrease in auditor quality in the current period affects the practice of earnings management Using the TemplateAfter the text edit has been completed, the paper is ready for the template. Duplicate the template file by using the Save As command, and use the naming convention prescribed by your conference for the name of your paper. In this newly created file, highlight all of the contents and import your prepared text file. You are now ready to style your paper; use the scroll down window on the left of the MS Word Formatting toolbar.

3 RESEARCH DESIGN

3.1 Research Sample

The samples in this research were the manufacturing companies listed in the Indonesia Stock Exchange (IDX) in 2012-2016 with the research period of 2012-2015. This is because there were data in the t + 1 period, that were, the current period's misstatement can only be seen from whether there was a restatement in the following period. The determination of the manufacturing industries as research samples because the accrual rate was high compared to other industries. In the research sample, the auditor changes were not conducted and neither changes in the financial reporting period. The number of research samples was 79 companies in 2012-2015. The results of the sampling used in this research are presented in Table 1.

TABLE 1.
Research Sample

	Companies
The Manufacturing company listed in the Indonesia Stock Exchange (IDX) in 2012-2016	130
Incomplete data	(1)
Replacing LK Period	(5)
Replacing Auditor	(45)
Total	79
Total Observation (2012-2015)	316

Source: Indonesia Stock Exchange (IDX)

3.2 Variable and Operational Definition The dependent variable in this research is accrual earnings management. Accrual earnings management was measured using discretionary accrual with Jones Modified method. The steps of Jones Modified method are as follows:

1. Conducting regression with the model as follow.

$$\frac{TAC_t}{TA_{t-1}} = b0\frac{1}{TA_{t-1}} + b1\frac{\Delta SALES_t}{TA_{t-1}} + b2\frac{PPE_t}{TA_{t-1}} \quad \text{.......} \qquad \text{on 1)}$$

2. Calculating non-discretionary accrual values using the parameter of regression results in the first step

$$NDA_t = b0\frac{1}{TA_{t-1}} + b1\frac{(\Delta SALES_t - \Delta AR_t)}{TA_{t-1}} + b2\frac{PPE_t}{TA_{t-1}} \qquad \text{on 2)}$$

3. **Calculating the value of discretionary accrual**

$$DA_t = \frac{TAC_t}{TA_{t-1}} + NDA_t \quad \text{..............................} \qquad \text{on 3)}$$

Description in Equation 1 to Equation 3:

TAC_t	=	Total accrual of period t (net earnings period t minus operation cash flow period t)
TA_{t-1}	=	Total asset period t-1
$\Delta SALES_t$	=	Changes in sales period t (sales period t minus sales period t-1)
ΔAR_t	=	Changes in trade account receivables period t (trade accounts receivable period t minus trade accounts receivable period t-1)
PPE_t	=	Gross fixed asset period t
NDA_t	=	Non-discretionary accrual period t
DA_t	=	Discretionary accrual period t
b0,b1,b2	=	Regression coefficient Equation 1

Headings, The accrual earnings management was measured using the absolute value from discretionary accrual. The consideration of using the absolute value is because this research did not measure whether the company conducted accrual earnings management to increase or decrease the earnings. This research studied whether the level of accrual earning management practice was high or low. The independent variable in this research was the existence of contagion effect of misstatement. The audit failure is seen from the existence of misstatement (restatement in the following period). Misstatement shows that auditors have low quality. The low-quality auditors have a contagion effect on the low quality of the same auditor in the following period which provides audit services to the same client (Li et al., 2017) and the low quality of the same auditor on the same period who provided the audit service to different clients (Du & Lai, 2018; Francis & Michas, 2013; Gul et al., 2015). A misstatement is seen from the existence of restatement in the following period. This research limited the category of restatement according to the Government Accountable Office (2006); that is, it does not classify restatement due to the application of revisions or issuance of new accounting standards and government regulations, mergers and acquisitions, and stock splits as a misstatement of auditor errors. The contagion effect is measured using a dummy variable. There are two measurements of a contagion effect. First, if there is a restatement that shows the previous period's misstatement, then given a score of 1, if there is no restatement, then it is given a score of 0. Second, if there is a misstatement (seen from the restatement of the following period) which indicates a decrease in the auditor's office quality, then 1 score is given to the company who has been audited on the same period by the same auditor office which also causes misstatement, given 0 score when it Is not audited by the same office. The control variable in this research is the auditor factor and company factor. Auditor factor consists of the auditor office size, going concern opinions, and auditor’s specialization which also shows the quality of an auditor who can decrease the earnings management (Andayani & Warsono, 2013; Junaidi, Hartono, Suwardi, Miharjo, & Hartadi, 2016; Minutti-Meza, 2013). The auditor's office size is measured using a dummy variable (score 1 if the auditor's office is included in the big four affiliates, a score of 0 if not included in the big four affiliates). Going concern opinion is an audit opinion that indicates the existence of a company's sustainability problem measured using a dummy variable (score 1 if the audit opinion includes an unqualified opinion, a score of 0 if the audit opinion is included in addition to an unqualified opinion). Auditor specialization is measured using industry specialization, which is indicated by the auditor's market share in one particular industry (Audousset-Coulier, Jeny, & Jiang, 2016; Bae, Choi, & Rho, 2016). If the auditor's market share is 20 percent or more, then it is included in the specialist auditor; if the auditor's market share is below 20 percent, then it is not a specialist auditor (Mayhew & Wilkins, 2003). The auditor's specialization is measured using a dummy variable (score 1 if the auditor is a specialist auditor, score 0 if the auditor is not a specialist auditor).The company factor consists of the company size, company's growth, and loss indicator. The big company will tend to conduct earnings management because it does not want to hold responsible for political costs (Watts & Zimmerman, 1990). The higher the growth and performance of the company, the more the company will do earnings management (Lee, Li, & Yue, 2005). Company size is measured by the logarithm of total assets. Company growth is measured by the ratio of market capitalization divided by total assets. The loss indicator is measured by a dummy variable (score 1 if the net earnings have a negative value, score 0 if the net earnings have a positive value).

3.3 Analysis Model

The research hypothesis testing employed a regression testing. Before the regression testing, this research conducted a classical assumption testing, namely normality, heteroscedasticity, multicollinearity, and autocorrelation; ensuring that the regression model is not biased. The model used in this research was as follow.

$$ML = a + b1CE_{prior} + b2CE_{current} + b3BIG + b4OGC + b5SPESIAL + b6SIZE + b7GROWTH + b8LOSS + e$$

Description:
ML = Earnings Management
CEprior = Contagion effect of a decrease in audit quality in the previous period
CEcurrent = Contagion effect of a decrease in audit quality in the current period
BIG = Auditor's office size
OGC = Going concern opinion
SPESIAL = Auditor's Specialization
SIZE = Company size
GROWTH = Company growth
LOSS = Loss indicator

4 RESULT AND DISCUSSION

4.1 Descriptive Statistics

Descriptive statistics is the description of a variable in this research. The descriptions on research variables are as follows:

TABLE 2.
Descriptive Statistics

Panel A. Descriptive Statistics of Continuous Variables

Variable	Minimum	Maximum	Mean	Standard Deviation
ML	0.0017	2.6220	0.1973	0.2711
SIZE	11.1091	14.3899	12.3794	0.6857
GROWTH	0.0037	142.5678	1.6601	8.1557

Panel B. Descriptive Statistics of Dummy Variables

Variable	Score 1 (percent)	Score 0(percent)	Total (percent)
CE_{prior}	8.9	91.1	100
$CE_{current}$	44.6	55.4	100
BIG	54.4	45.6	100
OGC	7.3	92.7	100
SPESIAL	45.9	54.1	100
LOSS	19.9	80.1	100

Source: Statistical output

Based on Table 2, the least practice of earnings management conducted by a company is 0.0017. The highest practice of earnings management conducted by a company is 2.6220. On average, each company carries out earnings management of 0.1973; with a deviation of 0.2711. Auditors who have contagion effects decrease audit quality from the previous period by 8.9 percent of all research observations. Auditors who have contagion effects of a decrease in audit quality from the same auditor office in the current period as much as 44.6 percent from the overall research observation.

4.2 Classical Assumption

The results of classical assumption testing are as follows.

TABLE 3.
Classical Assumption

Testing	Results	Descriptions
Kolmogorov-Smirnov	Significance < 0.05	Data are not normally distributed
Kolmogorov-Smirnov (after winsorizing)	Significance> 0.05	Data are normally distributed
Glejser	Significance > 0.05	Free from heteroscedasticity problem
Durbin-Watson	Value of DW = 2.097	Free from autocorrelation problem
VIF	VIF < 10	Free from multicollinearity problem

Source: Statistical output

Based on Table 3, these research data are normally distributed (after winsorizing), free from heteroscedasticity problem, free from autocorrelation problem, and free from multicollinearity problem.

4.3 Hypothesis Testing and Discussion

The results of hypothesis testing using the regression analysis are as follows.

TABLE 4.
Regression Testing

Variables	Coefficient	Description
Constant	1.340	
CE_{prior}	0.110**	H1 accepted
$CE_{current}$	0.052***	H2 accepted
BIG	-0.052	
OGC	0.072	
SPESIAL	-0.030	
SIZE	-0.092*	
GROWTH	-0.001	
LOSS	0.007	
F Value	6.406*	
Adjusted R^2	0.121	

*Significant at the level of 1 percent
**Significant at the level of 5 percent
***Significant at the level of 10 percent

Source: processed data

Based on Table 4, the contagion effect of a decrease in audit quality in the previous period has the regression coefficient of 0.110 (significant on the level of 5 percent). These results indicate that the first hypothesis of this study is accepted, the contagion effect of the decrease in auditor quality in the previous period has a positive effect on earnings management. The contagion effect of the decline in auditor quality in the current period has a regression coefficient of 0.052 (significant at the 10 percent level). These results indicate that the second hypothesis of this study is accepted, the contagion effect of the decline in auditor quality in the current period has a positive effect on earnings management. The results are in line with the previous research which discuss on the decrease of audit quality followed by the increase in the practice of earnings management (Andayani & Warsono, 2013; Christiani & Nugrahanti, 2014; Kanagaretnam et al., 2010; Memiş & Çetenak, 2012; Pujilestari & Herusetya, 2013; Yaşar, 2013).Misstatement shows the low quality of an auditor. The decrease in the auditor quality is also reflected from the low quality of the same auditor, both the one who audits the following financial statement (Li et al., 2017) and the one who audits the other companies' financial statements (Du & Lai, 2018; Francis & Michas, 2013). The decrease in auditor quality opens opportunities for companies to practice earnings management. For example, if there is a misstatement of the company's financial statements (seen from the restatement of the financial statements of the following period) because of misuse of accounting estimates or misclassification in accordance with accounting standards, then this indicates that the auditor failed to ensure that the financial statements are presented. If the auditor fails to ensure an estimate or classification of accounting policies, then this is a gap for companies to practice earnings management. The misstatement was carried over to the following financial reporting period, thereby improving earnings management practices in the following period. The misstatement is carried away to the other companies' financial statement with the same auditor, s that it increases the practice of earnings management of other companies audited by the same auditor.

4.4 Additional Analysis

The additional analysis in this research was considering the audit quality and earnings management from the aspect of audit conservatism. Audit conservatism shows that the audit's focus in the misstatement on the reported earnings is an overstatement. This study measures the contagion effect of a decrease in audit quality over income-increasing misstatement. In addition, alternative management measurements use the value of discretionary accrual without absolute, so that this study can see earnings management with the aim of increasing earnings or decreasing earnings. Based on the concept of conservatism audit, high-quality auditors only focus on detecting and reducing the practice of earnings management with the aim of increasing profits. The possibility of audit conservatism due to time and cost constraints, so that the auditor only focuses on the greatest potential for the misstatement, in the context of this research namely the potential for the misstatement in the form of overstatement of earnings information (Francis & Michas, 2013). The results of classical assumption testing for additional analysis used the basis of audit conservatism as follow.

TABLE 5.
Classical Assumption (Auditor Conservatism)

Testing	Results	Descriptions
Kolmogorov-Smirnov	Significance < 0,05	Data are not normally distributed
Kolmogorov-Smirnov (after winsorizing)	Significance > 0,05	Data are normally distributed
Glejser	Significance > 0,05	Free from heteroscedasticity problem
Durbin-Watson	DW Value= 2,012	Free from autocorrelation problem
VIF	VIF < 10	Free from multicollinearity problem

Source: processed data

The Based on Table 5, the data of this research are well distributed (after winsorizing), Free from heteroscedasticity problem, free from autocorrelation problem, and free from multicollinearity problem.

The results of the additional analysis, as well as its comparison with the results of the main analysis, are as follows.

TABLE 5.
Comparison of Additional Testing Results

Variable	Coefficient		Description
	Main Analysis	Analysis using Auditor Conservatism	
Constant	1.340	-2.613	
CE_{prior}	0.110**	1.133*	Consistent
$CE_{current}$	0.052***	0.099**	Consistent
BIG	-0.052	-0.041	
OGC	0.072	0.110***	
SPECIAL	-0.030	-0.062***	
SIZE	-0,092*	0,212*	
GROWTH	-0,001	0,001	
LOSS	0,007	-0,019	
Nilai F	6,406*	27,487*	
Adjusted R^2	0,121	0,402	

*Significant on the level of 1 percent
**Significant on the level of 5 percent
***Significant on the level of 10 percent

Source: processed data

Based on Table 6, the comparison of results between the main analysis and analysis using auditor conservatism consideration shows that the additional analysis results are consistent with the main analysis results which show that the contagion effect of a decrease in auditor quality has a positive effect on the practice of earnings management.

5 CONCLUSION

The objective of this research was to examine the contagion effect of the decrease in auditor quality on the earnings management practices. Based on the results of data analysis, the previous and present contagion effects of the decrease in auditor quality increase the earnings management. The results indicated that the contagion effect of the decrease in auditor quality showed a misstatement which provides a gap for companies to practice earnings management. The misstatement is carried over to the following financial statement period. Accordingly, it increases the practices of earnings management of other companies with the same auditor. This research gives indications for shareholders and companies to choose qualified auditors. Therefore, the quality of financial statement information increase and can be used in economic decision making.

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