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The Influence of Auditors Gender and CFO Gender to Earnings Quality

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Abstract

Influence of Gender Auditor and Gender CFO on Earnings quality. This research was conducted on companies listed on the IDX in 2017-2021. The selected sample results contain 1,388 observational data. The procedure for analyzing the information used is using linear regression analysis. The research results prove that Gender Auditor and Gender CFO have no significant effect on Earnings Quality.

Keywords
auditor gender; CFO gender; earnings quality

I. Introduction

According to (Galanaki 2017), Earnings Quality is a fundamental feature of audited financial statements and has long been used by investors and shareholders to evaluate and predict a company's current and future performances. Earnings quality refers to the extent to which the company's reported profit figures meet relevant, credible, and reliable criteria related to the company's financial performance. Good earnings quality is very important for companies because it can influence the trust of potential shareholders to make investment decisions. Investor decision making is based on the level of trust in the company which can be reflected in the quality of the company's earnings. In addition, earnings quality can also be used as evaluation material to predict future financial performance more accurately. Low earnings quality is caused by companies carrying out aggressive accounting practices by reporting income too quickly or manipulating profit figures by reducing or adding other costs. There are two parties that influence earnings quality, namely the Auditor and the CFO.

An auditor is an examination of a company's financial statements by an independent public accounting firm. An audit consists of an investigation looking for accounting records and other evidence to support the financial statements. By getting understanding of the company's internal control, and by examining documents, observing assets, making inquiries inside and outside the company, and performing other auditing procedures, the auditor will gather the evidence needed to determine whether the financial statements provide a fair and fairly complete picture of the company's financial position and activities during the audited period (Nedi, 2014)

CFO is a senior executive responsible for managing a company's finances. In a company, the CFO's job is to track the cash flow and financial planning of a company. In addition, the CFO is also tasked with analyzing the company's financial strengths and weaknesses and proposing corrective actions to the company. More simply, CFO is a position that carries out the same duties as treasurer. In fact, some companies call it the treasurer. Namely the finance division that is in charge of and responsible for financial management and company accounting (Binus University, 2020).

The auditor as a part assessing the fairness Interaction between the auditor and the CFO clearly occurs in almost every stage of the audit process. The interaction between the

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audit engagement partner and the CFO reflects the form of discussion and negotiation, as well as various opinions explaining that both the auditor and the CFO influence the results of the audit process in the context of earnings quality(Galanaki, 2017). The study of gender differences is quite popular in the social sciences, determining whether gender really matters, whether the different genders of men and women cause gendered behavior or whether men and women respond to certain situations differently (Galanaki, 2017).

The impact of gender, particularly regarding auditors and CFO, on earnings quality. Auditors, as parties who assess the fairness of financial reports, and CFOs, who have responsibility for overseeing the financial reporting process, are seen as having a significant role in influencing earnings quality(Galanaki, 2017). Therefore, the potential relationship between auditor and CFO gender and earnings quality can be rationalized in at least two ways. First, in general, women are perceived as more conservative, less risk tolerant, and have a higher moral sensitivity than men. Therefore, female auditors may limit clients' use of aggressive accounting practices and earnings management. Likewise, a female CFO would not choose aggressive accounting practices and disengage from manipulating earnings.

Based on previous studies that conducted research on Gender Auditors and Gender CFOs, the authors conducted research that collected 2017-2021 financial report data on the Indonesia Stock Exchange. This study is entitled "The Influence of Gender Auditors and Gender CFOs on Earnings Quality"

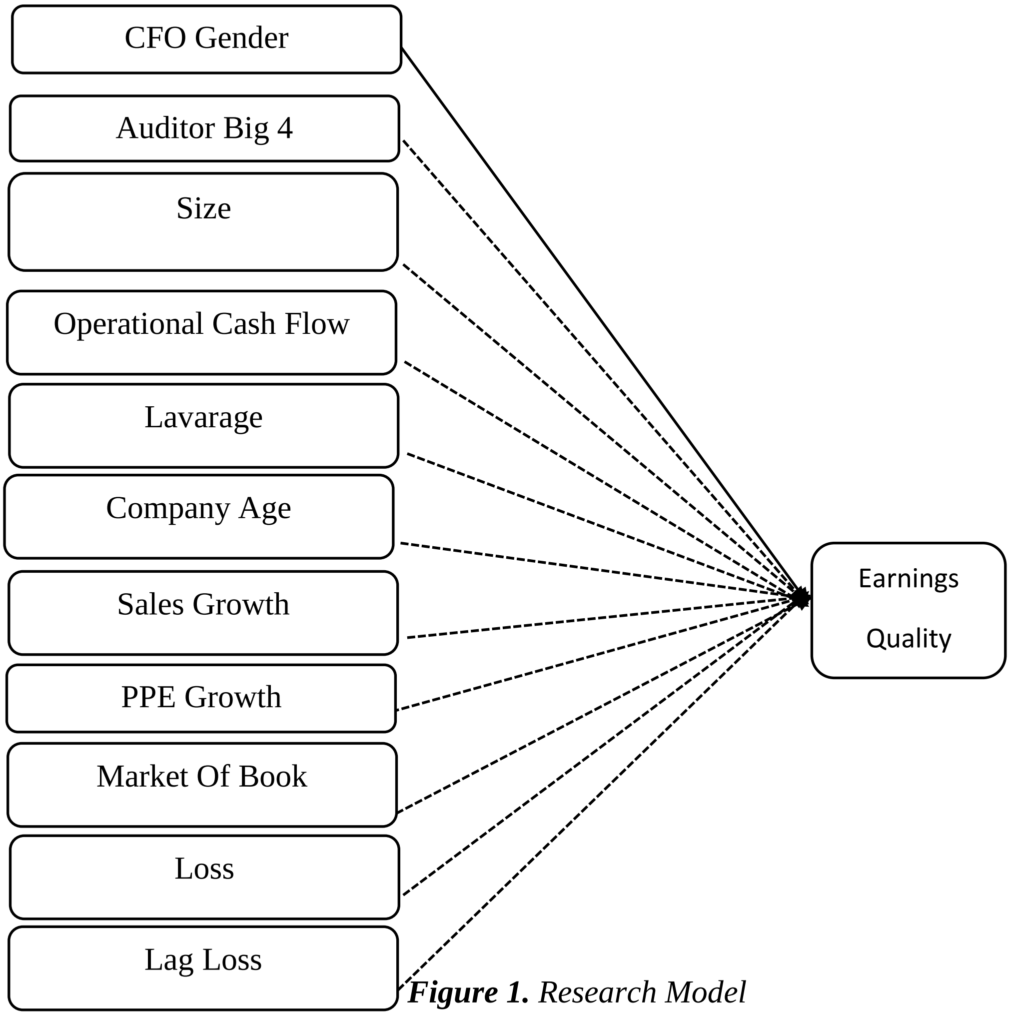

Figure 1. *Research Model*
Source: research data 2022

Empirical results show that gender-diverse audit partners are negatively related to the discretionary accruals of client firms. gender diverse audit partners were also found to limit earnings management regardless of whether the client hired one or two brand name audit firms. Finally, it was found that the dispersion of earnings management decreased when client firms switched from all-male audit partners to gender-diverse audit partners (Nekhili, 2022). Gender diversity results in better information disclosure and with better disclosure, superior disclosure estimates of earnings are provided. This study proposes a positive relationship between audit committee gender diversity and the average level of accuracy of earnings forecasts (August, 2013). The independent variable is the type or type of variable that affects other variables, namely the Gender Auditor which is the independent variable which is divided into 2 categories, namely men and women. Gender Audit Relations plays a role in earnings quality and also has an impact on earnings quality if gender provides quality in working on the company's financial reports (Pasanda & Paranoan, 2013)

In information about monetary matters, men and women have a tendency in how to manage it. Men are more concerned about effective financial planning or developing a business, while women will generally use money for investment funds for fear of future financial vulnerabilities (Ningsih, 2015). shows that the proportion of financial expertise regarding the Audit Committee and gender reduces earnings management. Then classify the Audit Committee's financial experts based on gender, and check whether the gender of the financial expert is important (Zalata , 2018). Public companies in Taiwan are required to be audited by two audit partners and to disclose the identities of both partners in the audit report. In summary, the empirical findings suggest that female signatory auditors can significantly constrain accrual earnings management, compared to all-male auditor pairs. Moreover, this effect is prominent regardless of whether the second auditor is male or female (Kung, 2019)

The enactment has enhanced the work of the CFO and made the responsible for the accuracy and top-notch of the organization's financial reports. There is limited evidence regarding the impact of CFO gender orientation on executive earnings in Australia and results in the US market are mixed. The next check question was to test whether the CFO gender orientation had an impact on earnings quality in the Australian market. It is thought that female CFO will partake in the smaller profits board coaches as they will typically be more moderate in comparison to their male counterparts (Duong & Evans, 2016)

II. Research Methods

This research uses a quantitative approach. The population of this study is companies listed on the Indonesia Stock Exchange 2017-2021 with collect data from the company's annual report. The criteria that form the basis sample selection is (1) Companies listed on the IDX in 2017 until 2021; (2) Companies that publish annual reports during period 2017 to 2021; (3) The annual report contains the required data to share research variables. The independent variable in this research is the Auditor gender, CFO gender. Control variable in this research is Auditor Big4, Size, OCF, Laverage, Company age, Sales growth, PPE growth, Market of Book, Loss. The dependent variable in this research is in the earning quality formula.

The dependent variable in this study is earnings quality as measured by proxy discretionary accruals (DA). Earnings quality using the Modified Jones model The steps in calculating discretionary accruals are as follows:

Actual total accruals:

TA (*total accruals*) = *Net income – Cash flow from operation*……..........(1)

Total accruals are estimated by the OLS regression equation (Ordinary Least Square) is:

$Tat/At\text{-}1 = \alpha 1\ (1/At\text{-}1) + \alpha 2\ (\Delta REVt/At\text{-}1) + \alpha 3\ (PPEt/At1) + \varepsilon$…..........(2)

Information:

At-1 = Total assets in period t-1

ΔREVt = Change in income in period t

PPEt = Gross Property, Plan, and Equipment

α1, α2, α3 = regression coefficients

Using the regression coefficient above, the value of non-discretionary accruals (NDA) can be calculated using the formula:

$NDA = \alpha 1\ (1/At\text{-}1) + \alpha 2\ (\Delta REVt\text{-}\Delta RECt)/At\text{-}1) + \alpha 3\ (PPEt/At\text{-}1)$....(3)

Information:

ΔRECt= Change in net receivables in period t

Furthermore, the value of discretionary accruals can be calculated as follows:

DACit=TAt/At-1–NDA............................ (4)

Information:

DACit = Discretionary accruals in period t

NDA = Non-discretionary accruals

Independent variable:

Auditor Gender in this study are stated as dummy variables that are categorical in nature which are suspected of having an influence on continuous variables. The dummy variable has only two values, namely if the auditor is a woman then the value is 1, if it is a man then the value is 0.

CFO Gender in this study is stated as a dummy variable that is categorical in nature which is suspected of having an influence on continuous variables. The dummy variable has only two values, namely if the auditor is a woman then the value is 1, if it is a man then the value is 0.

Following are some of the control variables that will be used in this research:

Big4 in this study includes dummy variables which are four Public Accounting Firms (KAP), which means that if the company uses the services of one of the four KAPs, the value is 1, and if the company does not use the services of one of the four KAPs, the value is 0.

Size in this study is expressed by finding the total of the company's assets, then used as a logarithm. The formula for the variable Natural Logarithm of Total Assets

Operating Cash Flow financial reports that contain information on cash receipts and disbursements in a company for a certain period of time, in this study we only take the operating activities section.

Leverage in this study is expressed by finding the total of the reduction between total liabilities and total assets.

In the formula: $Leverage = \frac{Total\ Liabilies}{Total\ Assets}$

Company Age in this study is expressed as the total age of the company from when the company was first established.

SalesGrowth in this study is expressed by finding the total reduction between this year's sales less than last year's sales.

In the formula [sum=this year's sales-last year's sales)]

PPEGrowth in this study is expressed by finding the total reduction between this year's assets less than last year's assets.

In the formula [sum(current year's assets-last year's assets)]

Loss in this study is expressed as a dummy variable, if the company's profit is minus then the value is 1, otherwise the value is 0.

MB in this study is expressed by finding the total reduction between the market value of equity minus the book value of equity.

In formula: $MB = \frac{Market\ Value\ of\ Equity}{Book\ Value\ of\ Equity}$

LagLoss in this study is expressed as a dummy variable, if the company's operating income last year was minus then the value is 1, otherwise the value is 0.

Multiple linear regression analysis serves to evaluate the effect independent variable in a way together (simultaneously) to the variable dependent. The multiple linear regression equation model is as follows.

EM= α+ β_1 Audit Gender+ β_2CFO Gender+ β_3Big4+ β_4Size+ β_5OCF+ β_6Leverage+ β_7CompAge+ β_8Sales Growth+ β_9PPE Growth+ β_{10}MB+ β_{11}Loss

III. Results and Discussion

This research was conducted on 299 companies listed on the IDX with a 5-year observation year, namely 2017 to 2021. After that, there were 107 data outliers that had to be eliminated, so the number of research samples was 1,388 samples. The results of determining the research sample are presented in Table 1.

Table 1. Research Sample Results

Keterangan	Jumlah
Perusahaan yang terdapat di BEI	299 perusahaan
Data penelitian (tahun 2017-2021)	1,495 data
Jumlah data *outlier*	(107 data)
Jumlah sampel data yang diuji	1,388 data

Source: research data 2022

Descriptive statistics aim to share data about characters research variables related to the minimum value, maximum value, average value, and standard deviation. The results of descriptive statistics can be seen in Table 2.

Table 2. Research Descriptive statistics

Variable	N	Minimum	Maksimum	Mean	St. Devination
Earning Quality	1388	-162,833	12,896,025	0,0010	0,0582
Auditor Gender	1388	0	1	0,27	0,446
CFO Gender	1388	0	1	0,24	0,428
Big4	1388	0	1	0,44	0,496
Size	1388	12,20	31,40	227,122	526,300
Leverage	1388	0,00	90,99	0,6953	358,588
CompAge	1388	2	144	36,99	19,128
Loss	1388	0	1	0,25	0,431
LagLoss	1388	0	1	0,25	0,431
MB	1388	-59,91	267,43	,7889	748,066
OCF	1388	-24273880	42215498	5885827,2	3393472,3
Sales Growth	1388	10514262	64731654	-6476920,3	8175534,1
PPE Growth	1388	-10162091	34472598	-3809248,6	4184194,9

Source: research data 2022

In table 2 it can be seen that the average value of Earnings Quality is 0.0010 with a standard deviation of 0.0582. This shows that the range of Earnings Quality values of the sample companies is not that wide. Gender Auditor Variable, Gender CFO has an average of 0.27 and 0.24. This shows that out of a total of 299 companies, the percentages are 2.7 percent and 2.4 percent. The Big4 variable has an average of 0.44 which shows 4.4 percent of companies use the services of accountants from the Big4 division. The variables Size, Leverage, CompAge, Loss, LagLoss, MB OCF, Sales Growth and PPE Growth have an average of 227.1, 0.69, 36.99, 0.25, 0.25, 0.78, 588.2, -64.3, and -38.6. This shows that the percentage of these variables is 22.71 percent, 6.9 percent, 3,699 percent, 2.5 percent, 2.5 percent, 7.8 percent, 58.82 percent, -6.43 percent, and -3.86 percent.

Table 3. Test F In SPSS

Variabel Dependen	*Sig F*
Sig.	0,0000

Source: research data 2022

The value of Sig F shows a value of 0.0000 which is <0.05, thus indicating that the independent variables used have a significant influence on the concurrent dependent variable. This shows that the research model can explain the dependent variable or the dependent variable is influenced by the independent variables together.

Multiple Linear Regression Analysis was used to know the magnitude of the influence independent variables to anchovy variables cat. Based on calculations using SPSS program is updated by the regression table as follows:

Table 4. Results of Linear Regression Analysis

Variabel	Coefficient	Prob
AuditGen	-0,005	0,237
CFOGen	0,002	0,531
Big4	-0,004	0,267
CompAge	3,276	0,704
SIZE	0,000	0,307
LAVERAGE	-4,453	0,912
LOSS	0,008	0,169
LagLoss	-0,004	0,490
MB	-2,779	0,888
OCF	-2,066	0,667
SalesGrowth	-1,282	0,000

Source: research data 2022

The test results in table 4 above show that the independent variable, namely Auditor Gender, is the probability value for the AuditGen variable, which is 0.237 and the coefficient value is -0.005. Therefore this hypothesis is rejected. In this case, it means that gender in the audit position does not affect earnings quality. This supports research from (Novilia & Nugroho, 2016) which states that the effect on audit gender is negative. The results show that the probability value for the CFOGen variable is 0.531 and the coefficient value is 0.002. Therefore this hypothesis is rejected. In this case, gender in the CFO position does not affect earnings quality. This supports research from (Novilia & Nugroho, 2016)which states that the influence of gender in the CFO position is negative.

In the control variable test results, the results are as follows:

The probability value for the Big4 variable is 0.267 and the coefficient value is -0.004. Therefore, this hypothesis is rejected. the probability value for the CompAge variable is 0.704 and the coefficient value is 3.276. Therefore, this hypothesis is rejected. The probability value for the SIZE variable is 0.307 and the coefficient value is 0.000. Therefore, this hypothesis is rejected. the probability value for the LAVERAGE variable is 0.912 and the coefficient value is -4.453. Therefore, this hypothesis is rejected. These results are in accordance with those expressed by (Novilia & Nugroho, 2016) where companies with troubled financial conditions will have a strong motivation to reduce accrual profits. This is possible because company profits will also be used for corporate tax calculations. Companies that are experiencing financial difficulties will make their profits seem small so that the taxes paid are also small so that the funds can be used for the operational needs of other companies.

The probability value for the Loss variable is 0.169 and the coefficient value is 0.008. Therefore, this hypothesis is rejected. In this case it proves that losses have a negative effect on earnings quality. This is the same as what was revealed by (Novilia & Nugroho, 2016) where companies with troubled financial conditions will have a strong motivation to decrease accrual profits. This is possible because the company's profits will also be used for calculating company taxes. The probability value for the LagLoss variable is 0.490 and the coefficient value is -0.004. Therefore, this hypothesis is rejected. The probability value for the MB variable is 0.888 and the coefficient value is -2.779. Therefore, this hypothesis is rejected. The probability value for the OCF variable is 0.667 and the coefficient value is -2.066. Therefore, this hypothesis is rejected. The probability value for the SalesGrowth variable is 0.000 and the coefficient value is -1.282. Therefore, this hypothesis is accepted. the probability value for the PPEGrowth variable is 0.001 and the coefficient value is -1.324. Therefore, this hypothesis is accepted.

IV. Conclusion

This study examines the effect of gender that Auditors and CFOs have on the earnings quality of companies listed on the IDX from 2017 to 2021. From the results of the study, it can be concluded that companies with gender in audit positions and CFOs have a negative effect on earnings quality. The limitations in this study are the large number of incomplete data because there are companies that do not publish annual reports for 2021 and the time span studied is 5 years. Thus, researchers can provide suggestions for further research in order to add to the sample data and take a longer period of time.

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