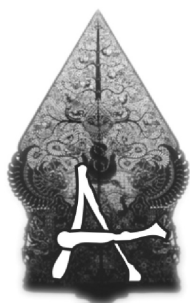# DOES IFRS HAVE IMPACT ON EARNING'S QUALITY AND AUDIT FEE?

Linda Kusumaningwedari
Megawati Oktorina

Universitas Katolik Indonesia Atma Jaya, Jl. Jendral Sudirman No. 51, Jakarta Selatan 12930
Surel: lindakusumaningwedari@yahoo.com; megaoktorina@yahoo.com

Apakah adopsi IFRS memberikan dampak terhadap kualitas laba dan biaya audit? Tujuan dari penelitian ini adalah untuk memberikan bukti empiris mengenai dampak adopsi IFRS pada kualitas laba dan biaya audit. Penelitian ini menggunakan perusahaan non-keuangan di Bursa Efek Indonesia pada tahun 2010-2014, sebelum penerapan Masyarakat Ekonomi Asean (MEA). Metode pengumpulan data adalah *purposive sampling* dengan metode analisis regresi panel. Hasil penelitian menunjukkan bahwa adopsi IFRS tidak mempengaruhi kualitas laba, namun pada perusahaan yang mengadopsi IFRS, terbukti bahwa kualitas laba berpengaruh pada biaya audit. Oleh karena itu, perusahaan di Indonesia harus menyesuaikan laporan keuangan dengan standar internasional.

Does IFRS have the impact on earning's quality and audit fees? *The purpose of this research is to provide empirical evidence regarding the impacts of IFRS's adoption on earning's quality and audit fee. This research used nonfinancial companies in Indonesia Stock Exchange in 2010-2014 before Asean Economic Community implementation in 2015. The data was collected by employing purposive sampling, which was then analysed by using panel regression method. The result showed that on one hand, the adoption of IFRS did not affect earning's quality, while on the other hand, it is proven that earning's quality affected audit fee for companies adopting IFRS. Therefore, companies in Indonesia should update with the progress of the international standard.*

Keywords: *ifrs, earning's quality, audit fees, discretionary accruals*

International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) in 2002 introduced International Financial Reporting Standards (IFRS) as a standard instrument that would enable the connection of the world on international basis. The adoption of IFRS to produce financial reports is said to bring high level of credibility, higher level of requirements of disclosure items, high accountability of management on running the company, better relevancies and accuracy of information provided by company's financial reports, and increased comparability of financial reports as they produce valid information for assets, liabilities, equity, revenues, and company's expenses that would also make higher company's value (Teixeira, 2014). The adoption of IFRS (gradual strategy) in Indonesia begun in 2012 (Institute of Indonesia Chartered Accountants, 2009). Institute of Indonesia Chartered Accountants (IAI) proclaimed that the adoption of IFRS has proven to enhance the increase of disclosures and the decreasing number of accounting methods' options (Ashbaugh & Morton, 2001; Scott, 2015).

The purpose of adoption of international accounting standards leads to improvements in the quality of reported financial information. The quality characteristics measured by relevance, understandability, and comparability (Coetzee & Schmulian, 2013). Accounting literature has operationalised accounting quality on the basis of earnings management, timely loss recognition, and value relevance metrics. Byun & Luttecke (2014) concluded

that companies give good signal in order to cut down information asymmetry and agency costs, which have been possible when the IFRS is used to enable such higher level disclosure and also financial reporting quality. The companies that adopt IFRS would tend to display lower potential for earnings management. Less subjectivity would lead to fewer opportunities to influence reported earnings and bonuses and/or mislead investors. Adoption of IFRS in Indonesia could increase earning's quality if the accounting standard is more principles-based, because it could limit inappropriate accounting alternatives. Some literature mentioned that IFRS' adoption could fix the transparency of company and reduce the asymmetric information (Daske, Hail, Leuz, & Verdi, 2008).

Barth, Landsman, & Lang (2008) studied the effect of IFRS' adoption on the earning's quality in 21 countries. Barth found that utilization of IFRS prompted the better diminishment of earning's quality and earning's value relevance than those in companies which applied the local standard of their each country. Cai, Rahman, & Courtenay (2011) examined the impact of IFRS and earning's management in 32 countries. They found that earning's management decrease after those countries adopted IFRS. Chen, Tang, Jiang, & Lin (2010) stated that compared accounting quality of public companies before and after the adoption of IFRS in 15 European Union countries, found that the lower discretionary accruals were the lower earning's management would be and the more improvement of accrual quality would gain after adopting IFRS. Sun, Cahan, & Emanuel (2011) stated that the earning's quality had increased after adopting IFRS of public companies in the US. Adoption of IFRS in Indonesia could improve earning's quality if the accounting standard is more principles-based, because it could limit inappropriate accounting alternatives. Some literature mentioned that IFRS' adoption could fix the transparency of company and reduce the asymmetric information (Daske, Hail, Leuz, & Verdi, 2008; Subekti, 2010). A different result was discovered by Ball, Robin, & Wu (2003), and Jeanjean & Stolowy (2008), in which the adoption of IFRS could not provide a significant effect on earning's quality. It was because qualified accounting information given by the companies was not determined by the changing into the international standard. Qualified information was

mostly decided by the quality of company's management as a constituent of financial statement and auditor. Ashbaugh & Morton (2001) argued that the limitation of alternative accounting methods because IFRS' adoption would be able to control the discretion of opportunistic actions by manager on determining accounting numbers that would ultimately improve the earning's quality. In addition, IFRS required more disclosures than local accounting standard demanded, in which it would improve transparency that was ultimately going to strengthen the oversight of financial reporting. Dye, Glover, & Sunder (2015) also stated that limitation of manager's opportunistic discretion could expand wide description on accounting numbers which illustrated the company's economic. Thus, IFRS' adoption was expected to strengthen the environment of corporate governance that would then reduce earning's management in public companies in Indonesia.

Under IFRS, there is a necessity for sufficient resources, dedication, training, communication, and preparation by local authorities, managers, and auditors. The accountants will spend more effort to make appropriate judgment. In addition, auditors must have professional education about IFRS. This incremental cost will be reflected in the increased audit fees (Lim, Kang, & Kim, 2016). The IFRS ratification may have increased additional risks for auditors which may have resulted elevation of audit fees. If financial statements preparers or auditors do not have sufficient expertise in IFRS, it would make greater possibility to misreporting by management. For auditors, the complexity of the transition and a client's potential insufficient preparations can result in risks in their audit assignment. Logically, higher client risk (Prawitt, Sharp, & Wood, 2011) and audit complexity (Kim, Liu, & Zheng, 2012) will be associated with higher audit fees. IFRS can, in turn, cause greater amount duration of the time spent to audit the IFRS-based financial statement. As Ball, Robin, & Wu (2003) indicates that auditor status, independence, exercise, and compensation have association to the financial reporting quality after the IFRS adoption.

Accounting estimation has high inhe_rent risks and discretionary accruals that relate to accounting estimation. When the inherent risk is high, an auditor is needed to gather information additional evidence,

expected to collect more evidence, to assign auditor staffs that have more experiences, and to review the work's result done by a junior auditor. Therefore, the audit fee would increase (Arens, Randal, & Beasley, 2012). Ghosh (2011) studied the relation between earning's management and audit fee, and found that there was a positive and significant relation between discretionary accruals and audit fees. Companies which adopted IFRS would be able to improve its earning's quality that would decrease audit fee. Abbott, Parker, & Peters (2006) stated that audit fee would decrease (increase) by following the decrease (increase) of discretionary accruals.

Those backgrounds have motivated the researcher to prove empirically the impact of IFRS' adoption in 2010-2014 before Asean Economic Community (AEC) in 2015 for public companies in Indonesia, towards earning's quality and audit fee. Many existing studies on the impact IFRS adoption to earnings quality audit fee have been conducted in developed countries such as Canada, Italy, USA, and UK, as well as in developing countries. This study fills a gap in the existing literature by studying the effect of adoption of IFRS on earnings quality and audit fee in Indonesia as an emerging market. In Indonesia, there are some research of the impact IFRS adoption to earnings quality and audit fee, but there is no research that has been done to compare before and after the adoption IFRS (year 2012). Moreover, period 2010-2014 is a good momentum for research to see the preparation Indonesia public companies in AEC 2015. The aims of this study are to obtain empirical evidence on the impact of IFRS' adoption on earning's quality and audit fee.

METHOD

This study involves all non-financial public companies whose shares are listed on the Indonesia Stock Exchange (BEI) as the population of study. Meanwhile, samples that will be used in this study were chosen based on specific criteria to create a research sample with the intention of making generalizations from that sample to the population of interest. The companies are used as sample from non-financial companies be-

Table 1. Definition of Variable Operation

VARIABLES	DESCRIPTION
IFRS	Period of IFRS' adoption (code 1 for data obtained after IFRS' adoption, 0 for data obtained before IFRS' adoption)
Earns_Qual	Earnings quality measured by inverse measure from absolute of discretionary accruals (earnings management)
Audit Fee	Natural log of professional fee
INV	Ratio of inventories towards total assets
REC	Ratio of account receivables towards total assets
INVREC	Proportion of total assets in inventories and account receivables
LTA	Natural Log of total assets
LOSS	Current year income (code 1 if the company suffers losses, 0 for the contrary)
ROA	Return on assets ratio is measured by income before extraordinary items divided by total assets
MB	Market-to-book ratio, measured by market value of common equity to book value of common equity
LEV	Ratio of total debts towards total asset
KAP	Public accounting firm (Code 1 if client is audited by KAP BIG4 and 0 if it is the contrary)
MGR	Percentage of stocks ownership from management
AUD_CHG	Substitution of auditor (Code 1 if the auditor is new and 0 if it is the contrary)
COM_IND	Proportion number of independent board members
COM_MEET	Number of board meeting in a year
SUB	Number of company's subsidiaries owned

cause financial institutions have different regulation from non-financial institution. The criteria are companies that published financial report in period that is ended on December 31st and published its financial reports during the observation period of research observation that is from 2010 to 2014 (5 years) since at the 12th ASEAN Summit in January 2007, leaders give their full commitment to accelerate the establishment of the ASEAN Community by 2015. The use of these 5 years observation periods is because the researcher wants to use data on period of 2 years before IFRS' adoption and 2 years after IFRS' adoption, before the ASEAN Economic Community in 2015.

There are two models in this study which aim to answer those two hypotheses questioned. For the first model is to solve the first hypotheses, to analyses the impact of adoption IRFS to earnings management (proxy of earnings quality), using 300 samples of 60 companies selected. The second model is to solve the second hypothesis, to analysis the impact of earnings quality of IFRS adopted companies to audit fee, using 95 samples of 19 companies which adopted IFRS. Here is presented the definition of each variable in Table 1.

Earning's quality that was measured by the inverse measure from absolute of discretionary accruals, was usually used as a proxy of earning's management (Alali, 2011; Ashbaugh-Skaife, Collins, Kinney, & LaFond, 2008; Ittonen, Johnstone, & Myllymaki, 2015). It means that the higher earnings management, the lower earnings quality. This study uses accrual model from Park & Kwon (2015) and Yoon, Miller, & Jiraporn (2006), which stated that modified Jones model of discretionary accruals (Geiger & Smith, 2010) was less suitable for Asian enterprises (Korea), so that Yoon, Miller, & Jiraporn (2006) designed a model that incorporated load of current period, end-year payables, depreciation, and retirement benefits expenses. It's as follows:

$$TA_i/REV_i = \beta_0+\beta_1([\Delta REV_i-\Delta REC_i]/REV_i)+$$
$$\beta_2([\Delta EXP_i-\Delta PAY_i]/REV_i) +$$
$$\beta_3([DEP_i + RET_i]/REV_i) +\varepsilon_i \quad (1)$$

TA (Total accruals)	=	accounting earnings – CFO
REV	=	net sales revenue
REC	=	receivables

EXP	=	cost of goods sold and general administration&sales expenses, excluding non-cash burden
PAY	=	payables
DEP	=	depreciation
RET	=	retirement benefits expenses
DAC	=	discretionary accruals
Δ	=	change

To obtain discretionary accruals, non-discretionary accruals will be deducted from the total of accruals for each observation in this following equation:

$$DAC_i= TA_i/REV_i-[\beta_0+\beta_1([\Delta REV_i-\Delta REC_i]/REV_i)+\beta_2([\Delta EXP_i-\Delta PAY_i]/REV_i)+\beta_3([DEP_i+RET_i]/REV_i)] \quad (2)$$

Statistically, the regression formula of this study is as follow:

$$Earns\_qual= \beta_0+\beta_1 IFRS+\beta_2 INVREC+$$
$$\beta_3 LTA+ \beta_4 LOSS+\beta_5 ROA+$$
$$\beta_6 MB+\beta_7 LEV+\beta_8 BIG4+$$
$$\beta_9 MGR+ \beta_{10} UD\_CHG+$$
$$\beta_{11} COMIND+\beta_{12} COM\_EET+$$
$$\beta_{13} INDUSTRY+\beta_{14} SUB+\varepsilon \quad (3)$$

β_1 in equation (3) shows the impact of IFRS' adoption towards earnings quality measured by inverse measure of discretionary accruals. If the adoption of IFRS causes the increase of earning's quality, the researchers expect negative direction and significant coefficient on β_1 in equation (3). Following model will be used to analyze the effect of earnings quality on audit fee:

$$AUDITFEE= \beta_0+\beta_1 Earns\_Qual+$$
$$\beta_2 INVREC+\beta_3 LTA+$$
$$\beta_4 LOSS+\beta_5 ROA+\beta_6 MB+$$
$$\beta_7 LEV+\beta_8 BIG4 +$$
$$\beta_9 MGR+\beta_{10} AUD\_HG+$$
$$\beta_{11} COM\_IND+\beta_{12} COM\_MEET+$$
$$\beta_{13} INDUSTRY+\beta_{14} SUB+\varepsilon \quad (4)$$

The researchers included some control variables as factors that affect earning's quality and audit fee. INVREC and SUB will be the proxy of clients' complexity (Choi, Kim, Liu, & Simunic, 2008; Choi, Kim, & Zang, 2010; Ghoul & Kim, 2016; Kraub, Quosigk, & Zulch, 2014). Ghoul & Kim (2016) stated that a large amount of audit fee was affected

Table 2. Descriptive Statistics

	DAC	Invrec	Ln_ta	ROA	MB	Lev	Mgr	C_ind	Sub	C_meet	Ln_audit fee
Mean	0,281	1234,404	29,026	337,378	3625,456	314,884	2,167	0,437	2,251	8,897	22,544
Std. Dev	0,479	21370,208	2,023	5833,317	62122,126	5444,512	7,155	0,178	2,148	11,059	1,722
Min	0,000	,00	16,34	-,68	-598,27	,00	,00	0,20	,00	1	18,03
Max	4,376	370143,44	34,32	101036,48	1076006,70	94302,24	57,00	2,50	18,73	68	26,55

by how big the size of the company which was audited (auditee). When an auditee company became larger, its business structure and its audit environment would also require high demands of audit service and higher audit fee (Choi, Kim, & Zang, 2010). As a proxy of the risk characteristics of the client, the researchers use LOSS, LEV, ROA, and MB) (Cai, Rahman, & Courtenay, 2014; Choi, Kim, & Zang, 2010). The ratio of market-to-book shows growth opportunities (Liang, Moreau, & Park, 2011). Sharma, Sharma, & Ananthanarayanan (2011) found the relation between cash flow operation (CFO) and accruals. Auditors from big KAP usually relate to the high-quality auditors so that they can assist their clients to improve the earning's quality (Becker, Defond, Jiambalvo, & Subramanyam, 1998). Variables of MGR, AUD_CHG, COM_IND, COM_MEET showed some elements of corporate governance (Sakel & Schonberger, 2015).

In this study, the researchers employ analysis of panel data, which is run through *Eviews* 6.0. According to Widarjono (2009), in analysis model of data panel, there are three methods that usually used to estimate regression models, such as Pooled Ordinary Least Square or Common Effect Method (CEM), Fixed Effect Method (FEM), and Random Effect Method (REM). The best model to explain the effect of IFRS adoption on earnings quality is Fixed Effect Model (FEM) and the best model for the effect of earnings quality on audit fees is Random Effect Model (REM).

RESULT AND DISCUSSION

Table 2 shows descriptive statistics. Discretionary accruals (DAC) as a proxy for earnings quality has an average value which is not too high as 0.281, which means the level of earnings management in companies sampled, is not high. Likewise, table 3 shows the result for IFRS, loss, Public Accounting Firm (KAP), and auditor change (AUD_CHG). The test result indicates that most samples in this study are companies with the period of IFRS' adoption, not in losses condition and not being audited by big4 KAP, and no change of auditor.

Based on the test result on Table 4 it can be indicated that F significant values of 0.000003 are under the level of significance α = 5% which means the regression model is good enough to be used in the test and adjusted value of R^2 is 0.229759. It means that about 22.98 % of earning's quality changing can be explained by the change of independent variables in this study.

Test result presented in Table 4 also shows that significance value of IFRS' adoption is 0.4333 with a coefficient of 0.062410. The significance result is bigger than level α set, so that adoption of IFRS has no impacts on earnings quality. Examining result on control variable shows that only variable of auditor change (sign=0.0192) and subsidiary (sign=0.0682) which could affect negatively significant towards earnings quality.

The existence of IFRS' adoption is expected to strengthen the corporate governance environment, thereby reducing earning's quality in public companies in Indonesia; however this study demonstrates that the adoption of IFRS does not have a significant effect on earning's management behavior. High reporting standard does not necessarily produce good quality of accounting information because it is also determined by the incentive level of the financial reporter, economic and politic factor (Ball, Robin, & Wu, 2003; Maulana, Salim, & Aisjah, 2015). Cameran & Perotti (2014) and Campa &

Table 3. Descriptive Statistics for Dummy Variables

	Ifrs	Loss	kap	aud_chg
Mode	1.00	.00	1.00	.00

Table 4. The Result of IFRS Adoption and Earnings Quality

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AUDITOR_CHG	-0.222989	0.094532	-2.358866	0.0192**
COM_IND	-0.262334	0.184607	-1.421044	0.1567
COM_MEET	-0.001423	0.004897	-0.290624	0.7716
IFRS	0.062410	0.079511	0.784925	0.4333
INVREC	0.013922	0.011738	1.186057	0.2368
KAP	0.107315	0.215156	0.498775	0.6184
MANAGERIAL	-0.002335	0.006218	-0.375538	0.7076
LEVERAGE	-0.078892	0.066075	-1.193969	0.2337
LN_TA	-0.027871	0.089154	-0.312612	0.7549
LOSS	0.031303	0.117618	0.266142	0.7904
MARKET_TO_BOOK	1.74E-08	4.43E-07	0.039172	0.9688
ROA	0.022625	0.019936	1.134860	0.2576
SUBSIDIARY	-0.038415	0.020966	-1.832271	0.0682***
C	1.256391	2.549667	0.492767	0.6227
Adjusted R-squared		0.229759		
F-statistic		2.238753		
Prob(F-statistic)		0.000003*		

*) sig at α = 1%; **) sig at α = 5%, ***) sig at α = 10%

Donnelly (2016) found that financial reporting quality is not affected by the adoption of IAS/IFRS. Also, Kao (2014) found that higher audit quality does not help to a constraint on earnings manipulation but the increase the level of earnings management for IFRS adopters with income-decreasing earnings management. The results of this study are consistent with the result of some researchers (Ball, Robin, & Wu, 2003; Ismail, Kamarudin, Zijl, & Dunstan, 2013; Jeanjean & Stolowy, 2008). Cameran, Campa, & Pettinicchio (2014) stated that IFRS adoption did not improve reporting quality among private companies but, on the contrary, decreased it. Entities controlled by listed companies might have switched to IFRS mainly for complying with parent company requirements and or simplifying the financial reporting process.

The result of this research is not consistent with some other research. IFRS adoption would enhance the quality of accounting information (Yip & Young, 2012). Chua, Cheong, & Gould (2012) found that adoption of IFRS has resulted in better accounting quality. Zeghal, Chtourou, & Fourati (2012) stated that some improvement in accounting quality between the pre- and post-IFRS adoption periods. Besten, Georgakopoulos, Vasileiou, & Ereiotis (2015) have proved that the adoption of IFRS helps for better earnings quality, since IFRS users experience smaller positive earnings, which implying less earnings management. They found that overall foreign firms that adopt IFRS have smaller positive earnings, but statistically insignificant. The smaller the positive earnings means the less earnings management, consequently higher earnings quality (Sun, Cahan, & Emanuel, 2011). In the other words, IFRS users experience smaller positive earnings, implying less earnings management so higher earnings quality in the post-IFRS adoption period. The study of Kang (2012) about voluntary and mandatory adopters of IFRS in German found that discretionary accruals only decrease for mandatory but not for voluntary adopters. This means that in the case of German firms, the incentives to voluntarily adopt IFRS did not dominate accounting standards in determining earnings quality.

IFRS adoption relates to the increasing in disclosure and decreasing in the choice of accounting method (Ashbaugh & Morton, 2001; Scott, 2015). The study results of the of Chen, Tang, Jiang, & Lin (2010) showed that after the obligatory adoption of IFRS in the European countries, the earnings management is declined with evident from a decrease in the discretionary accruals and increasing the accruals quality. (Kang,

Table 5. The Result of Earnings Quality and Audit Fee

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ABS_DAC	-0.298226	0.141903	-2.101625	0.0387**
AUD_CHG	0.338860	0.241879	1.400946	0.1650
COM_IND	-0.206425	0.262655	-0.785919	0.4342
COM_MEET	-0.014222	0.010182	-1.396784	0.1663
INVREC	-1.067755	0.473226	-2.256334	0.0267**
KAP	0.433446	0.331053	1.309295	0.1941
KEP_MANAJERIAL	0.006559	0.013202	0.496816	0.6207
LEV	-0.126675	0.322063	-0.393324	0.6951
LN_TA	0.624461	0.104890	5.953502	0.0000*
LOSS	-0.327746	0.270762	-1.210455	0.2296
MB	-1.39E-07	5.96E-07	-0.232790	0.8165
ROA	0.687010	0.268329	2.560325	0.0123**
SUB	0.076206	0.057559	1.323965	0.1892
C	4.869981	2.934775	1.659405	0.1009
Adjusted R-squared	0.450781			
F-statistic	6.934772			
Prob(F-statistic)	0.000000*			

*) sign at α = 1%; **) sign at α = 5%; ***) sign at α = 10%

2013) found earnings quality of Canadian firms deteriorates or improves after the IFRS adoption. Houqe, Zijl, Dunstan, & Karim (2012) mentioned that earnings quality increase when IFRS are adopted by a regime in stronger investor protection. But only adopting IFRS or only having strong investor protection, rather than combining the two, does not sufficient to improve earnings quality.

However, our study can not prove the effect of the IFRS adoption in reducing earnings management or improving the earnings quality, because the level of earnings management in average is not high on the sample's companies (Table 2). Thus, the agency conflict occurred not too high so that both companies who with and without IFRS adoption did not have a significant impact on the decline or increase of earnings management. The test results of the influence earnings quality on the audit fee for companies with IFRS adoption are presented in Table 5.

Table 5 shows that significance of F value is 0.000000 and is under the level of significance α = 5%, which means the regression model is good enough to be used in the test and adjusted value of R^2 is 0.450781. It means that about 45.08% changing on audit fee can be explained by the change of independent variables in this study.

Test result presented in Table 5 shows that significance value of earning's quality variable (abs_dac) is 0.0387 with the coefficient of -0.298226. This result is smaller than α level determined so that in the company that adopts IFRS, earning's quality has impacts on audit fee. It means that higher discretionary accruals (abc_dac) would reflect in lower earnings quality and it will impact to lowering audit fee. The result is consistent to Eshleman & Guo (2014) with the results show a positive relationship between abnormal audit fees and audit quality. Mitra, Deis, & Hossain (2009) found evidence that both expected and unexpected audit fees are associated with an increase in earnings quality, as indicated by the reduction of both absolute and signed discretionary accrual adjustments. Zgarni, Hlioui, & Zehri (2016) shows the results that earnings management is inversely associated with audit fee, and thus suggesting that higher quality auditors are less inclined to allow it. That means that companies are able to affect the degree of earnings management possibilities, by choosing the level of audit quality through choosing their auditor. By choosingƒhigh quality auditor, e.g. one of the big four, firm is narrowing down the possibilities of engaging in earnings management. On the other hand, the result is inconsistent to Calderon, Wang, & Klenotic (2012) that financial institution pays higher audit fees have lower earnings quality. The Test result of control

variable indicates that variable of the ratio of inventories and accounts receivable to total assets (invrec), size of the companies (ln_ta), return on assets (roa) have smaller significance value than significant level decided which means it has the effect of audit fee.

The result reveals empirical evidence that the higher discretionary accruals (abs_dac) or the lower earning's quality will cause lower audit fee. It is because when auditors find financial statements that contain earnings management, they will not expand the audit scope so the audit fee still remains the same as predetermined. On the other hand, when the auditors find that the financial statements do not contain earnings management, in order to minimize audit risk, they will expand the audit scope to assure the reliability of the statements and it causes the higher audit fee. Arens, Randal, & Beasley (2012) and Waskito, Subroto, & Rosidi (2011) reveal that when there is high inherent risk, the auditor is expected to gather more evidence and to assign more experienced staff auditors that will increase audit fee. The result of the test on control variables shows that variable of the ratio of inventories and accounts receivable to total assets (invrec) has a negative influence on audit fee. While the size of the companies (ln_ta) and return on assets (ROA) have a positive influence on audit fee. This result is consistent with George, Ferguson, & Spear (2013).

CONCLUSION

This study intends to provide empirical evidence of the influence of IFRS' adoption on earning quality and audit fee. Samples of this study are non-financial public companies whose stocks are registered in BEI in 2010-2014. Panel regression analysis was utilized to analyse data. The result of the study shows the best model to explain the influence of IFRS' adoption on earning quality and audit fee is fixed effect model, while to demonstrate the influence of earning's quality on audit fee in companies that adopt IFRS is random effect model. Test result indicates that adoption of IFRS has no impact on the increase or decrease of earning quality as measured by the inverse measure of *discretionary accrual.* The result also proves that earning quality affects audit fee positively in companies which adopt IFRS. Therefore, as an implication of this research, companies in Indonesia should update with the progress of the international standard.

As limitations of this study, fixed effect model is not formed because the control variables have the same data every year; there is a difference time of adoption of IFRS in samples of companies; and, the measurement of IFRS' adoption by looking at the name's change on the financial statement. We recommend that for next study, research should use control variables ratio scale; take samples of companies that adopt IFRS on the same year; and analyse the adoption of IFRS by measuring the level of local accounting standard comparing with international accounting standard. Moreover, next research can be done to compare the influence of adoption IFRS on earnings quality and audit fee before and after the implementation of ASEAN Economics Community.

REFERENCES

Abbott, L. J., Parker, S., & Peters, G. F. (2006). Earnings Management, Litigation Risk, and Asymmetric Audit Fee Responses. *Auditing: A Journal of Practice and Theory, 25*(1), 85–98. https://doi.org/10.2308/aud.2006.25.1.85

Alali, F. (2011). Audit Fees and Discretionary Accruals: Compensation Structure Effect. *Managerial Auditing Journal, 26*(2), 90–113. https://doi.org/10.1108/02686901111094994

Arens, A., Randal, E., & Beasley, M. S. (2012). *Auditing and Assurance Services: An integrated Approach. Pearson Prentice-Hall* (14 ed.). Upper Saddle River, NJ. https://doi.org/10.1016/j.intacc.2011.04.006

Ashbaugh-Skaife, H., Collins, D. W., Kinney, W. R., & LaFond, R. (2008). The Effect of SOX Internal Control Deficiencies and Their Remediation on Accrual Quality. *The Accounting Review, 83*(1), 217–250. https://doi.org/10.2308/accr.2008.83.1.217

Ashbaugh, H., & Morton, P. (2001). Domestic Accounting Standards, International Accounting Standards, and the Predictability of Earnings. *Journal of Accounting Research, 39*(3), 417–434.

Ball, R., Robin, A., & Wu, J. S. (2003). Incentives Versus Standards: Properties of Accounting Income in Four East Asian Aountries. *Journal of Accounting and Economics, 36*(Special Issue), 235–270. https://doi.org/10.1016/j.jacceco.2003.10.003

Barth, M. E., Landsman, W. R., & Lang, M. H. (2008). International Accounting Standards and Accounting Quality. *Journal of Accounting Research, 46*(3), 467–498. https://doi.org/10.1111/j.1475-679X.2008.00287.x

Becker, C. L., Defond, M. L., Jiambalvo, J., & Subramanyam, K. R. (1998). The Effect of Audit Quality on Earnings Management. *Contemporary Accounting Research, 15*(1), 1–24. https://doi.org/10.1111/j.1911-3846.1998.tb00547.x

Besten, P. S. den, Georgakopoulos, G., Vasileiou, K. Z., & Ereiotis, N. (2015). The Impact of IFRS Adoption on Earnings Quality: A Study Conducted on Foreign Issuers in the United States. *International Business Research, 8*(11), 139–155. https://doi.org/10.5539/ibr.v8n11p139

Byun, S., & Luttecke, K. R. (2014). Meeting or Beating, Earnings Management, and Investor Sensitivity After the Scandals. *Accounting Horizons, 28*(4), 847–867. https://doi.org/10.2308/acch-50822

Cai, L., Rahman, A., & Courtenay, S. (2011). *The Effect of IFRS Adoption and Legal Enforcement on Earnings Management: An International Comparison. Working Paper.* https://doi.org/10.1017/CBO9781107415324.004

Cai, L., Rahman, A., & Courtenay, S. (2014). The Effect of IFRS Adoption Conditional Upon the Level of Pre-adoption Divergence. *The International Journal of Accounting, 49*(2), 147–178. https://doi.org/10.1016/j.intacc.2014.04.004

Calderon, T. G., Wang, L., & Klenotic, T. (2012). Past Control Risk and Current Audit Fees. *Managerial Auditing Journal, 27*(7), 693–708. https://doi.org/10.1108/02686901211246813

Cameran, M., Campa, D., & Pettinicchio, A. (2014). IFRS Adoption Among Private Companies: Impact on Earnings Quality. *Journal of Accounting, Auditing & Finance, 29*(3), 278–305. https://doi.org/10.1177/0148558X14534260

Cameran, M., & Perotti, P. (2014). Audit Fees and IAS/IFRS Adoption: Evidence From the Banking Industry. *International Journal of Auditing, 18*(2), 155–169. https://doi.org/10.1111/ijau.12019

Campa, D., & Donnelly, R. (2016). Mandatory IFRS Adoption and Earnings Quality in Different Institutional Settings :A Comparison Between Italy and the UK. *International Journal of Accounting, Auditing and Performance Evaluation, 12*(1), 24–44. https://doi.org/10.1504/IJAAPE.2016.073886

Chen, H., Tang, Q., Jiang, Y., & Lin, Z. (2010). The Role of International Financial Reporting Standards in Accounting Quality: Evidence From the European Union. *Journal of International Financial Management and Accounting, 21*(3), 220–278. https://doi.org/10.1111/j.1467-646X.2010.01041.x

Choi, J. H., Kim, J. B., Liu, X., & Simunic, D. A. (2008). Audit Pricing, Legal Liability Regimes, and Big 4 Premiums: Theory and Cross-country Evidence. *Contemporary Accounting Research, 25*(1), 55–99. https://doi.org/10.1506/car.25.1.3

Choi, J. H., Kim, J. B., & Zang, Y. (2010). Do Abnormally High Audit Fees Impair Audit Quality? *Auditing: A Journal of Practice and Theory, 29*(2), 115–140. https://doi.org/10.2308/aud.2010.29.2.115

Chua, Y. L., Cheong, C. S., & Gould, G. (2012). The Impact of Mandatory IFRS Adoption on Accounting Quality: Evidence from Australia. *Journal of International Accounting Research, 11*(1), 119–146. https://doi.org/10.2308/jiar-10212

Coetzee, S. A., & Schmulian, A. (2013). The Effect of IFRS Adoption on Financial Reporting Pedagogy in South Africa. *Issues in Accounting Education, 28*(2), 243–251. https://doi.org/10.2308/iace-50386

Daske, H., Hail, L., Leuz, C., & Verdi, R. (2008). Mandatory IFRS Reporting around the World: Early Evidence on the Economic Consequences. *Journal of Accounting Research, 46*(5), 1085–1142. https://doi.org/10.1111/j.1475-679X.2008.00306.x

Dye, R. A., Glover, J. C., & Sunder, S. (2015). Financial Engineering and the Arms Race Between Accounting Standard Setters and Preparers. *Accounting Horizons, 29*(2), 265–295. https://doi.org/10.2308/acch-50992

Eshleman, J. D., & Guo, P. (2014). Abnormal Audit Fees and Audit Quality: The Importance of Considering Managerial Incentives in Tests of Earnings Management. *AUDITING: A Journal of Practice & Theory, 33*(1), 117–138. https://doi.

org/10.2308/ajpt-50560

Geiger, M., & Smith, J. V. D. L. (2010). The Effect of Institutional and Cultural Factors on the Perceptions of Earnings Management. *Journal of International Accounting Research*, *9*(2), 21–43. https://doi.org/10.2308/jiar.2010.9.2.21

George, E. T. De, Ferguson, C. B., & Spear, N. A. (2013). How Much Does IFRS Cost? IFRS Adoption and Audit Fees. *The Accounting Review*, *88*(2), 429–462. https://doi.org/10.2308/accr-50317

Ghosh, S. (2011). Firm Ownership Type, Earnings Management, and Auditor Relationships: Evidence from India. *Managerial Auditing Journal*, *26*(4), 350–369. https://doi.org/10.1108/02686901111124666

Ghoul, S. El, & Kim, Y. (2016). Country-Level Institutions , Firm Value , and the Role of Corporate Social Responsibility Initiatives. *Journal of International Business Studies*, 1–26. https://doi.org/10.1057/jibs.2016.4

Houqe, M., Zijl, T. Van, Dunstan, K., & Karim, A. K. M. W. (2012). The Effect of IFRS Adoption and Investor Protection on Earnings Quality Around the World. *The International Journal of Accounting*, *47*(3), 333–355. https://doi.org/10.1016/j.intacc.2012.07.003

Ismail, W. A. W., Kamarudin, K. A., Zijl, Van, T., & Dunstan, K. (2013). Earnings Quality and the Adoption of IFRS⬚based Accounting Standards: Evidence from an Emerging Market. *Asian Review of Accounting*, *21*(1), 53–73. https://doi.org/10.1108/13217341311316940

Ittonen, K., Johnstone, K., & Myllymaki, E. R. (2015). Audit Partner Public-Client Specialisation and Client Abnormal Accruals. *European Accounting Review*, *24*(3), 607–633. https://doi.org/10.1080/09638180.2014.906315

Jeanjean, T., & Stolowy, H. (2008). Do Accounting Standards Matter? An Exploratory Analysis of Earnings Management Before and After IFRS Adoption. *Journal of Accounting and Public Policy*, *27*(6), 480–494. https://doi.org/10.1016/j.jaccpubpol.2008.09.008

Kang, T. (2012). Discussion of The Cross-Country Comparability of IFRS Earnings and Book Values: Evidence from France and Germany. *Journal of International Accounting Research*, *11*(1), 185–190. https://doi.org/10.2308/jiar-10225

Kang, W. (2013). The Impact of Mandatory IFRS Adoption on the Earnings–returns Relation. *Applied Financial Economics*, *23*(13), 1137–1143. https://doi.org/10.1080/09603107.2013.797557

Kao, H. S. (2014). The Relationships between IFRS, Earnings Losses Threshold and Earnings Management. *Journal of Chinese Economic and Business Studies*, *12*(1), 81–98. https://doi.org/10.1080/14765284.2013.875289

Kim, J.-B., Liu, X., & Zheng, L. (2012). The Impact of Mandatory IFRS Adoption on Audit Fees: Theory and Evidence. *The Accounting Review*, *87*(6), 2061–2094. https://doi.org/10.2308/accr-50223

Kraub, P., Quosigk, B. M., & Zulch, H. (2014). Effects of Initial Audit Fee Discounts on Audit Quality: Evidence from Germany. *International Journal of Auditing*, *18*(1), 40–56. https://doi.org/10.1111/ijau.12010

Liang, H., Moreau, L., & Park, J. C. (2011). Investment Opportunities and Dividend Omissions. *Journal of Business Research*, *64*(10), 1108–1115. https://doi.org/10.1016/j.jbusres.2010.11.012

Lim, H., Kang, S. K., & Kim, H. (2016). Auditor Quality, IFRS Adoption, and Stock Price Crash Risk: Korean Evidence. *Emerging Markets Finance and Trade*, *52*(9), 2100–2114. https://doi.org/10.1080/1540496X.2016.1184142

Maulana, P. R., Salim, U., & Aisjah, S. (2015). Determinan Harga Saham Perbankan yang Terdaftar (2009-2012) di Bursa Efek Indonesia. *Jurnal Akuntansi Multiparadigma,* *6*(2), 185-200. http://dx.doi.org/10.18202/jamal.2015.08.6015

Mitra, S., Deis, D. R., & Hossain, M. (2009). The Association between Audit Fees and Reported Earnings Quality in Pre and Post Sarbanes⬚Oxley Regimes. *Review of Accounting and Finance*, *8*(3), 232–252. https://doi.org/10.1108/14757700910980840

Park, E., & Kwon, S. J. (2015). Examining the Effects of Information Sources on Individual Earning Rates in the South Korean Stock Market. *Economic Research*, *28*(1), 650–667. https://doi.org/10.1080/1331677X.2015.1083878

Prawitt, D., Sharp, N. Y., & Wood, D. A. (2011). Reconciling Archival and Experimental Research: Does Internal

Audit Contribution Affect the External Audit Fee? *Behavioral Research in Accounting, 23*(2), 187–206. https://doi.org/10.2308/bria-10065

Sakel, N. V. S. R., & Schonberger, M. W. (2015). Restricting Non-Audit Services in Europe – The Potential (Lack of) Impact of a Blacklist and a Fee Cap on Auditor Independence and Audit Quality. *Accounting in Europe, 12*(1), 61–86. https://doi.org/10.1080/17449480.2015.1035290

Scott, W. D. (2015). Investigating the Need for Transparent Disclosures of Political Campaign Contributions and Lobbying Expenditures by U.S. Private Prison Corporations. *Accounting and the Public Interest, 15*(1), 27–52. https://doi.org/10.2308/apin-51401

Sharma, V. D., Sharma, D. S., & Ananthanarayanan, U. (2011). Client Importance and Earnings Management: The Moderating Role of Audit Committees. *AUDITING: A Journal of Practice & Theory, 30*(3), 125–156. https://doi.org/10.2308/ajpt-10111

Subekti, I. (2010). Engaging in Earnings Management to Avoid Negative Earnings. *Jurnal Akuntansi Multiparadigma, 1*(1), 24-41.

Sun, J., Cahan, S. F., & Emanuel, D. (2011). How Would the Mandatory Adoption of IFRS Affect the Earnings Quality of U.S. Firms? Evidence from Cross-Listed Firms in the US. *Accounting Horizons, 25*(4), 837–860. https://doi.org/10.2308/acch-50049

Teixeira, A. (2014). The International Accounting Standards Board and Evidence-Informed Standard-Setting. *Accounting in Europe, 11*(1), 5–12. https://doi.org/10.1080/17449480.2014.900269

Waskito, I., Subroto, B., & Rosidi. (2011). Pengaruh Kecakapan Manajerial terhadap Kualitas Laba yang Dimoderasi oleh Kualitas Audit. *Jurnal Akuntansi Multiparadigma, 2*(1), 52-69.

Widarjono. (2009). *Ekonometrika Pengantar dan Aplikasinya* (3 ed.). Yogyakarta: Ekonosia.

Yip, R. W. Y. Y., & Young, D. (2012). Does Mandatory IFRS Adoption Improve Information Comparability? *The Accounting Review, 87*(5), 1767–1789. https://doi.org/10.2308/accr-50192

Yoon, S. S., Miller, G., & Jiraporn, P. (2006). Earnings Management Vehicles for Korean Firms. *Journal of International Financial Management and Accounting, 17*(2), 85–109. https://doi.org/10.1111/j.1467-646X.2006.00122.x

Zeghal, D., Chtourou, S. M., & Fourati, Y. M. (2012). The Effect of Mandatory Adoption of IFRS on Earnings Quality: Evidence from the European Union. *Journal of International Accounting Research, 11*(2), 1–25. https://doi.org/10.2308/jiar-10221

Zgarni, I., Hlioui, K., & Zehri, F. (2016). Effective Audit Committee, Audit Quality and Earnings Management: Evidence from Tunisia. *Journal of Accounting in Emerging Economies, 6*(2), 138–155. https://doi.org/10.1108/JAEE-09-2013-0048