Accounting Analysis Journal

https://journal.unnes.ac.id/sju/index.php/aaj

The Effect of Industrial Specialization Auditors and Audit Committee Expertise on Audit Quality

Indah Kurniasih*[1] and Kiswanto[2]

[1,2]*Accounting Department, Faculty of Economics, Universitas Negeri Semarang*

ARTICLE INFO

Article History:
Received Oktober 22, 2018
Accepted March 1, 2019
Available July 30, 2019

Keywords:
audit quality;
audit committee expertise;
auditor industrial specialization;
discretionary accruals

ABSTRACT

The purpose of this research is to analyze the impact of auditor industry specialization and audit committee specific expertise, which is divided into accounting, finance, and supervisory expertise, controlled by board of commissioner size, board of director size, firm size, leverage, and profitability. This research uses secondary data with population of 144 manufacturing companies listed on the Indonesian Stock Exchange (IDX) during 2014-2016. The sample selection method was purposive sampling which generates 87 firms as the sample. The data analysis method was multiple linear regression analysis by IBM SPSS version 23.The results showed that the auditor industry specialization and audit committee accounting expertise have positive effect on audit quality. While the audit committee finance and supervisory expertises do not affect the audit quality. Control variables board of commissioner size, firm size, leverage, and profitability affect to audit quality. However, board of director size does not affect to audit quality. The conclusion of this research is auditor industry specialist and audit committee who has accounting expertise are able to improve the audit quality.

INTRODUCTION

Financial statements are the basis of important decision making for stakeholders so that the information presented must really reflect the economic conditions of the company. This shows that the existence of an audit process is very important because of its ability to give independent trust to the credibility of accounting information (Defond & Zhang, 2014). Therefore, Auditors are responsible for the quality of the audited financial statements. However, various scandals involving the Public Accounting Firm (KAP) and large companies in the past few years have caused a low public perception on audit quality.

Some scandals such as the Bakrie Group and British Telecom show the importance of audit quality which is the responsibility of the company and the auditor. The Bakrie Group financial statement which has been audited, contains a material misstatement due to auditor's negligence in identifying the misstatement resulting in an inaccurate audit report. While British Telecom auditors were involved in audit failures because they were unable to identify fraud committed by British Telecom senior executives. This phenomenon shows that auditors are not immune from failure or negligence in conducting their audit so that the resulted audit quality is still low.

Facts that are often associated with low audit quality such as accounting scandals that occur in the Bakrie Group and British Telecom show the need to analyze what factors influence it. Qi, et al. (2015) stated the importance of considering the roles of auditors and clients in influencing audit quality. Researches that examine audit quality prove that audit quality is influenced by various factors, namely auditor industrial specialization, tenure, and regulation (Al-Khaddash, et al., 2013; Panjaitan & Chariri, 2014; Fitriany et al.,2015). In addition, other studies that directly or indirectly use other proxies to measure earnings management that can show audit quality, provide empirical evidence of the influence of audit committee expertise, board of commissioners size, board of director size, firm size, profitability, and leverage affecton discretionary accruals (Badolato, et al. 2014; Sumanto,et al., 2014; Riadiani & Wahyudin, 2014; Dwiharyadi, 2017).

The independent variable in this study is chosen based on the phenomena that underlie previous research and research related to audit quality. The role of audi-

* *E-mail: indahk2018@gmail.com*
Address: L2 Building 2nd floor, Campus Sekaran, Gunungpati, Semarang, Indonesia, 50229

DOI 10.15294/aaj.v8i2.26708 p-ISSN 2252-6765 e-ISSN 2502-6216

tors and audit committees which are seen as the most important monitoring mechanism requiring auditors and audit committees to have adequate competence so that they are able to produce a good audit quality. However, the phenomena that occur show conditions that are not always in line with expectations. Meanwhile based on previous research, the influence of auditor industrial specialization and audit committee expertise still show inconsistent findings on audit quality.

Al-Khaddash, *et al.* (2013) and Panjaitan & Chariri (2014) prove that auditor industrial specialization has a positive effect on audit quality. Whereas Meza (2013) and Mughni & Cahyonowati (2015) prove that auditor industrial specialization does not affect on audit quality. Research related to the expertise of audit committee with specific expertise including accounting, financial and supervisory expertise also show inconsistent findings. Dhaliwal, *et al.* (2010) and Mughni & Cahyonowati (2015) prove that the audit committee's accounting expertise has a positive effect on audit quality. Whereas Badolato, *et al.* (2014) and Dwiharyadi (2017) prove that audit quality is not influenced by the audit committee's accounting expertise.

Regarding the financial expertise of the audit committee, Dhaliwal, *et al.* (2010) and Cohen *et al.* (2014) prove that the financial expertise of the audit committee is able to improve audit quality. On the contrary, Badolato, *et al.* (2014) and Dwiharyadi (2017) prove that the financial expertise possessed by the audit committee does not affect the high and low quality of the audit produced. Research related to supervisory expertise carried out by Badolato, *et al.* (2014) and Cohen *et al.* (2014) show evidence of the influence of the audit committee's supervisory expertise on audit quality. Whereas Dhaliwal, *et al.* (2010) and Kusnadi *et al.* (2016) prove the opposite, namely audit committee supervisory expertise does not affect on the quality of the audit produced.

The purpose of this study is to analyze the effect of auditor industrial specialization and audit committee expertise on audit quality. The expertise of the audit committee examined using specific measurements, namely accounting, finance, and supervision expertise because it has never been done in empirical studies in Indonesia. Most studies that analyze the expertise of audit committees still use only one category of audit committee expertise, namely financial expertise which the definition and measurement include accounting and financial expertise. This study also considers the control variables, namely board of commissioners size, board of directors size, firm size, leverage, and profitability based on previous assumptions and research (Badolato, *et al.* 2014; Riadiani & Wahyudin, 2015; Mughni & Cahyonowati, 2015; Arifin & Destriana, 2016; Dwiharyadi, 2017). The use of control variables aims that the relationship which occurs in the dependent variable is purely influenced by the independent variable.

The factors tested in this study relate to the expertise possessed by auditors and audit committees so that the assumptions that underlie this research are the better the skills a person has, the better the performance produced. This is in line with the competency theory which supports the argument that auditor industrial specialization and audit committee expertise are closely related to the quality of the audit produced. The concept of competency explained by Chouhan & Srivastava (2014) that includes knowledge, skills, personal concepts, characteristics, and motives of a person will shape critical behaviour resulting in better performance. The better the expertise of the external auditors, the better the audit quality produced. Likewise for the audit committee, the better the specific abilities and skills possessed to carry out their functions, the better the quality of the audit produced.

Auditors are responsible for providing independent verification regarding the fairness of the financial statements presentation. Therefore, the auditors must have certain competencies and expertise to produce a qualified audit. The understanding and capabilities that the auditors need include understanding of accounting principles and general accepted audit standards, accounting system, knowledge of a particular client or industry, understanding of management incentives in various business conditions, as well as problem solving, interpretation and data analysis capabilities (Bonner & Lewis, 1990). The argument shows the need for auditors to have an understanding of certain industries in addition to the general knowledge needed for all audits.

Auditor industrial specialization is based on training and practical experience gained from auditing certain industries (Craswell, *et al.* 1995). Specialists auditors of industry are considered more competent because they have more information to understand the condition of the company and the industrial sector being audited. This assumption is in line with competency theory where the more often auditors audit clients in a particular industry, the better their knowledge and understanding will make them as specialist auditors in the industry, including knowledge, skills, personal concepts, characteristics and motivations that possessed by them Al-Khaddash, *et al.* (2013), Panjaitan & Chariri (2014), and Fitriany *et al.*(2015) prove that discretionary accruals of industrial specialist auditors are lower or audit quality is higher, compared to non industrial specialist auditors.

H_1: Auditor Industrial Specialization has a positive effect on Audit Quality

Accounting expertise is the expertise of audit committee members who are experienced in preparing, auditing, or evaluating financial statements. The specification of accounting expertise relates to the role of the audit committee in terms of understanding, analysis, and evaluation of financial statements. Preparation of financial statements involving various accounting policies related to accruals, estimates, and reserves requires an adequate understanding of accounting so that the audit committees that have accounting expertise are better able to evaluate financial statements and identify problems and communicate them to the management and external auditors.

This assumption is in line with the competency theory where more experience, learning, or training in the field of accounting, including knowledge, skills, per-

sonal concepts, characteristics, and motivation that the audit committee have, the better their expertise in the accounting field. Accounting expertise supports the role of the audit committee in monitoring accounting policies related to accruals, estimation, and reserves so as to limit the value of discretionary accruals and produce a high audit quality. Dhaliwal *et al.* (2010), Mughni& Cahyonowati (2015), and Kusnadi *et al.* (2016) prove that the audit committee's accounting expertise has a positive effect on audit quality.

H_2: Audit Committee's Accounting expertise has a positive effect on Audit Quality

Financial expertise is the expertise of the audit committee who is experienced in overseeing or evaluating the performance of companies or public accountants in connection with preparation, audit, and evaluation of financial statements. Financial expertise is related to a strong background in estimating earnings, giving investment recommendations, and conducting due diligence in offering equity in mergers and acquisitions (Dhaliwal *et al.*, 2010). This shows that the audit committee with financial expertise not only controls the industrial environment, but also the legal, regulatory, politics and ethics of corporate environment (Dhaliwal *et al.*, 2010). Therefore, audit committees that have financial expertise are considered more able to limit opportunistic earnings management actions and produce higher audit quality.

This assumption is in line with the competency theory where the more experience, learning, or training in the financial field, including the knowledge, skills, personal concepts, characteristics, and motivation that the audit committee has, the better their expertise in the financial sector. Financial expertise supports the role of the audit committee in evaluating earnings so as to limit the value of discretionary accruals and produce high audit quality. Dhaliwal, *et al.* (2010), Cohen *et al.* (2014), and Cohen*et al.* (2017) prove that the audit committee's financial expertise has a positive effect on audit quality.

H_3: Audit Committee's Financial Expertise has a positive effect on Audit Quality

Supervision expertise is defined as the expertise of audit committee members who are experienced in overseeing financial leaders, accounting leaders, financial controllers, auditors, or people who perform similar functions. Trautman (2013) confirms that the functions inherent in the audit committee, especially supervision in the preparation of financial statements, mean that members of the audit committee are required to have competencies which include supervisory, accounting and financial expertise. Therefore, the audit committee must have experience related to the implementation of the financial accounting function in addition to their experience in overseeing the function. Audit committees that have supervisory expertise are considered capable of carrying out a better supervisory function because they can effectively organize supervisory functions so as to limit opportunistic earnings management action which has implications for higher audit quality.

This assumption is in line with the competency theory where more experience, learning, or training in the field of supervision, including knowledge, skills, personal concepts, characteristics, and motivation of the audit committee, the better the expertise in the field of supervision. Supervision expertise supports the role of the audit committee in minimizing fraud so as to be able to limit the value of discretionary accruals and produce high audit quality. Cohen *et al.* (2014), Badolato, *et al.* (2014), and Ghafran & O'Sullivan (2017) prove that audit committee supervision expertise has a positive effect on audit quality.

H_4: Audit Committee's supervision expertise has a positive effect on Audit Quality

Based on the description of the theoretical framework and the formulation of hypotheses, the theoretical framework in Figure 1 is obtained.

RESEARCH METHOD

This research was a quantitative research with secondary data. The population of this study was 144 manufacturing companies listed on the Indonesia

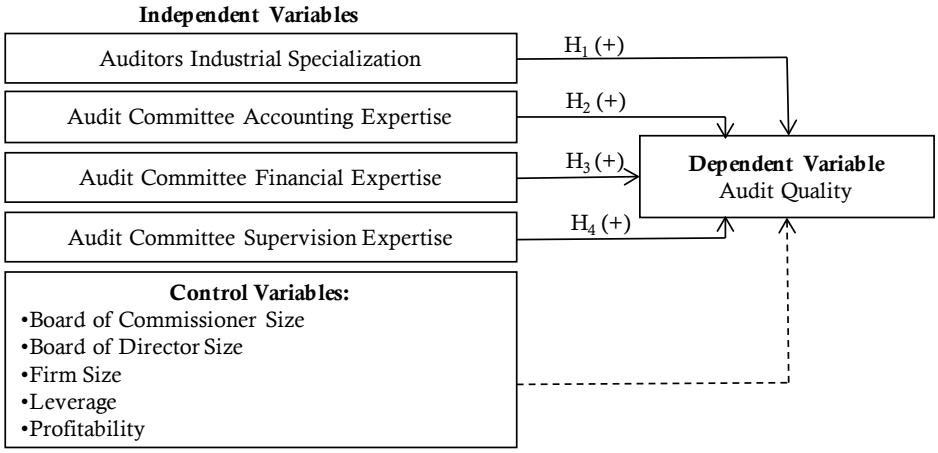

Figure 1. Theoretical Framework

Stock Exchange (IDX) in 2014–2016. Sampling used a purposive sampling method. The sample selection process based on criteria presented in Table 1.

The dependent variable of this study was audit quality using a discretionary accruals proxy. Johnson (2002) stated that discretionary accruals are used as proxy for audit quality because it is able to show active management intervention in earnings reporting. Low value of discretionary accruals are associated with high quality audits produced because auditors and audit committees succeed in limiting opportunistic earnings management actions. The independent variables are the auditors industrial specialization, as well as the accounting, financial, and supervisory expertise of the audit committee. Control variables are board of commissioner size, board of directors size, firm size, leverage, and profitability. Table 2 shows the operational definition of each research variable.

The data collection technique used documentation techniques, namely by downloading the annual reports of manufacturing companies in www.idx.co.id. This study used descriptive statistical analysis and mul-

Table 1. Sample Selection Based on Criteria

No	Criteria	Beyond Criteria	Included Criteria
1.	Manufacturing companies listed on the Indonesia Stock Exchange in 2014-2016		144
2.	Companies publish annual reports	(8)	136
3.	Corporate financial information uses the rupiah currency	(30)	106
4.	Companies that have complete data	(19)	87
	Observation Year		3
	Amount of research data during 2014-2016		261
	Outlier		(14)
	Unit of analysis		247

Source: secondary data processed in 2018

Table 2. Operational Definition of Variables

Variables	Definition	Measurement
Audit Quality (DACC)	The probability in which auditors find and report violations in the client's accounting system (DeAngelo, 1981)	1. Calculating Total Accrual TAC= TACit = EATit – CFOit 2. Calculating accruals value with Ordinary Least Square (TACt/At-1) = α1(1/At-1)+α2 ([ΔREVt/At-1)+α3(PPEt/At-1)+ε 3. Calculating Non discretionary Accrual NDAt =α1(1/At-1)+α2 ([ΔREVt-ΔRECt]/At-1)+α3(PPEt/At-1) 4. Calculating Discretionary Accrual DACCt = (TACt/ At-1) – NDAt (Dechow, et al. 1995)
Auditor Industrial Specialization (SPEC)	KAP that has practical experience gained from auditing certain industries (Craswell, et al. 1995)	Industry Market Share $= \frac{Number\ of\ KAP\ clients\ in\ the\ industry}{JNumber\ of\ entire\ entities\ in\ the\ industry} x$ $\frac{Average\ KAP\ client\ assets\ in\ the\ industry}{Average\ entire\ entities\ assets\ in\ the\ industry}$ (Siregar et al., 2011)
Audit committee accounting expertise (ACCEXP)	Expertise in preparing financial statements (Badolato, et al., 2014).	$ACCEXP = \frac{Number\ of\ Audit\ Committees\ with\ Accounting\ Expertise}{Number\ of\ All\ Audit\ Committees}$
Audit committee financial expertise (FINEXP)	Expertise in analyzing financial statements (Badolato, et al., 2014).	$FINEXP = \frac{Number\ of\ Audit\ Committees\ with\ Financial\ Expertise}{Number\ of\ All\ Audit\ Committees}$
Audit committee supervision expertise (SUPEXP)	Expertise in overseeing the preparation of financial statements (Badolato, et al., 2014).	$SUPEXP = \frac{Number\ of\ Audit\ Committees\ with\ Supervison\ Expertise}{Number\ of\ All\ Audit\ Committees}$

Continuation of Table 2. Operational Definition of Variables

Variables	Definitions	Measurement
Board of Commissioner Size (BOCSIZE)	The size of the board of commissioners based on the number of the Board of Commissioners (Sumanto et al., 2014)	The number of the Board of Commissioners in the t year.
Board of Director Size (BODSIZE)	The size of the board of directors based on the number of board of directors (Badolato, et al., 2014)	The number of the Board of Directors in the t year.
Client's Size (LN_TA)	Scale that can be classified in the size of the company (Christiani and Nugrahanti, 2014).	SIZE = Log Total Asset
Leverage (LEV)	Comparison between total debt and total assets that shows how much part of the asset is used to guarantee debt (Christiani and Nugrahanti, 2014).	$Leverage = \frac{Total\ Liabilities}{Total\ Asset}$
Profitability (ROA)	The company's ability to generate earnings in relation to assets or capital used (Arifin dan Destriana, 2016).	$ROA = \frac{Net\ Profit\ After\ Tax}{Total\ Aset}$

Source: Various sources, 2018.

tiple linear regression with IBM SPSS version 23. Before conducting regression analysis, research data was tested first with the classical assumption test, namely normality, multicollinearity, autocorrelation, and heteroscedasticity tests. The equation model carried out with regression tests in this study is:

$$DACC = \alpha + \beta1SPEC + \beta2ACCEXP + \beta3FINEXP + \beta4SUPEXP + \beta4BOCSIZE + \beta4BODSIZE + \beta4LN\_TA + \beta4LEV + \beta4ROA + \varepsilon \quad \text{.....(1)}$$

RESULTS AND DISCUSSIONS

Descriptive statistics provide an overview of data that includes averages, standard deviations, variants, maximum and minimum. The results of descriptive statistical testing can be observed in Table 3.

Before testing the hypothesis, the classical assumption tests are first performed on the regression model. The classical assumption test results are shown in Table 4.

Table 4 shows the significance value in the Kolmogorov-Smirnov test, which is 0.200 or> 0.05, which means that the data is normally distributed. The multicollinearity test results in Table 4 show that all independent variables have tolerance values of more than 0.10 and VIF values of less than 10 which means there are no symptoms of multicollinearity between independent variables in the regression model. The Runs Test result in Table 4 show the Runs Test value of -0.00427 with a significance of 0.407 or more than 0.05 which means that the residuals are not random or there is no autocorrelation between residual values. Heteroscedasticity test using Spearman Rho statistical test which in Table 4 shows all variables have a significance value> 0.05, which means that there are no symptoms of heteroscedasticity in the regression model. The regression equation model after fulfilling all the classical assumption tests is as follows:

$$DACC = 0.625 - 0.026\ SPEC - 0.046\ ACCEXP - 0.015\ FINEXP - 0.009\ SUPEXP + 0.009\ BOCSIZE + 0.005\ BODSIZE - 0.022\ LN\_TA - 0.057\ LEV + 0.140\ ROA \quad \text{.....(2)}$$

Table 3. Results of Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	Std. Deviation
DACC	247	-0.2224	0.2541	0.006953	0.079783
SPEC	247	0.00	1.00	0.2955	0.45721
ACCEXP	247	0.00	1.00	0.5226	0.28598
FINEXP	247	0.00	1.00	0.3265	0.33665
SUPEXP	247	0.00	1.00	0.4657	0.27465
BOCSIZE	247	2.00	12.00	4.3198	1.81652
BODSIZE	247	2.00	15.00	5.1984	2.48514
NL_TA	247	25.30	33.20	28.3863	1.59419
LEV	247	0.04	1.52	0.4896	0.26217
ROA	247	-0.28	0.43	0.0582	0.09578

Source: Output SPSS 23, 2018

Table 4. Result of Classical Assumption Tests

Normality Test		
One-sample Kolmogorov Smirnov	Test Statistics	Asymp.Sig.(2-tailed)
	0.049	0.200

Multicollinearity Test			Heteroscedasticity
VIF and Tolerance Test	Tolerance	VIF	Spearman's Rho (Sig) Test
SPEC	0.734	1.363	0.778
ACCEXP	0.834	1.200	0.912
FINEXP	0.897	1.115	0.540
SUPEXP	0.939	1.064	0.905
BOCSIZE	0.447	2.236	0.828
BODSIZE	0.493	2.030	0.616
LN_TA	0.407	2.459	0.480
LEV	0.885	1.130	0.330
ROA	0.872	1.147	0.350

Autocorrelation Test		
Runs Test	Test Value	Asymp.Sig.(2-tailed)
	-0.00427	0.407

Source: Output SPSS 23, 2018

The regression test results of equation 2 with α = 5% are used to find out the results of hypothesis testing shown in Table 5.

The Effect of Auditor Industrial Specialization on Audit Quality

Auditor industrial specialization has a positive effect on audit quality. Auditor industrial specialization has a negative relationship direction to discretionary accruals. This relationship indicates that the use of auditors industrial specialization can limit discretionary accruals so that the resulted audit quality is higher. Auditor industrial specialization that is determined based on the calculation of market share by weighting the number of clients and the average of audited client assets in a particular industry shows that the auditor is said to be a specialist if he has audited many clients in the same industry. Fitriany et al. (2015) emphasized that the audit a company, the better the quality of the audit produced.

The effect of auditor industrial specialization on audit quality in accordance with the concept of competency theory. Specialist auditors who have more understanding and ability to audit certain clients or industries will be more able to limit the value of discretionary accruals so that the quality of the audit produced is higher. The companies choose specialist auditors because they are considered more competent to be able to provide a higher level of trust in information reported by management. These findings are consistent with the research of Al-Khaddash, *et al.* (2013), Panjaitan & Chariri (2014), and Fitriany *et al.* (2015) which prove that auditor industrial specialization has a positive effect on audit quality with a discretionary accruals proxy.

The Effect of Audit Committee Accounting Expertise on Audit Quality

Audit committee accounting expertise has a positive effect on audit quality. The audit committee's accounting expertise has a negative relationship direction to discretionary accruals. The relationship indicates that

Table 5. Summary of Hypothesis Test Results

	Hypothesis	Coefficient	Significance	Results
H_1	Auditor industrial specialization has a positive effect on audit quality	-0.026	0.024	Accepted
H_2	Audit Committee Accounting expertise has a positive effect on audit quality	-0.046	0.009	Accepted
H_3	Audit Committee Financial Expertise has a positive effect on audit quality	-0.015	0.309	Rejected
H_4	Audit Committee Supervision Expertise have a positive effect on audit quality	-0.009	0.579	Rejected
Testing on Control Variables				
1	The size of the Board of Commissioners has a positive effect on audit quality	0.201	0.019	Rejected
2	The size of the Board of Directors has a negative effect on audit quality	0.147	0.071	Rejected
3	Company size has a positive effect on audit quality	-0.436	0.000	Accepted
4	Leverage has a positive effect on audit quality	-0.188	0.002	Accepted
5	Profitability has a negative effect on audit quality	0.168	0.006	Accepted

Source: Secondary data processed, 2018

the existence of accounting expertise possessed by the audit committee is able to limit discretionary accruals so that the quality of the audit produced is higher. Audit committee accounting expertise is measured based on Badolato, *et al.* (2014) where the criteria for accounting expertise are having experience in a strategic accounting position such as the Chief Finance Officer (CFO), head and staff of the accounting department, or having certificate as a professional accountant such as Chartered Accountant, indicating that audit committees are accounting experts if they already have understanding and experience in the accounting field.

The effect of audit committee accounting expertise on audit quality is in accordance with the concept of competency theory. The more experience, the better the understanding in the accounting field possessed by the audit committee so that the better the quality of the audit produced. Accounting expertise supports the role of the audit committee to oversee the area of important financial reports related to accruals, estimates, and reserves (Dhaliwal, *et al.*, 2010). Therefore, the audit committees with accounting expertise will be able to limit the value of discretionary accruals so that the resulted audit quality is higher. These results support the findings of Dhaliwal, *et al.* (2010) and Mughni and Cahyonowati (2015) which prove that the audit committee accounting expertise has a positive effect on the audit quality with a discretionary accruals proxy.

The Effect of Audit Committee Financial Expertise on Audit Quality

Audit committee financial expertise does not affect on audit quality. Dwiharyadi (2017) stated that insignificant results may be due to the accounting and financial expertise criteria used mostly using the experience of each member of the audit committee without considering other competency factors. In addition, there were not many manufacturing companies in 2014-2016 that had audit committee members with financial expertise.

This finding is not yet in line with the competency theory which explains audit quality would be better if the company has certain specific expertise, in this case financial expertise. The role of financial expertise in supporting the role of audit committees is related to earnings evaluation which has not proved yet can limit the value of discretionary accruals. Therefore, many or few number of audit committee members who have financial expertise do not affect on the quality of the audit produced. This result supports the findings of Badolato, *et al.* (2014) and Dwiharyadi (2017) which proves that the audit committee's financial expertise does not have a significant effect on earnings management.

The Effect of Audit Committee Supervision Expertise on Audit Quality

Audit committee supervision expertise does not affect on audit quality. Although this study proves the influence of accounting expertise on audit quality, it does not mean that each audit committee member who has supervisory expertise also has accounting expertise. This result is in line with the argument stated by Dhaliwal, *et al.* (2010) who confirmed that insignificant findings may occur because the supervisory expertise possessed by audit committee members is not accompanied by an adequate understanding of accounting and so that fails to apply their business acumen effectively in offsetting their supervisory role in the preparation of financial statements. This finding proves that audit committees that only have supervisory expertise have not been able to limit discretionary accruals or improve audit quality produced.

This finding is not in line with the competency theory which explains audit quality would be better if the company has certain specific expertise, in this case namely supervisory expertise. The role of supervisory expertise that supports audit committee responsibilities in organizing supervisory functions has not been proven to be able to improve audit quality. Therefore, many or less audit committee members who have supervisory expertise do not influence high and low quality of the audit produced. This result supports the findings of Dhaliwal, *et al.* (2010) and Kusnadi *et al.* (2016) which prove that the audit committee's financial expertise does not have a significant effect on earnings management.

Testing of Control Variables

Testing on the size of the Board of Commissioners has a significant positive coefficient indicating that the size of the board of commissioners has a negative effect on audit quality. According to Riadiani & Wahyudin (2015), this happens because with the increasing number of board of commissioners there is a tendency for the low effectiveness of the company due to the complexity in coordination of work so that the board of commissioners has difficulty carrying out its role which has implications for low audit quality. Meanwhile, the Board of Directors Size variable has an insignificant positive coefficient which indicates that the audit quality is not influenced by the size of the board of directors. According to Donaldson & Davis (1991), this happens because managers will behave according to common interests so that they are concerned with the interests of the principal. Therefore, many or less the number of boards of directors is not an indication that a company carries out earnings management which has implications for high and low quality of the audit.

Company Size variable has a significant negative coefficient which indicates that audit quality is not influenced by company size. This is because larger companies tend to have better control systems so they can improve performance effectiveness including improving audit quality. Leverage variable has a significant negative coefficient indicating that leverarage has a positive effect on audit quality. Rainsbury, *et al.* (2009) stated that companies that have higher leverage ratios will increase monitoring on the process of preparing financial reports so as to encourage higher audit quality. While profitability has a significant positive coefficient which indicates that audit quality is influenced by profitability. This occurs

because high profitability tends to trigger managers to act opportunistically by reducing accounting earnings.

CONCLUSIONS

Based on the results of analysis and testing, auditor industrial specialization and audit committee accounting expertise have a positive effect on audit quality. While audit committee financial expertise and audit committee supervisory expertise have no effect on audit quality. However, the existence of financial expertise and supervision of the audit committee will improve audit quality. Board of commissioner size, company size, leverage, and profitability influence on audit quality but the size of the board of directors does not affect on audit quality.

Further research is expected to expand data access both in sectors and year observations to obtain larger samples so that can generalize the results. In addition, measurement criteria for audit committee expertise variable can also be developed for example by considering the length of experience or background as academics because in Indonesia many companies have audit committee members with backgrounds as academics.

REFERENCES

Ayemere, I.L. and A. Elijah. (2015). Audit Committee Attributes and Earnings Management: Evidence from Nigeria. *International Journal of Business and Social Research.* 5(4),14–23.

Al-Khaddash, H., Nawas, R. Al and Ramadan (2013). Factors affecting the quality of Auditing: The Case of Jordanian Commercial Banks. *International Journal of Business and Social Science.*4(11),206–222.

Arifin, L. (2016). Pengaruh Firm Size, Corporate Governance, dan Karakteristik Perusahaan Terhadap Manajemen Laba. *Jurnal Bisnis dan Akuntansi*. 18(1),1–93.

Badolato, P. G., Donelson, D. C. and Ege, M. (2014). Audit committee financial expertise and earnings management: The role of status. *Journal of Accounting and Economics*. 58(2–3),208–230.

Bonner, S.E., and Lewis, B. L. (1990). Determinants of Auditor Expertise. *Journal of Accounting Research*. 28,190–215.

Cahan, S. F. *et al.* (2008). Auditor specialization, auditor dominance, and audit fees: The role of investment opportunities. *The Accounting Review*. 83(6),1393–1423.

Chouhan, V. S. and Srivastava, S. (2014). Understanding Competencies and Competency Modeling □ A Literature Survey. *IOSR Journal of Business and Management.* 16(1),14–22.

Christiani, I. and Nugrahanti, Y. W. (2014) Pengaruh Kualitas Audit Terhadap Manajemen Laba. *Jurnal Akuntansi dan Keuangan*. 16(1),52–62.

Cohen *et al* (2014). The effect of Audit Committee Industry Expertise on Monitoring the Financial Reporting Process. *Journal of International Accounting Research*. 90(4),1395–1435.

Cohen, J. *et al* (2017). The Effects of Audit Committee Ties and Industry Expertise on Investor Judgments. *Working Paper UNC Charlotte.*1–46.

Craswell, A. T., Francis, J. R. and Taylor, S. L. (1995). Auditor brand name reputations and industry specializations. *Journal of Accounting and Economics*. 20(3),297–322.

Deangelo, L. E. (1981). Auditor Size And Audit Quality.*Journal of Accounting and Economics*. 3,183–199.

Dechow, P. M., Sloan, R. G. and Sweeney, A. P. (1995). Detecting Earnings Management. *The Accounting Review*. 70(2),193–225.

Defond, M. and Zhang, J. (2014). A review of archival auditing research.*Journal of Accounting and Economics*. 58(2–3),275–326.

Dhaliwal, D., Naiker, V. and Navissi, F. (2010). The association between accruals quality and the characteristics of accounting experts and mix of expertise on audit committees. *Contemporary Accounting Research*, 27(3),787–827.

Donaldson, L. and Davis, J. H. (1991). Stewardship Theory or Agency Theory. *The Academy of Management Review*. 49–65.

Dwiharyadi, A. (2017). Pengaruh Keahlian Akuntansi Dan Keuangan Komite Audit Dan Dewan Komisaris Terhadap Manajemen Laba. *Jurnal Akuntansi dan Keuangan Indonesia*. 14(1),75–93.

Fitriany, F. *et al.* (2016). Pengaruh Tenure, Rotasi dan Spesialisasi Kantor Akuntan Publik (KAP) Terhadap Kualitas Audit: Perbandingan Sebelum dan Sesudah Regulasi Rotasi KAP di Indonesia. *Jurnal Akuntansi dan Keuangan*. 17(1),12–27.

Financial Reporting Council. (2008). The Audit Quality Framework.

Ghafran, C. and O'Sullivan, N. (2017). The impact of audit committee expertise on audit quality: Evidence from UK audit fees.*British Accounting Review*. 49(6),578–593.

Ghozali, Imam. (2015). *Aplikasi Analisis Multivariate dengan Program IBM SPSS 23, Upgrade PLS Regresi.* Semarang: Badan Penerbit Universitas Diponegoro.

Kusnadi, Y. *et al.* (2016). Audit Committees and Financial Reporting Quality in Singapore.*Journal of Business Ethics*. 139(1),197–214.

Meza, Miguel M. (2013). Does Auditor Industry Specialization Improve Audit Quality? *Journal of Accounting Research.* 51(4).

Mughni, R.H. dan N. Cahyonowati. (2015). Pengaruh Karakteristik Komite Audit dan Kualitas Audit terhadap Manajemen Laba. *Diponegoro Journal of Accounting*. 4 (1),1-15.

Pamudji. (2010). Pengaruh Independensi dan Efektivitas Komite Audit Terhadap Manajemen Laba. *Jurnal Dinamika Akuntansi*, Vol.2 (1) Pg. 21-29. Semarang: Universitas Negeri Semarang.

Panjaitan, C. M. and Chariri, A. (2014). Pengaruh Tenure, Ukuran Kap dan Spesialisasi Auditor Terhadap Kualitas Audit. *JurnalAkuntansi dan Keuangan*. 3.1–12.

Peraturan Otoritas Jasa Keuangan. POJK Nomor 55/ POJK.04/2015 Tentang Pembentukan dan Pedoman Pelaksanaan Kerja Komite Audit.

Qi, B., Li, B. and Tian, G. (2015). What do we know about the variance of audit quality? An empirical study from the perspective of individual auditor. *Journal of Applied Business Research*. 31(1),71–88.

Rainsbury, E. A., Bradbury, M. and Cahan, S. F. (2009). Journal of Contemporary Accounting & Economics The impact of audit committee quality on financial reporting quality and audit fees. *Journal of Contemporary Accounting & Economics*. 5(1),20–33.

Riadiani, A. R. and Wahyudin, A. (2014). Pengaruh Good Corporate Governance Terhadap Manajemen Laba Dengan Financial Distress Sebagai Variabel Intervening. *Accounting Analysis Journal*. 3(1),361–369.

Siregar, S. V. *et al.* (2011). Rotasi dan Kualitas Audit: Evalu-

asi atas Kebijakan Menteri Keuangan KMK No. 423/ Kmk.6/2002 Tentang Jasa Akuntan Publik.*Jurnal Akuntansi dan Keuangan Indonesia*. 8(1),1–20.

Sumanto, B., Asrori, dan Kiswanto, A. (2014). Pengaruh Kepemilikan Institusional Dan Ukuran Dewan Komisaris Terhadap Manajemen Laba. *Accounting Analysis Journal*. 3(1),361–369.

Trautman, L. J. (2012). Who Qualifies as an Audit Committee Financial Expert Under SEC Regulations and NYSE Rules?DePaul Business and Commercial Law Journal. 11(2).