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Analysis of effects of Earnings Management on Corporate Social Responsibility Disclosures and role of Audit Quality on the IDX

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ABSTRACT

This study aims to examine and analyze empirically the effect of earnings management on Corporate Social Responsibility disclosure and the role of audit quality as proxied by the size of the accounting firm and auditor industry specialization in moderating the relations between earnings management and CSR disclosure. This study uses secondary data with samples of 69 manufacturing companies in the basic industry and chemical sectors listed on the Indonesia Stock Exchange from 2017 to 2019 which were obtained using purposive sampling method. The independent variable in this study is earnings management with Discretionary Accruals as proxy which measured using Modified Jones Model. While the dependent variable in this study is the disclosure of Corporate Social Responsibility, which is proxied by CSR disclosure index (CSRI) measured based on indicators of GRI-G4 disclosure. The moderating variable in this study, there is audit quality as proxied by the size of the accounting firm and auditor industry specialization which is measured using dummy variables, the value of 1 is for The Big Four KAP and auditor industry specialization, while the value of 0 is for Non The Big Four KAP and unspecialized industry auditors. The analysis of data in this study is using a simple linear regression model and Moderated Regression Analysis (MRA) to decide the hypothesis. the value of 1 is for The Big Four KAP and auditor industry specialization, while the value of 0 is for Non The Big Four KAP and unspecialized industry auditors. The analysis of data in this study is using a simple linear regression model and Moderated Regression Analysis (MRA) to decide the hypothesis. the value of 1 is for The Big Four KAP and auditor industry specialization, while the value of 0 is for Non The Big Four KAP and unspecialized industry auditors. The analysis of data in this study is using a simple linear regression model and Moderated Regression Analysis (MRA) to decide the hypothesis.

The results of this study reveal that earnings management has a positive and significant effect on Corporate Social Responsibility (CSR) disclosure and the size of the accounting firm (KAP) variable can be a moderating in the relations between earnings management and CSR disclosure. Meanwhile, the auditor industry specialist variable can't moderate the relations between earnings management and CSR disclosure.

Keywords: Corporate Social Responsibility Disclosure, Earnings management, The size of accounting firm (KAP), Auditor Industry Specialization.

1. INTRODUCTION

One measure of company performance that is often used as a basis for decision making is the profit generated by the company, the profit is measured on an accrual basis (Subramanyam in Christiani and Nugrahanti, 2014). The importance of earnings information has been explicitly stated in Statement of Financial Concepts (SFAC) No. 1 which states that in addition to assessing management performance, financial statements also assist management in estimating the ability of a representative profit, as well as to assess risk in investment or credit. Regarding the content of the company's annual report, there is a Corporate Social Responsibility (CSR) report which is defined as activities that are not only related to social status but also status, or at least carried out to fulfill the company's obligations to stakeholders (Brown and Dacin, 1997). The company's involvement in socially responsible activities not only improves stakeholder satisfaction, but also has a positive effect on the company's reputation. In line with this, the government issued a regulation contained in Law No. 40 of 2007 Article 74 which states that companies that carry out their business activities in and/or related to natural resources are obliged to carry out social and environmental responsibilities. The government increasingly emphasizes this social responsibility in PP no. 47 of 2012 concerning social and environmental responsibility of limited liability companies. In line with the regulations issued by the government, CSR disclosure in Indonesia is getting higher, In recent years, companies have become increasingly active in carrying out CSR activities with the increasing number of companies issuing sustainability reports (SR) from year to year. In 2007 there were only 15 companies that issued SR and in 2014 that number increased to 60 companies (ISRA Report, 2014). The company's management performance is reflected in the profits contained in the financial statements, so that earnings information is important information as the basis for making investment decisions. However, these benefits are sometimes not felt because investors and creditors are only focused on earning profits without paying attention to the procedures used by management in generating these profits (Beattie et al., 1994).

According to Scott (2015) defines earnings management as a choice made by a manager on accounting policies or real actions of managers that affect earnings to achieve the specific objectives of reported earnings. This earnings management action is based on the existence of contract incentives between management and shareholders, where managers tend to carry out a number of manipulations to achieve the desired target, either in the form of manipulation of losses, lowering profits, or stabilizing income (Choi and Pae, 2011). Earnings management not only has an impact on company owners, but also has an impact on stakeholders. Stakeholders are groups that bear some form of risk as a result of investing in capital, people, and money in the company (Clarkson, 1994). As a result, stakeholders are concerned about the possibility of making investment mistakes related to the prevalence of earnings management practices (Chih et al., 2008). Earnings management carried out by the company can cause the company to lose the trust of stakeholders, thus triggering tighter supervision from shareholders. Loss of trust from stakeholders can take the form of pressure from investors, boycotts by community activists, exposure by the media, misunderstandings from customers, or legal action from regulators (Zahra et al., 2005). Earnings management carried out by the company can cause the company to lose the trust of stakeholders, thus triggering tighter supervision from shareholders. Loss of trust from stakeholders can take the form of pressure from investors, boycotts by community activists, exposure by the media, misunderstandings from customers, or legal action from regulators (Zahra et al., 2005). Earnings management carried out by the company can cause the company to lose the trust of stakeholders, thus triggering tighter supervision from shareholders. Loss of trust from stakeholders can take the form of pressure from investors, boycotts by community activists, exposure by the media, misunderstandings from customers, or legal action from regulators (Zahra et al., 2005).

As a form of defense and vigilance over earnings management activities that harm stakeholders and damage the company's reputation, managers have incentives to compensate shareholders through Corporate Social Responsibility (CSR) activities. Earnings management which was originally going to have a negative impact on the reliability and quality of financial reporting will be restored with corporate social responsibility activities that can increase the satisfaction of stakeholders regarding the company's reputation (Prior et al., 2008). Companies that carry out earnings management have incentives to increase CSR activities with a motive to cover earnings management. Stakeholder trust in CSR disclosure is an opportunity for managers to carry out earnings management, so that many CSR disclosures are considered to have a positive influence on companies in order to facilitate earnings management practices (Chih et al., 2008). Based on the research of Prior et al., (2008) has shown that 593 companies from 26 countries in the world carry out CSR activities with the motivation to cover up earnings management practices, managers manipulate earnings (earnings management) and use corporate social responsibility or CSR activities as one of the ways to do this. strategy to maintain relationships with stakeholders.

To be able to restore the trust of users of financial statements, one of which is investors due to these problems, it is highly expected that there will be a contribution of good audit quality (Luhgiatno, 2010). Good audit quality will produce good financial reports so that decisions made by users of financial statements will be good and rational. The importance of the role of audit quality in reducing earnings management practices is also based on the occurrence of cases of earnings management practices that have occurred in Indonesia, namely the case of PT Kimia Farma Tbk. the management marked up profit in the 2001 annual financial statements of Rp 32.6 billion. Based on Bapepam's investigation, it was stated that the KAP auditing the financial statements of PT Kimia Farma had followed the applicable auditing standards, but failed to detect the fraud (Kompas, 21 November 2002). Based on the findings of the case, it can be concluded that the role of KAP alone is not sufficient in reducing earnings management, it is necessary for the role of KAP with good audit quality to take part in uncovering earnings management practices. According to Ardiati in Christiani and Nugrahanti (2014), high-quality auditing acts as a deterrent to effective earnings management, because management's reputation will be destroyed and company value will decrease if this wrong reporting is detected and revealed. Based on the findings of the case, it can be concluded that the role of KAP alone is not sufficient in reducing earnings management, it is necessary for the role of KAP with good audit quality to take part in uncovering earnings management practices. According to Ardiati in Christiani and Nugrahanti (2014), high-quality auditing acts as a deterrent to effective earnings management, because management's reputation will be destroyed and company value will decrease if this wrong reporting is detected and revealed. Based on the findings of the case, it can be concluded that the role of KAP alone is not sufficient in reducing earnings management, it is necessary for the role of KAP with good audit quality to take part in uncovering earnings management practices. According to Ardiati in Christiani and Nugrahanti (2014), high-quality auditing acts as a deterrent to effective earnings management, because management's reputation will be destroyed and company value will decrease if this wrong reporting is detected and revealed.

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Audit quality can be measured using the size of KAP (KAP The big-4 and KAP non-The big-4) and auditor industry specialization (Gerayli et al., 2011). According to Hussainey in Ats'tsaqafiyah (2016) said that the quality of audit reports conducted by KAP The Big Four has better quality in detecting financial statement irregularities. Research conducted by Gerayli et al., (2011) states that KAP size is negatively related to earnings management as measured by discretionary accruals and research conducted by Gramling et al., (2001) shows that the use of auditor industry specialization can detect earnings management, prediction error and the ability to predict future cash flows.

Based on the description above, with reference to research from Hamabali et al., (2016) on the Effect of Earnings Management on Disclosure of Corporate Social Responsibility in Mining Companies. With the results of the study that earnings management has a significant positive effect on CSR disclosure. Researchers also add audit quality with KAP size proxies and auditor industry specialization as moderating variables to determine whether audit quality has an influence in moderating the relationship between earnings management and CSR disclosure based on research from (Gerayli et al.,)

Thus, researchers are motivated to raise the topic of this research with the reason to find out whether earnings management is one of the motives of companies in Indonesia in carrying out Corporate Social Responsibility (CSR) disclosure activities to cover their earnings management practices. This study also intends to confirm the results of several previous research studies because there are inconsistencies in the results of previous studies, including; Research (Sunarsih, 2017) on the Effect of Earnings Management on CSR Disclosure with Corporate Governance Mechanisms as Moderating Variables in Companies Listed in the Jakarta Islamic Index, the results of his research found that earnings management had no effect on the disclosure of Corporate Social Responsibility (CSR). Research from Terzaghi (2012) and Krisna and Wirasedana (2015) found that earnings management has a significant negative effect on CSR disclosure. Meanwhile, research from Prior et al., (2008) as well as Sari and Utama (2014) found that earnings management had a significant positive effect on CSR disclosure.

In this study, the researcher also changed the object of his research CSR disclosure by using a manufacturing company because it is one of the industries that has a significant contribution to environmental problems. This is because most manufacturing companies interact directly with natural resources. Manufacturing companies carry out the production process, which must also be responsible for managing the affected environment and natural resources by disclosing CSR. In addition, the selection of research objects for manufacturing industrial companies also adjusts to the moderating variable of audit quality proxy industry specialization auditors to test and analyze their effect on the relationship between earnings management and CSR disclosure in these industrial companies.

The aims of this study are: to examine and analyze the effect of earnings management on the disclosure of Corporate Social Responsibility (CSR), to examine and analyze the effect of earnings management on corporate social responsibility disclosure with KAP size as a moderating variable and to examine and analyze the effect of earnings management on disclosure. corporate social responsibility with auditor industry specialization as a moderating variable.

2. LITERATURE REVIEW

2.1. Agency Theory

In connection with the emergence of earnings management practices in an organization, this can be explained by agency theory which describes agency problems related to earnings management in an organization. Agency theory is a theory that can be used as the basis for this research, due to the separation of functions between organizational owners and organizational actors (Sari and Ahmar, 2014). Agency theory is a form of contractual relationship between one or more principals to bind the agent in the form of doing some work on behalf of the principal and delegating decision-making authority to the agent (Jensen and Meckling, 1976).

2.2. Profit management

Earnings management can be defined as an action taken through the selection of accounting policies to obtain certain objectives, for example to increase the value of the company or for the personal interest of company management (Scott, 2015). According to Meutia (2004) earnings management is an attempt by managers to manipulate financial statements intentionally within the limits permitted by accounting principles which aims to provide misleading information to users of financial statements for the benefit of managers.

2.3. Corporate Social Responsibility

Corporate Social Responsibility (CSR) is an approach taken by companies to integrate social concerns in business operations and their relationships with stakeholders based on the principles of volunteerism and partnership (Hamabali et al.,

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2016). According to Boone and Kurtz in Marsono (2015) the notion of social responsibility in general is a form of management support for the obligation to consider profit, customer satisfaction and community welfare equally in evaluating company performance.

2.4. Audit Quality

In conditions of information asymmetry that occurs between agents and principals as described in agency theory, it is necessary to have a third party, namely the auditor as a party capable of facilitating interests between the principal (shareholder) and the manager (agent) in managing the company's finances. Meutia (2004), defines auditing as a process in reducing the misalignment of information that occurs between managers and shareholders by using outside parties to provide validation of financial statements. The auditor as the party responsible for this task is required to conduct an audit with the quality and principles possessed.

For the definition of audit quality explained by Arens et al., (2011: 105) that audit quality is how well the audit detects and reports material misstatements in the financial statements. The detection aspect is a reflection of the competence of the auditor, while reporting is a reflection of the ethics or integrity of the auditor, especially independence. Independence is very important for auditors in maintaining audit quality where public accountants prioritize the public interest above the interests of management or the interests of the auditors themselves in making audit reports (Astuti and Pangestu, 2019).

2.4.1. Size of Public Accounting Firm (KAP)

According to DeAngelo (1981) which states that for audit quality, which is determined by the size of the KAP conducting the audit, large KAPs (big-4 accounting firms) are perceived to be conducting audits with higher quality than small KAPs (non-big-4 accounting firms). This is because the big KAPs have more resources and clients so they don't depend on one or a few clients, besides that their reputation is already considered good by the public, causing the big four KAPs to audit more carefully in maintaining their reputation by providing quality auditor services while maintaining accounting principles and standards as well as their code of ethics (Lennox, 2005).

2.4.2. Auditor Industry Specialization

The knowledge that the auditor must have is not only limited to knowledge about auditing and accounting but also the client's industry. Although auditing a manufacturing company is the same as auditing an insurance company, the nature of the business, accounting principles, accounting systems, and applicable tax regulations may differ. This requires that KAP have knowledge of certain industry characteristics that can affect auditing (Yuvita and Darmawati, 2017). According to Gramling et al., (2001) stated that KAPs that focus on a particular industry will tend to invest in technology, physical facilities, personnel, and organizational control systems that can improve audit quality in KAPs that focus on that industry. Besides that, auditors who have experience in a particular industry will be able to detect errors in client data in that industry than auditors who are not focused on a particular industry. This means that industrial specialization auditors have the ability to detect errors and have better experience than non-specialized auditors.

2.5. Framework

The framework of thought in this research is depicted in Figure 1.

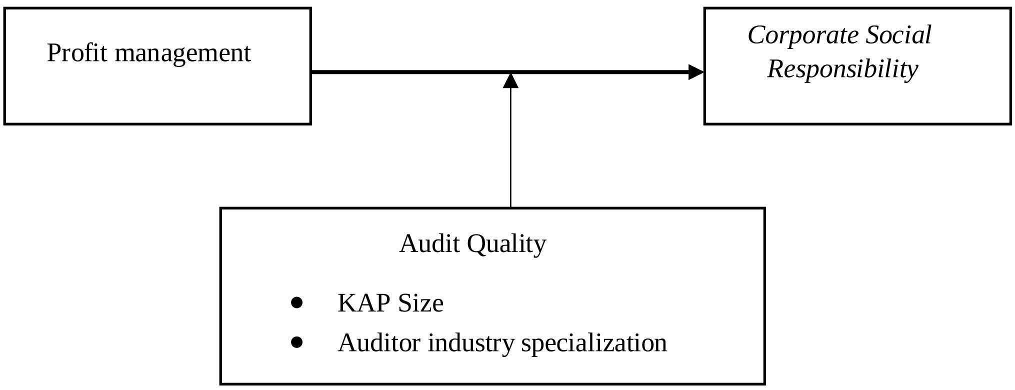

Figure 1. Thinking Framework

The purpose of the framework above is earnings management as an independent variable that can affect the disclosure of corporate social responsibility with reference to research (Sari and Utama, 2014) and (Hamabali et al., 2016) which found that earnings management has a positive effect on corporate disclosure. social responsibility, namely, where companies that carry out

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earnings management have incentives to increase CSR activities with the motive of covering up these earnings management practices. In this study, a moderating variable was added in the form of audit quality. Moderating variables are variables that influence (strengthen or weaken) between the dependent and independent variables (Sugiyono, 2013). Audit quality as a moderating variable proxied by KAP size and auditor industry specialization is considered to facilitate the detection of earnings management, this is based on the results of research from (Meutia, 2004) which found that the higher the audit quality, the lower the earnings management. Then a framework is made that audit quality can moderate the relationship between earnings management and CSR disclosure, namely by incentives for companies to make disclosures motivated by the desire to cover up earnings management.

2.6. Hypothesis

H1 : Earnings management has an effect on the disclosure of corporate social responsibility.

H2a : Earnings management affects the disclosure of corporate social responsibility moderated by the variable size of KAP

H2b : Earnings management affects the disclosure of corporate social responsibility moderated by the auditor industry specialization variable.

3. RESEARCH METHODS

3.1. Research design

This type of research is an empirical study using financial statement data. Based on the objectives of the research that have been determined, this research is a type of causality research that aims to examine the possibility of a causal relationship between variables (Sanusi, 2011:14). According to Suryabrata (2013), causal research is ex post facto, which means that data is collected after all the events in question have taken place.

3.2. Population and Sampling Techniques

The population in this study are basic industrial and chemical manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2017-2019. The choice of a manufacturing company is because the company has an obligation to submit financial reports or annual reports to parties outside the company, especially to stakeholders, the company is considered to have a part in environmental management because of the production process that directly affects environmental damage.

The sampling technique used in this study used purposive sampling method. The sample criteria set in this study are as follows:

1) Manufacturing companies in the basic and chemical industry sectors listed on the Indonesia Stock Exchange (IDX) in 2017-2019.
2) The company has conducted an IPO at least in 2016
3) Manufacturing companies in the basic and chemical industry sectors that publish and publish the 2017-2019 annual report
4) Manufacturing companies in the basic and chemical industry sectors that disclose corporate social responsibility reports for 2017-2019.
5) The company publishes audited financial reports and has complete financial data during the research period and in rupiah currency.
6) The company did not experience any losses during the study period.
7) Based on the sampling technique (purposive sampling) and after being selected based on predetermined criteria, 23 manufacturing companies in the basic and chemical industry sectors were obtained that met the criteria for the research sample. Based on the research period of 3 years, the total of all eligible samples were 69 samples.

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3.3. Research Variables and Operational Definitions of Variables

3.3.1. Dependent Variable

In this study the dependent variable is the disclosure of Corporate Social Responsibility (CSR). According to Hamabali et al., (2016) CSR is a company approach integrating social concerns in business operations and their interactions with stakeholders based on the principles of volunteerism and partnership. CSR disclosure uses a check list which is done by matching the CSR items disclosed by the company. Furthermore, the total CSR check list items disclosed will be measured by the CSR index using the following formula:

$$CSRI = \frac{\text{Total items disclosed by the company}}{\text{Total item disclosure}} \quad (1)$$

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3.3.2. Independent Variable

The independent variable in this study is earnings management using discretionary accrual proxies. According to Hamabali et al., (2016) earnings management is earnings manipulation by management to achieve certain goals. Manipulation is done so that profits appear as expected.

The steps for determining discretionary accruals are as follows:

1) Calculating total accruals using the cash flow approach, namely:

$$TACit = NIit - CFOit \quad (2)$$

2) Determine the coefficient of the accrual regression.

Discretionary accruals are the difference between total accruals (TAC) and non-discretionary accruals (NDA). Step beginning to determine nondiscretionary accruals, namely by performing regression as follows:

$$TACit/Ait\text{-}1 = 1(1/Ait\text{-}1) + 2(\Delta Revit/Ait\text{-}1) + 3(PPEit/Ait\text{-}1) + e \quad (3)$$

Information:

TACit = Total accruals of company i in period t (resulting from the calculation of number 1)

3) Determine non-discretionary accruals.

$$NDAit = 1(1/Ait\text{-}1) + 2((\Delta Revit\text{-}\Delta Recit)/Ait\text{-}1) + 3(PPEit/Ait\text{-}1) \quad (4)$$

4) Determine discretionary accruals.

After obtaining non-discretionary accruals, then discretionary accruals can be calculated by subtracting the division result from total accruals and total company assets with non-discretionary accruals.

$$DAit = (TACit/Ait\text{-}1) - NDAit \quad (5)$$

Information:

TACit	=	Total accruals of company i in period t
NIit	=	Net profit of company i in period t
CFOit	=	operating cash flow of company i in periodt
Ait-1	=	Total assets of company i at the end of period t-1 (previous year)
Revit	=	Changes in company i's income in period t
PPEit	=	Fixed assets of company i in period t
Recit	=	Changes in net receivables of company i period t
NDAit	=	Nondiscretionary accruals of company i in period t
Dait	=	Discretionary accruals of company i in period t
e	=	Error

3.3.3. Moderating Variables

The moderating variable in this study is audit quality, which is proxied by the size of the Public Accounting Firm and the auditor's industry specialization.

3.3.3.1. KAP Size

According to Colbert and Murray (1999) defines the notion of KAP size as a distinction KAP into large or small size based on the number of clients managed and the number of professionals (partners and staff) it has. According to Arens et al., (2011) distinguishes the size of KAP into big-4 and non-big-4, and describes the size based on the number of professionals owned, branch offices, and revenue (fee income) obtained by KAP per year. Based on several definitions of the KAP size, it can be concluded that the KAP size is a form of grouping KAP based on certain criteria, with the aim of achieving a quality in auditing.

The audit quality dimension that is most often used in research is the size of the auditor (KAP). Measurement of auditor size uses a dummy variable, the value of 1 if the company is audited by the big four auditors and 0 if audited by non-big four auditors, according to research (Gerayli et al., 2011). The categories of Big Four auditors in Indonesia (Wikipedia, 2020) are as follows:

a. KAP Price Waterhouse Coopers, in collaboration with Tanudiredja, Wibisana and Partners.
b. KAP KPMG (Klynveld, Peat, Marwick, Goerdeler), in collaboration with KAP Sidharta and Wijaya.
c. KAP Ernest and Young, in collaboration with KAP Purwantono, Sungkoro and Surja.
d. KAP Deloitte Touche Thomatsu, in collaboration with KAP Satrio Bing Eny and Partners, as well as Imelda and Partners.

3.3.3.2. Auditor Industry Specialization

According to Yuvita and Darmawati (2017), auditor industry specialization is the knowledge that auditors have regarding certain industry characteristics that can affect auditing. The proxies are calculated as follows:

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$$\% \text{ Specialization} = \frac{\text{Number of clients of an audit firm or KAP in the industry}}{\text{Number of clients of all audit firms or KAPs in the industry}} \quad (6)$$

The measurement of this variable uses a dummy variable, the value of 1 if the company is audited by the auditor's industry specialization, and 0 if other.

3.4. Data analysis technique

The data collected was processed and tested using the SPSS version 23 application which consists of: descriptive statistics, classical assumption test, and Moderated Regression Analysis (MRA).

4. RESULTS AND DISCUSSION

4.1. Results

4.1.1. Descriptive statistics

As for the results of descriptive statistical analysis for all research variables consisting of the minimum, maximum, average, and standard deviation values as follows:

Table 1 Descriptive Statistics of Research Variables

Descriptive Statistics

	N	Minimum	Maximum	mean	Std. Deviation
Profit management	69	-.33	.24	-.0246	.07991
KAP Size	69	0	1	.46	.502
Auditor Industry Specialization	69	0	1	.32	.469
CSR	69	.04	.74	.2856	.15059
Valid N (listwise)	69				

Source: Data processed by SPSS output, 2021.

Based on table 1 descriptive statistics for all research variables above, it shows that in this study a sample of 69 data samples was used. Earnings management has a minimum value of -0.33 and a maximum of 0.24 with an average of -0.0246 and a standard deviation of 0.07991. The KAP measure shows a minimum value of 0 and a maximum of 1 with an average of 0.46 and a standard deviation of 0.502. Auditor industry specialization has a minimum value of 0 and a maximum of 1 with an average of 0.32 and a standard deviation of 0.469. Disclosure of Corporate Social Responsibility (CSR) has a minimum value of 0.04 and a maximum of 0.74 with an average of 0.2856 and a standard deviation of 0.15059.

As for the moderating variable of KAP size and auditor industry specialization on a nominal scale, table 4.2 is presented descriptive statistics in the form of a frequency table for the variable size of KAP and in table 4.3 descriptive statistics in the form of a frequency table for auditor industry specialization on a nominal scale. The results of descriptive statistical analysis in the form of frequency tables are as follows:

Table 2 Descriptive Statistics Table of Variable Frequency of KAP Size

KAP Size

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not audited by The Big Four's auditors	37	53.6	53.6	53.6
	Audited by The Big Four auditor auditors	32	46.4	46.4	100.0
	Total	69	100.0	100.0	

Source: Data processed by SPSS output, 2021

Table 2 describes descriptive statistics in the form of a frequency table for the moderating variable of KAP size on a nominal scale. In the KAP size variable, the audit is classified as being carried out by The Big Four auditors or not, the KAP size measurement uses a dummy variable, namely: 0 = Not audited by The Big Four auditors, 1 = Audited by The Big Four auditors. Based on the SPSS statistical results in table 2, it is explained that in the KAP size variable, of the 69 samples used in the study, it was found that 37 of 69 samples (53.6%) were not audited by The Big Four auditors while the remaining 32 of 69 samples (46, 4%) audited by The Big Four auditors.

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Table 3 Descriptive Statistics Table of Auditors' Industry Specialization Variable Frequency

Industry Specialization Auditor					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not audited by industry specialization Auditor	47	68.1	68.1	68.1
	Audited by industry specialization Auditor	22	31.9	31.9	100.0
	Total	69	100.0	100.0	

Source: Data processed by SPSS output, 2021

Table 3 describes descriptive statistics in the form of frequency tables for the moderating variable of auditor industry specialization on a nominal scale. The auditor industry specialization variable is classified with audits conducted by auditor industry specialization or not. Measurement of auditor industry specialization uses dummy variables, namely: 0 = Not audited by auditor industry specialization 1 = Audited by auditor industry specialization. Based on table 3, it is explained that in the auditor industry specialization variable, of the 69 samples used in the study, it was found that 47 of 69 samples (68.1%) were not audited by auditor industry specialization while the remaining 22 of 69 samples (31.9%) were audited. by industry specialization auditors.

4.1.2. Hypothesis Test Results (Regression Analysis)

The first hypothesis testing was conducted to determine and analyze the effect of earnings management on the disclosure of Corporate Social Responsibility (CSR). The results of the t-statistical test for variables X and Y are presented in table 4.9 below:

Table 4. Statistical Test Results t Variables X and Y

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	,301	0.018		16,781	,000
	Profit management	,645	,216	,342	2,981	,004

a. Dependent Variable: CSR

Source: Data processed by SPSS output, 2021.

Decision making in the regression test for the first hypothesis (H1): Based on the significance value of the coefficients table above, the significance value of 0.004 is smaller than 0.05, namely: Sig. 0.004 <0.05 and the tcount value is known to be 2,981 > ttable 1,99601 with a regression coefficient value of 0.645. This shows that earnings management (X) has a positive and significant effect on the disclosure variable of Corporate Social Responsibility (Y). So it can be concluded that these results accept the first hypothesis (H1), namely, earnings management (X) has an effect on the disclosure of Corporate Social Responsibility (Y).

4.1.3. Hypothesis Test Results (Moderated Regression Analysis)

1) Interaction between Earnings Management (X) on CSR Disclosure (Y) and Moderated by KAP Size (Z1)

The second hypothesis testing was conducted to examine the effect of the interaction between earnings management on the disclosure of Corporate Social Responsibility (CSR) moderated by the size of the KAP. The results of the t-statistical test for variables X, Y, and Z1 are presented in table 5 below:

Table 5 Results of t-Statistical Test Variables X, Y, and Z1

Coefficientsa

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	,254	,022		11,319	,000
	Profit management	,394	,242	,209	1,632	,108
	KAP Size	,114	,034	,381	3,353	,001
	Earnings Management*KAP Size	,901	,439	,276	2.054	.044

a. Dependent Variable: CSR

Source: Data processed by SPSS output, 2021.

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Decision making in the regression test for hypothesis 2a (H2a): Based on the table above, it shows that the significance value of the moderating variable of KAP size (X.Z1) obtained a significance value of 0.044 which is smaller than 0.05, namely: Sig. 0.044 <0.05 and tcount 2.054 > ttable 1.99656 with a moderating regression coefficient of 0.901. This shows that the moderating variable of KAP size (X.Z1) individually has a significant effect on the Corporate Social Responsibility (Y) disclosure variable. Thus, it can be concluded that these results accept hypothesis 2a (H2a), namely: Earnings management affects the disclosure of corporate social responsibility, moderated by the variable of KAP size. The direction of the influence of the moderating variable of KAP size on CSR disclosure is positive (strengthening).

2) Interaction between Earnings Management (X) on CSR Disclosures (Y) and Moderated by Auditor Industry Specialization (Z2)

The third hypothesis was tested to assess the effect of the interaction between earnings management on CSR disclosure moderated by the auditor's industry specialization. The results of the t-statistical test for variables X, Y, and Z2 are presented in table 6 below.

Table 6. Results of t-Statistical Test Variables X, Y, and Z2

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	,283	,021		13,600	,000
	Profit management	,541	,227	,287	2,387	0.020
	Auditor Industry Specialization	0.090	.042	,281	2,123	,038
	Earnings Management*Industrial Specialization Auditor	1.123	,657	,240	1,710	,092

a. Dependent Variable: CSR

Source: Data processed by SPSS output, 2021

Decision making in the regression test for hypothesis 2b (H2b): Based on the table above, showing the significance value of the moderating variable of auditor industry specialization (X.Z2), a significance value of 0.092 is greater than 0.05, namely: Sig. 0.092 > 0.05 and tcount 1.710 < ttable 1.99656. This shows that the moderating variable of auditor industry specialization (X.Z2) individually has no significant effect on the disclosure variable of Corporate Social Responsibility (Y). So it can be concluded that these results reject hypothesis 2b (H2b), namely: Earnings management affects the disclosure of corporate social responsibility moderated by auditor industry specialization variable.

4.2. Discussion

4.2.1. Effect of Earnings Management on Corporate Social Responsibility Disclosure

The results of the first regression equation test are used as the basis for answering the first hypothesis (H1) regarding the effect of earnings management on the disclosure of Corporate Social Responsibility (CSR). The results of the first regression test (simple linear analysis) show that earnings management has a positive and significant effect on the disclosure of Corporate Social Responsibility (CSR). Thus, it can be concluded that these results accept the first hypothesis (H1). Because the direction of the test results has a positive effect, it can be interpreted that the higher the level of earnings management practices in a company, the higher the level of CSR disclosure made by the company as a motive to cover up earnings management behavior.

These results are consistent with the research conducted by Prior et al., (2008) and Orlitzky et al., (2003) which concluded that there is a positive and significant effect of earnings management practices on the disclosure of Corporate Social Responsibility (CSR). This is based on managers who behave opportunistically tend to collude with other stakeholders through the implementation and reporting of CSR disclosures as a strategy to defend against the initiatives of stakeholders who are harmed by earnings management practices, CSR is assumed to be a role that supports the implementation of earnings management behavior (Orlitzky et al. al., 2003). According to Prior et al., (2008) found that managers tend to be more active in improving their image and attracting support from the public and stakeholders through CSR activities as evidenced by disclosures in annual reports. CSR disclosure can be utilized by managers to cover their earnings management behavior because of the effect of CSR disclosure on the lack of prudence of investors and other stakeholders. Meanwhile, companies suspected of not being involved in earnings manipulation do not have this motive so that their CSR disclosures are lower than companies suspected of manipulation of earnings (Prior et al., 2008).

The results of this study can be based on agency theory which explains that the existence of a conflict of interest and information asymmetry (information imbalance) between the principal and agent due to the separation of functions will lead to

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earnings management practices which can result in losing the reputation of the company. To restore this reputation, companies need to gain legitimacy from outside parties. This is in accordance with the basis of legitimacy theory related to CSR disclosure, that earnings management practices in a company can provide losses or consequences by lowering the reputation and trust in the company, so to restore and increase the company's reputation it is necessary to gain trust by seeking legitimacy from outside parties.. CSR disclosure is one of the company's activities to gain legitimacy (Hamabali et al., 2016). According to Yoehana (2013) companies that want to gain legitimacy or public trust, the company must implement Corporate Social Responsibility (CSR). According to Fombrun et al., (2000) said that the company's CSR activities will be able to increase the company's legitimacy by getting support from stakeholders. The higher the CSR information disclosed by the company, it will be directly proportional to the high legitimacy obtained by the company in the community. So that companies that carry out earnings management have incentives to cover earnings management by forming a good image in the eyes of stakeholders with CSR disclosures made.

Based on the results of the study, it was found that the interpretation that increased earnings management practices by manufacturing companies in the basic and chemical industrial sectors listed on the Indonesia Stock Exchange will affect the increase in CSR disclosure, because the interpretation is in accordance with the research hypothesis which states that earnings management affects the disclosure of Corporate Social Responsibility (CSR). It can be proven that in general a company that practices earnings management will affect CSR disclosure, or more broadly it will affect the increase in company legitimacy as CSR acts as an increase in company legitimacy.Based on the test of the magnitude of the effect, it can be proven that in manufacturing companies in the basic and chemical industrial sectors listed on the Indonesia Stock Exchange, it is proven that they use legitimacy in covering up the earnings management practices carried out by the company.

So as for the implications of the research results from the first hypothesis, it can be concluded for external parties, that for stakeholders, namely investors and creditors who are directly related to the company, pay attention to the disclosure of corporate social responsibility carried out by the company's management. Especially in this case related to manufacturing companies, investors can consider more carefully regarding the information contained in the financial statements, not only based on the extent or level of disclosure of CSR reports made by companies in making investment decisions.

The results of this study are also supported by the results of previous research conducted by (Sari and Utama, 2014; Hamabali et al., 2016; Mustika et al., 2015; Chih et al., 2008; Prior et al., 2008; and Marsono, 2015) with results showing that earnings management has a significant positive effect on CSR disclosure. This indicates that the higher the earnings management practice, the more consistent a company is in disclosing CSR activities. However, the results of this study are contradictory or do not support the results of research from Sunarsih (2017) and Titan (2012) which show the results that there is no effect of earnings management on CSR disclosure.

4.2.2. Effect of Earnings Management on Corporate Social Responsibility Disclosure Moderated by KAP Size

The results of the moderating regression test are used as the basis for answering the second hypothesis (H2a) regarding the effect of earnings management on corporate social responsibility disclosure, moderated by the KAP size variable. The results of the moderating test of the interaction variable between earnings management and KAP size indicate that partially the interaction between earnings management and KAP size (moderation variable KAP size) has a significant effect on CSR disclosure. This indicates that the KAP size variable is able to moderate the relationship between earnings management and CSR disclosure. Thus, it can be concluded that the test results accept the hypothesis H2a, namely earnings management has an effect on corporate social responsibility disclosure moderated by the KAP size variable.

Based on the test results, the KAP size proved to be influential in moderating the extent of CSR disclosure. These results support research from Subroto (2002) which finds that the variable size of KAP has a significant effect on the wide variation of CSR disclosures made by companies. According to Hussainey in Ats'tsaqafiyah (2016) said that the quality of the audit reports conducted by The Big Four KAP has better quality in detecting irregularities in the annual financial statements, because The Big Four KAP has high technology capabilities, carried out with audit procedures. correct, and using the correct sampling method, and will independently report violations or fraud that occur in the financial statements (DeAngelo, 1981). So that the size of KAP, namely KAP The Big Four, it is concluded that it can facilitate the detection of earnings management practices carried out by companies by increasing CSR disclosure which is motivated by the desire to cover up earnings management.

Regarding CSR disclosures made by companies with a motive to cover up earnings management practices, the results of this study support research conducted by (Iswandika et al., 2014 and Hapsoro, 2012) which shows that the audit quality audited by the big four KAPs has a correlation with CSR. KAP The big four is able to influence the level of CSR disclosure, the higher the

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quality of the audit conducted by the auditor, the wider the CSR disclosure made by the company. The results of this study are also supported by previous research conducted by Pratama and Kusumadewi (2020) which found that audit quality proxied by KAP size was able to moderate the relationship between earnings management and CSR disclosure.

Based on the results of the moderation test, it can be interpreted that the KAP size variable strengthens the effect of earnings management on CSR disclosure. Theoretically, the size of the KAP that is specific to the KAP of The Big Four has a direct influence on earnings management so that it can minimize (weaken) earnings management practices by the company. However, in the results of this study, the size of KAP actually strengthens this relationship. This can be explained, because in this study there is a relationship with the addition of the CSR disclosure variable which, the size of the KAP (Auditor) does not have a direct relationship or does not deal with CSR reports disclosed by the company. Therefore, this can be taken into account from the results obtained in this KAP size moderation test.

In addition, based on legitimacy theory, it is explained that to restore the reputation of companies that practice earnings management, legitimacy from outside parties is needed. One form of company legitimacy is in the form of disclosure of Corporate Social Responsibility (CSR) (Hamabali et al., 2016). However, CSR activities have other motives, namely companies that carry out earnings management have incentives to increase CSR activities with the motive to cover earnings management. Stakeholder trust in CSR disclosure is an opportunity for managers to carry out earnings management, so that many CSR disclosures are considered to have a positive influence on companies in order to facilitate earnings management practices (Chih et al., 2008). So that, To be able to restore the confidence of users of financial statements, one of which is investors due to the problem of these motives, it is highly expected that there will be a contribution of good audit quality (Luhgiatno, 2010). If further examined the legitimacy or reputational problems of the company are also related to the quality of the audit or the selection of the KAP (auditor) used by the company as part of gaining the trust and responsibility of the company towards stakeholders by using The Big Four KAP which has a good reputation. in auditing the company's financial statements.

According to Ronen and Yaari (2008) in their book "Earnings Management: Insights in Theory, Practice, and Research" reveal three types of earnings management, namely beneficial (white), gray, and pernicious (black). Earnings management can be carried out in either beneficial (white) or gray forms with a note to increase financial transparency. According to Chen et al., (2015) management behavior is included in the form of stakeholder-oriented which is oriented towards the progress of the company for stakeholders. This coupled with the existence of big four KAP auditors will further increase financial transparency by detecting earnings management practices carried out by companies by increasing CSR disclosure.

So that the implications of the research results from hypothesis 2a can be concluded for external parties, for stakeholders, namely investors and creditors who are directly related to the company in addition to paying attention to the disclosure of corporate social responsibility and other financial information in considering investment decisions. The KAP measure also has a direct role in providing quality audits of the company's financial statements by detecting and reporting material errors. So, this can be another consideration for investors in making investment decisions. Since the KAP size can facilitate the detection of earnings management, it is expected that the KAP size can reduce the company's incentives to make CSR disclosures that are motivated by the desire to cover up earnings management. Besides that, Big four KAPs as company auditors can support good earnings management practices to increase transparency and quality of financial information. With the relationship between audit quality in the form of KAP size, earnings management, and CSR, it is hoped that it can reduce the possibility of management to carry out earnings management practices that can harm investors and stakeholders. The results of this study do not support the results of research from Luhgiatno (2010) and Christiani and Nugrahanti (2014) which explain that there is no effect between KAP size on earnings management. and CSR is expected to reduce the possibility of management to practice earnings management that can harm investors and stakeholders. The results of this study do not support the results of research from Luhgiatno (2010) and Christiani and Nugrahanti (2014) which explain that there is no effect between KAP size on earnings management. and CSR is expected to reduce the possibility of management to practice earnings management that can harm investors and stakeholders. The results of this study do not support the results of research from Luhgiatno (2010) and Christiani and Nugrahanti (2014) which explain that there is no effect between KAP size on earnings management.

4.2.3. The Effect of Earnings Management on Corporate Social Responsibility Disclosures Moderated by Auditor Industry Specialization

The results of the moderating regression test (MRA) are used as the basis for answering the third hypothesis (H2b) regarding the effect of earnings management on the disclosure of Corporate Social Responsibility (CSR) moderated by the auditor's industry specialization variable. The results of the moderating test of the interaction variable between earnings management and auditor industry specialization show that partially the interaction between earnings management and auditor

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industry specialization (moderation variable of auditor industry specialization) has no significant effect on CSR disclosure. So, based on these results, it is evident that the moderating variable of auditor industry specialization has no significant effect on CSR disclosure. So it can be concluded that the results of the moderation test reject the H2b hypothesis, namely, Earnings management affects the disclosure of corporate social responsibility moderated by the auditor industry specialization variable. This proves that the moderating variable of auditor industry specialization cannot moderate the relationship between earnings management and CSR disclosure.

The auditor industry specialization variable has no effect in moderating the relationship between earnings management and CSR disclosure, that one possible cause of the insignificant test results is because the number of auditor industry specialization is still very small in the sample which only focuses on the object of research on manufacturing companies in the industrial sector. basics and chemistry. Not all types or industrial sectors in Indonesia have specialist auditors, so even if the company wants to use a specialist auditor, However, the existence of specialist auditors in the industry has not been able to exert influence in terms of detecting or limiting the occurrence of earnings management practices, even though industry specialization auditors are believed to be experts in certain industry fields and are considered to have knowledge of company risk and audit risk compared to auditors who are not specialists. However, this cannot make the auditor's industry specialization a reference for detecting the occurrence of earnings management practices carried out by companies by increasing CSR disclosure which is motivated by the desire to cover up earnings management.

The results of this study are consistent with research by Luhgiatno (2010) and Cahyonowati (2006) showing that auditor industry specialization has no significant effect on earnings management. This study states that the existence of specialization in the auditor industry is not to reduce the occurrence of earnings management, but rather to increase the credibility of financial statements by reducing the disturbances in it. However, the results of this study do not support the research of Christiani and Nugrahanti (2014) which states that there is a significant negative effect between auditor industry specialization on earnings management. Another thing that is possible because the results do not have a significant effect is that each company can have different criteria to determine which auditors are called qualified for each company. The industry specialization auditor criteria used in this study are not the only criteria companies use to determine that auditors are qualified. In the previous research, there was a classification or grouping of the definition of auditor industry specialization, namely, in the research of Craswell et al., (1995) starting with the study of KAP the Big-8, auditors with industry specialization are generally defined as auditors who audit more than 10 percent of the total companies in the industry. Research that starts from the auditor industry specialization of KAP the Big-8 then, after consolidation from the Big-8 to the Big-6, the measurement of specialization becomes 15 percent as a threshold (Krishnan, 2003) to 20 percent (Dunn et al. , 2000). Based on this, the criteria for measuring auditor specialization in this study are specifically for the measurement threshold criteria for the Big-6 after consolidation, 15 percent to 20 percent. This classification is based on the percentage of the number of companies audited by auditors in an industry (Andreas, 2012). Because the measurement is based on the percentage of the number of companies audited by ignoring the determinants of the maturity level of specialist auditors and other criteria in the form of knowledge, auditor experience, ability and a more detailed understanding of an industry in finding specific errors or accounting actions unique to that industry. Therefore, the lack of expertise and experience in auditing companies in certain industries will cause the audit quality of the results of the auditor's industry specialization to be unable to influence the relationship between the company's earnings management practices and the CSR disclosure motive to cover up these earnings management practices.

5. CONCLUSIONS AND SUGGESTION

5.1. Conclusion

This study aims to examine and analyze the effect of earnings management on Corporate Social Responsibility (CSR) disclosure, as well as the role of audit quality as proxied by KAP size and auditor industry specialization in moderating the relationship between the effect of earnings management on CSR disclosure. The sample of this research is 69 manufacturing companies in the basic and chemical industry sectors listed on the Indonesia Stock Exchange (IDX) for the 2017-2019 period. Based on the data that has been collected and the results of the tests that have been carried out on the formulation of the problem using regression analysis and the moderate regression model of the interaction test or better known as MRA (Moderated Regression Analysis), the following conclusions can be drawn:

1) Earnings management has a positive and significant effect on the disclosure of Corporate Social Responsibility (CSR). The results of this study support research conducted by (Sari and Utama, 2014, Hamabali et al., 2016, Mustika et al., 2015, Chih et al., 2008, Prior et al., 2008, and Marsono, 2015) that the more The higher the level of earnings management in a company, the higher or greater the CSR disclosure made by the company. It is based on agency theory which explains that a conflict of interest between the principal and the agent will lead to earnings management practices which can result in the loss of the

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company's reputation. This is in accordance with the basis of legitimacy theory related to CSR disclosure. that earnings management practices in a company can result in losses or consequences by lowering the reputation and trust in the company, so to restore and increase the company's reputation it is necessary to gain trust by seeking legitimacy from outside parties. CSR disclosure is one of the activities carried out by companies to gain legitimacy (Hamabali et al., 2016). Consistent CSR disclosure allows companies to be used as a tool to cover earnings management actions. However, the results of this study contradict the research conducted by Sunarsih (2017) which found that there was no influence between earnings management on CSR disclosure. so that in order to restore and improve the reputation of the company, it is necessary to gain trust by seeking legitimacy from outside parties. CSR disclosure is one of the activities carried out by companies to gain legitimacy (Hamabali et al., 2016). Consistent CSR disclosure allows companies to be used as a tool to cover earnings management actions. However, the results of this study contradict the research conducted by Sunarsih (2017) which found that there was no influence between earnings management on CSR disclosure. so that in order to restore and improve the reputation of the company, it is necessary to gain trust by seeking legitimacy from outside parties. CSR disclosure is one of the activities carried out by companies to gain legitimacy (Hamabali et al., 2016). Consistent CSR disclosure allows companies to be used as a tool to cover earnings management actions. However, the results of this study contradict the research conducted by Sunarsih (2017) which found that there was no influence between earnings management on CSR disclosure. Consistent CSR disclosure allows companies to be used as a tool to cover earnings management actions. However, the results of this study contradict the research conducted by Sunarsih (2017) which found that there was no influence between earnings management on CSR disclosure. Consistent CSR disclosure allows companies to be used as a tool to cover earnings management actions. However, the results of this study contradict the research conducted by Sunarsih (2017) which found that there was no influence between earnings management on CSR disclosure.

2) The interaction between earnings management and KAP size (moderation variable of KAP size) has a significant effect on CSR disclosure. Thus, it can be concluded that the KAP measure has succeeded in being a moderating variable or is able to moderate the relationship between earnings management and CSR disclosure. The results of this study support the research of Pratama and Kusumadewi (2020) that audit quality proxied by the KAP measure succeeded in moderating the relationship between earnings management and CSR disclosure. And the results of research conducted by Iswandika et al., (2014) and Hapsoro, (2012) which show that the audit quality audited by the big four KAPs has a correlation with CSR. KAP The big four is able to influence the level of CSR disclosure, the higher the quality of the audit conducted by the auditor, the higher the detection of earnings management practices obtained in the company's CSR disclosures. KAP the big four will further increase financial transparency by detecting earnings management practices carried out by companies by increasing CSR disclosure.

3) The interaction between earnings management and auditor industry specialization (moderation variable for auditor industry specialization) does not significantly affect CSR disclosure. Thus, it can be concluded that the auditor's industry specialization cannot be a moderating variable between earnings management and CSR disclosure. The results of this study support the research of Luhgiatno (2010) and Cahyonowati (2006) which explain that auditor industry specialization has no significant effect on earnings management. Based on these results, the auditor's industry specialization variable cannot affect the size of the value of earnings management carried out by the company so that it also cannot affect the level of CSR disclosure. The existence of auditor industry specialization is not to reduce the occurrence of earnings management, but rather to increase the credibility of financial statements by reducing the disturbances that exist in them and each company can have different criteria to determine the so-called qualified auditors for each company. In addition, the determinants of the maturity level of specialist auditors in the form of expertise and experience in auditing companies in certain industries will also affect the quality of the audits produced.

5.2. Suggestion

Based on the results of the discussion analysis and some conclusions in this study, the suggestions that can be given through the results of this study in order to get better results, namely:

1) Future research is expected to be able to use the type of company or add other industrial sectors so that it is not only limited to the general manufacturing industry.
2) This study uses the modified Jones model in measuring earnings management, for further research it is expected to use or develop other models to measure earnings management, such as measuring real earnings management.
3) This study uses the GRI CSR disclosure item index version 4, future research is expected to be able to use the latest GRI CSR disclosure index to examine the consistency of the findings of this study with the various methods and CSR item indexes used.
4) Future research is expected to be able to use a longer observation period so that it will give a greater possibility to obtain the actual conditions with a larger number of research samples and for the measurement of industrial specialization can use more

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complex measurement criteria other than dummy by involving determinants of auditor maturity level. specialists and other criteria to further confirm the role of auditor industry specialization in moderating the effect of earnings management on CSR disclosure.

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