

# The Influence of Audit Committee Characteristic And External Auditors on Earnings Quality (Study on Sharia Banks in Southeast Asia)

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## THE INFLUENCE OF AUDIT COMMITTEE CHARACTERISTICS AND EXTERNAL AUDITORS ON EARNINGS QUALITY (STUDY ON SHARIA BANKS IN SOUTHEAST ASIA)

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### ABSTRACT

*This study aimed to analyze the influence of audit committee characteristics (size, independence, expertise, the former audit partner, and gender diversity) on quality of earnings. External auditor roles as moderating variable. This research was conducted at Islamic banks in Southeast Asia in the period 2012-2017. There were 152 samples in this study obtained through purposive sampling technique. The analysis technique used to test hypotheses is the absolute difference value model. The results of this study found evidence that the size of the audit committee, the independence of the audit committee, and the former audit partner has a positive influence on earnings quality. The audit committee's expertise does not have an effect on earnings quality, and the audit committee's gender diversity has a negative influence on earnings quality. Meanwhile, the external auditor only moderates the relationship between gender diversity committee audit on the quality of earnings.*

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### INTRODUCTION

The emergence of Islamic banks has increasingly led to variations in financial institutions for the development of the banking system. Otoritas Jasa Keuangan states that the main pillars of Islamic theory should be the basis for management in carrying out sharia bank activities, such as aqidah, syariah, and morality. The guidelines from the three pillars will motivate management to carry out every activity for the sake of establishing a good relationship with the Allah (*Hablumin Allah*) and in good relations with fellow humans (*Hablumminan naas*). It certainly would make the management always carry out any activity of Islamic banks are well in the interest of companies and investors, and tend to ignore its own sake.

Good management treatment according to the corridors of Islamic principles towards investors is the same as explained in the *stewardship* theory. This theory is explained as a management relationship as an administrator who acts in the best interests of investors (Keay, 2017). One form of good treatment by the management of Islamic banks to investors can be proven by preparing and reporting financial statements in accordance with Islamic theory and principles, so that it will produce financial statements that contain quality earnings information. This is like the evidence found by

Ismail, *et al.* (2015) which states that companies that apply sharia principles will improve the quality of reported earnings.

Quality earnings information shows that the information in the financial statements is presented accurately and correctly based on the operating status and financial position of the company (Ma & Ma, 2017). In addition, quality earnings information is also characterized by released from earnings management treatment and at least the value of discretionary accruals in the preparation and presentation of financial statements (Francis, *et al.*, 2008; Dechow & Dichev, 2002). Quality earnings information is needed and will influence investors in the investment decision making process (Kardan, *et al.*, 2016; Nasution & Jonnergård, 2017).

In practice there are things that are contrary to what should happen in Islamic banks. This happened to Islamic banks in Indonesia that found cases of manipulation in the financial statements. In 2013 there was a fictitious loan that occurred in BSM (Kontan Online, November 2, 2013). In addition, in 2018 there were also allegations of manipulation of credit card data at CBB involving financing owned by a subsidiary of BBS that involved an increase in the allowance for impairment losses for certain debtors ([www.detik.com](http://www.detik.com), May 3, 2018).

The practice of manipulation of financial statements shows that the earnings information reported by the two Islamic banks are of low quality. This indicates that the management of the two Islamic banks violated the main pillars of Islamic theory and other sharia principles. In addition, management has also violated its position as a manager of an Islamic bank that works in the best interests of investors.

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Several previous studies have shown that earnings quality is influenced by various factors, that is the characteristics of the audit committee, external auditors, internal audit function, board of directors, and sharia supervisory board. Audit committees (Al-Rassas and Kamardin, 2015; Inaam & Khamoussi, 2016; Mersni & Othman, 2016; Kolsi & Grassa, 2017; Bajra & Cadez, 2017; Bilal, *et al.*, 2018; Qamhan, *et al.*, 2018; Zalata *et al.*, 2018), external auditors (Al-Rassas and Kamardin, 2015; Saleem & Alzoubi, 2016; Nasution & Jonnergård, 2017; Bilal, *et al.*, 2018), internal auditor functions (Al-Rassas & Kamardin, 2015), the board of directors and the supervisory board of sharia (Mersni & Othman, 2016; Kolsi & Grassa, 2017).

The factors described above have an influence on earnings quality. Based on these factors, this research will focus on the characteristic of the audit committee and external auditors within the Islamic bank in influencing the quality of earnings. The characteristics of the audit committee (size of the audit committee, independence of the audit committee, expertise of the audit committee, former audit partner, and gender diversity audit committee) in this study apply as independent variables. The characteristics of the audit committee will affect the quality of earnings. This is because the audit committee is part of the supervisory function found in corporate governance in sharia banks who hold the task and authority to directly review every decision on accounting policy making up to the process of preparing financial statements conducted by sharia banking management.

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Previous studies have found inconsistent evidence of the influence of audit committee characteristics on earnings quality. The inconsistency of the results encourages further research on the characteristics of the audit committee on earnings quality using external auditors as moderating variables. This is because the audit results from an independent external auditor will strengthen the audit committee's oversight results on the financial statements. Mitchell, *et al.* (quoted by Inaam & Khamoussi 2016) also shows that the relationship between the audit committee and the audit quality of external auditors has the potential to improve the quality of financial statements that will be published to investors. In addition, the interaction of the audit committee with the quality of the external auditor offers several opportunities relating to whether the auditor will strengthen honesty and objectivity to limit earnings management. Therefore, an effective audit committee and external auditors are independent and competent expected to mitigate earnings management practices, thereby encouraging the financial statements have high earnings quality.

This research was conducted at Islamic banks in Southeast Asia. This is because Islamic banks

are part of the banking industry which is useful as a main channel for monetary transmission and the main source of funds for business in developing countries such as Southeast Asia (Phase & Abma, quoted by Wong & Deng, 2016). In addition, competition in the banking industry in Southeast Asia is getting tougher due to the increasing rate of liberalization. It is certainly expected to encourage the management of Islamic banks to prepare true and honest financial statements in order to stay afloat and be trusted by investors and potential investors to invest.

Based on the explanation above, this research is very important to do. This study examines the characteristics of the audit committee and external auditors in influencing the earnings quality of Islamic banks. The research questions are: (1) Does the characteristics of the audit committee have an influence on earnings quality. (2) Does the characteristics of the audit committee have an influence on earnings quality if there are external auditors as a moderating variable.

The purpose of this study is to provide empirical evidence regarding: (1) the effect of audit committee characteristics on earnings quality, (2) the effect of audit committee characteristics on earnings quality if there is an external auditor as a moderating variable. This research is expected to have theoretical benefits to enrich the results of research on earnings quality and practical benefits to be utilized during the economic decision making process, especially for those who want to invest.

## THEORY BASIS AND HYPOTHESES DEVELOPMENT

### The Influence of Audit Committee Size on Earnings Quality

The Blue Ribbon Committee (1999) and the Sarbanes-Oxley Act (2002) recommend that the minimum size of an audit committee that must exist in a company is three people. Vaveas (2005) revealed that the size of the audit committee has an important role in improving the quality of earnings. This situation is because larger audit committee members tend to improve their performance in carrying out the supervisory function. Audit committee members will rely on broader basic knowledge and in carrying out their capacity as an audit committee will be more efficient and effective.

The oversight function carried out by the larger size of the audit committee also has the objective to be able to provide additional confidence to investors that the management has carried out the process of managing funds and preparing and reporting financial statements in accordance with applicable accounting standards and sharia principles outlined in order to achieve the interests investor. Explanation by Huang in Hamdan, *et al.* (2013) also contains that the size of the audit committee can help in minimizing fraud and falsification in financial statements.

The research from Inaam and Khamoussi (2016); Mersni and Othman (2016) obtained results similar, there is a negative influence on the size of the audit committee and earnings management. The evidence in the previous research explains that the existence of a large audit committee size will minimize the possibility of earnings management. No occurrence profit menajamen indicates that earnings information provided contains quality high.

H1: Audit committee size has positive influence on earnings quality.

### The Influence of Audit Committee Independence on Earnings Quality

Bruynseels and Cardinaels (2013) revealed that the independence of the audit committee refers more to the extent to which the audit committee is not under the influence of management. The independence of the audit committee encourages them to supervise the actions of management in the process of preparing financial statements independently and freely without interference from various parties in order to achieve the interests of investors.

The independence of the audit committee tends to make it easier for them to provide the best service for the benefit of investors. This independence has made the audit committee will oversee every management's actions to always remain oriented towards the interests of investors and always base their activities on Islamic theory and sharia principles without being influenced by pressure from various parties. The situation is certainly indirectly will encourage management to always pay attention to every detail of financial statement information and then present an unbiased financial

report. This will make the information available to be accurate and reliable according to the conditions in the company. Thus, it is interpreted that the financial information primarily earnings information presented in the financial statements have high quality.

Saleem and Alzoubi (2016); Qamhan, *et al.* (2018) find evidence that independence negatively influences earnings management. Based on the research known that the independence of the audit committee held will minimize their earnings management, which indirectly will improve the quality of earnings reported by management.

H2: Audit Committee Independence has positive influence on earnings quality.

### **The Influence of Audit Committee Expertise on Earnings Quality**

Bank Indonesia Regulation Number 11/33/PBI/2009 in article 36 states that the expertise that must be possessed by the audit committee in Islamic banks is expertise in the field of financial accounting and Islamic banking. Financial accounting expertise means that audit committee members have knowledge and experience in the fields of accounting and finance (Bajra & Cadez, 2017). While expertise in Islamic banking is the audit committee's understanding of sharia theories and principles that must be present in the process of preparing financial statements.

The financial expertise of the audit committee can be used in the process of overseeing the preparation of financial statements by management. Bilal, *et al.* (2018) states that the audit committee's financial expertise is needed because the audit committee will be easier to understand and supervise better in the process of preparing financial statements, and can also be useful in evaluating the financial statements. The results of previous studies have found evidence in accordance with the statement that the audit committee's financial expertise has a positive relationship with earnings quality (Bajra & Cadez, 2017; Bilal, *et al.* 2018).

In addition to financial expertise, expertise in Islamic banking is also needed by the audit committee in carrying out its duties in overseeing the process of reporting financial statements in Islamic banks. This is because the understanding and application of the main pillars of the Islamic theory and the principles of sharia in the process of preparing financial statements is needed so that the financial statements prepared report information that is in accordance with the actual situation and in accordance with the sharia principles outlined. Thus, when the audit committee have the financial expertise and skills of Islamic banking would make the quality of earnings reported getting high.

H3: Audit committee expertise has positive influence on earnings quality.

### **The Influence of Former Audit Partner on Earnings Quality**

Naiker and Sharma (2009) state that former audit partners are suitable candidates to increase the effectiveness of audit committees because they have direct experience in auditing internal controls and financial reports for years. Cytron in Naiker and Sharma (2009) also argues that they recommend former audit partners as prime candidates to serve the audit committee as financial experts. The experience and knowledge of finances owned by the former audit partner is useful in providing good services in overseeing the preparation of financial statements in the best interests of investors.

In addition to their expertise, the former audit partner also had experience and knowledge regarding the rules and principles of sharia they gained during the audit of the Islamic bank. This will certainly make it easier for former audit partners as an audit committee to effectively supervise and evaluate every management action during the financial reporting process. These conditions certainly would encourage management to always present the financial reports correctly and honestly based on the real conditions that exist in the company, as well as in accordance with Islamic principles outlined. Thus, the earnings information presented also has high quality.

H4: Former audit partner has positive influence on earnings quality.

### **The Influence of Audit Committee's Gender Diversity on Earnings Quality**

Tyson (2003) reveals that advocates of council reform throughout the world argue that gender diversity can increase council effectiveness. Gender diversity on the audit committee will assist them



in sharing the right tasks for each skill and expertise possessed by each audit party when conducting supervision. The effective supervision also can make the management to always compile and present the information in the financial statements are true and honest, which will make the information reported earnings quality. Previous research has proven that gender has a negative influence on earnings management (Zalata, *et al.*, 2018). Srinidhi, *et al.* (2011) also found evidence that large participation from a gendered female council would improve earnings quality.

H5: Audit committee's gender diversity has positive influence on earnings quality.

#### **The Influence of Audit Committee Characteristics on Earnings Quality with External Auditors as Moderation Variable** <sup>42</sup>

The larger size of the audit committee is believed to encourage effective oversight in the process of preparing financial statements. This is because the audit committee can utilize every knowledge about finances owned by each member as well as the understanding of each member of the basic theory of Islam and sharia principles in the process of overseeing management actions. This condition will certainly encourage management to always be oriented towards the interests of investors, especially in the process of preparing financial statements. Sharia external auditors in conducting the audit process must ensure that all transactions they audit are compliant with sharia not only in their "legal" and technical form but also in economic "substance" based on the objectives outlined by sharia (Othman & Ameer, 2015). The confidence given by the external auditor is not only free from misstatements, is reasonable in accordance with applicable financial accounting standards, but must also be in accordance with the sharia principles outlined. This means that the information presented in the financial statements audited by an external auditor indicates that such information has the high quality. The interaction between the size of a large audit committee and the independence of external auditors will improve the quality of earnings information presented by management. This condition is because the large size of the audit committee can oversee every management action in the process of preparing financial statements effectively because it utilizes knowledge and understanding of financial accounting and sharia principles. In addition, the financial statements will be audited by an independent sharia external auditor to obtain confidence in the truth and fairness based on applicable standards, as well as compliance with sharia principles. Thus, the financial statements that have been overseen by the audit committee and have been audited by an external auditor will produce quality earnings information.

H6: External auditors will strengthen the effect audit committee size on earnings quality.

Bruynseels and Cardinaels (2013) have revealed that the independence of the audit committee refers to the extent to which the audit committee is not under the influence of management in the oversight function that is its job. The independence of the audit committee will make it easier for them to serve investors to achieve their interests. Additionally, with a high independence will keep encouraging them to always carry out their duties based on Islamic principles. This is done by the audit committee by providing oversight to management to prepare financial statements correctly in accordance with the conditions that occur in sharia banking, as well as accordance with sharia principles. The independence and integrity of the external auditor is also needed in the audit process. The independence and integrity possessed by these external auditors make it easy for them to serve all the interests of investors, as well as make it easier for them to continue to base on sharia principles when carrying out their duties. It certainly will affect the quality of the audit. Quality audit results will indirectly affect the quality of earnings presented by management. Interaction between the independence of the audit committee with the independence of external auditors will make it easier to provide services in overseeing and auditing financial statements for the benefit of the investor. The audit committee and external auditor will work independently and objectively without pressure from anyone in supervising and verifying the information on financial statements prepared and presented by management. Their independence makes it easy for them to encourage management to act in the interests of investors based on sharia principles, so that the possibility of mistakes or manipulation by management is reduced. This is certainly beneficial for investors because the earnings information presented in the financial statements contains high quality earnings.

H7: External auditors will strengthen the effect audit committee independence on earnings quality.

Bilal, *et al.* (2018) states that the audit committee's financial expertise is needed because the audit committee will be able to understand and supervise better in the process of preparing financial statements, and can also be useful in inhibiting earnings management from management actions. Meanwhile, expertise in Islamic banking is also needed by the audit committee in carrying out its duties in overseeing the process of preparing financial statements. This is because the understanding and application of the main pillars of the Islamic theory and the principles of sharia in the process of preparing financial statements is needed so that the financial statements prepared report information that is in accordance with the actual situation and in accordance with the sharia principles outlined. Sharia external auditors are also needed in convincing the truth of the information presented in the financial statements. The belief given by the Sharia external auditor is not only free from misstatements, fairness to the applicable financial accounting standards, but also in accordance with existing sharia principles. This means that the information presented in the financial statements audited by an external auditor will show that the information has high quality. The interaction of the expertise of the audit committee and external auditor with high independence will help them to remain focused and oriented towards serving investors and for their interests. This condition certainly makes the information high quality which will be useful for investors to be used as a basis for economic decision making. Bilal, *et al.* (2016) which revealed the interaction of the financial expertise of the audit committee and external auditor had a positive effect on earnings quality.

H8: External auditors will strengthen the effect audit committee expertise on earnings quality.

Naiker and Sharma (2009) state that former audit partners are suitable candidates to increase the effectiveness of audit committees because they have direct experience in auditing internal controls and financial reports for years. Investors also need external auditors in convincing the truth of the information presented in the financial statements. This belief is not only free from misstatements, but also regarding the reasonableness of applicable financial accounting standards, as well as in accordance with the sharia principles outlined. Interaction between former audit partners with independent external auditors will help them to stay focused and oriented in serving the interests of investors. Thus, of course, it will make the information presented in the financial statements have a high quality of earnings because it is free from misconduct that may be done by management that will harm the investors.

H9: External auditors will strengthen the effect former audit partners on earnings quality.

Tyson (2003) reveals that advocates of council reform throughout the world argue that gender diversity can increase council effectiveness. Gender diversity on the audit committee board will help them to share tasks according to the skill and expertise of the audit committee. Investors also need external auditors in convincing the truth of the information presented in the financial statements. This belief is not only free from misstatements, but also regarding the reasonableness of applicable financial accounting standards, as well as in accordance with the sharia principles outlined. The interaction between the gender diversity of the audit committee and the independent external auditor will encourage them to carry out their duties and authority to provide good services for the achievement of investor interests. Thus, this condition makes the information high quality, which will then be useful for investors to be used as a basis for economic decision making.

H10: External auditors will strengthen the effect audit committee's gender diversity on earnings quality.

## RESEARCH METHOD

This study aims to identify factors that influence the quality of earnings. This research data consists of all reports of Islamic banks in Southeast Asia for the period 2012-2017. The reason for the selection of Islamic banks in Southeast Asia as the research population is that Southeast Asian countries participated in the growth of the global Islamic finance industry of US \$ 2.4 trillion in assets in 2017, population growth of more than 600 million people, and the average growth of Gross

Domestic Products (GDP) of 5.1 percent for four years ([www.republika.co.id](http://www.republika.co.id)). Sampling is done by using *purposive sampling technique* with the following criteria: the annual report can be accessed through the website of each Islamic bank, publishing a minimum of two consecutive years and presenting complete data.

The research model is presented in figure 1. The test for the quality of the earnings will use Loan Loss Provision (LLP). Mersni and Othman (2016) state that LLP (Allowance for Credit Losses) is considered as the most important proxy used to conduct earnings management in the banking industry.

Figure 1  
Research Model

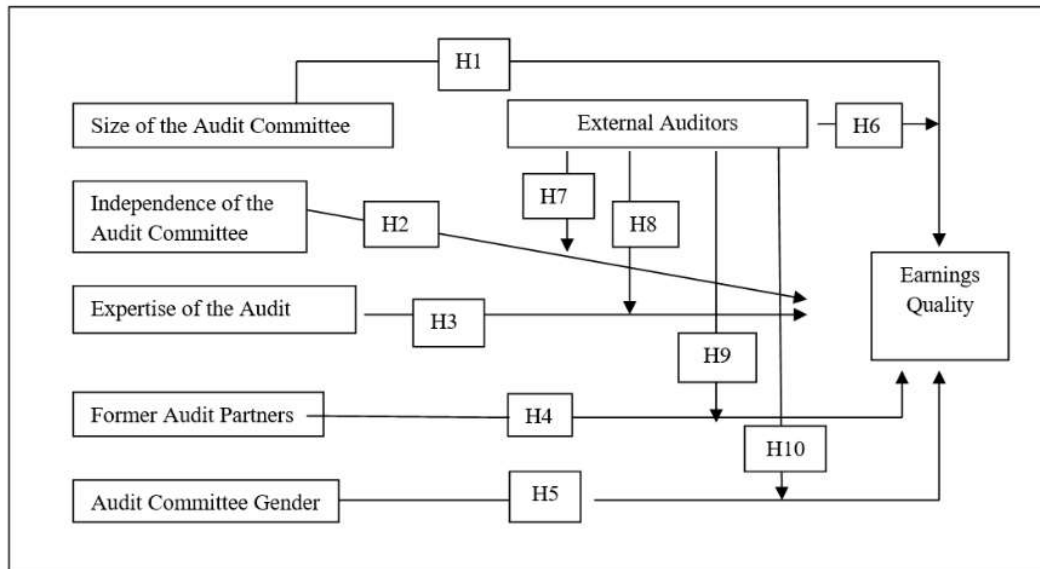




Table 1  
Sample Descriptive Statistics

Research variable	amount	Minimum	Maximum	Average	Standard Deviation
Size of the Audit Committee	152	1,000	7,000	3,539	1,127
Independence of the Audit Committee	152	0,000	1,000	0,801	0,255
Expertise of the Audit Committee	152	0,000	1,000	0,579	0,495
Former Audit Partner	152	0,000	1,000	0,230	0,422
Audit Committee Gender Diversity	152	0,000	1,000	0,329	0,471
External Auditor	152	0,000	1,000	0,776	0,418
Earnings Quality (billion rupiah)	152	-5.009	2.586	-664	1.368

Based on Table 1, it can be seen that the number of samples in this study were 152 samples. The average variable size of the Audit Committee is 3.539 or can be rounded to 3. This shows that the sample of Islamic banks has an average Audit Committee Size of 3 audit committees. The average value of the Audit Committee Independence variable shows a value of 0.801. This value means that the average sample of Islamic banks have an independent audit committee members by 80,1 % and the rest are members of the non-independent audit committee.

The average value of the Audit Committee Expertise variable is 0.579. This value indicates that the average sample of Islamic banks has at least one member of the audit committee with two expertise at the same time both financial accounting and Islamic banking at 58% of Islamic banks, while 42% of Islamic banks only have audit committee members with financial accounting expertise. The average value of the variables of the Former Audit Partner is 0.230. This value indicates that the average sample of Islamic banks has at least one member of the audit committee who is a former partner of the Islamic bank's audit at 23% of Islamic banks .

The average value of the Audit Committee Gender Diversity variable is 0.329. This value indicates that the average sample of Islamic banks at 33% of Islamic banks has at least one member of the audit committee with female gender. The average value of the External Auditor variable is 0.776. This value shows that the average sample of Islamic banks audited by the Big Four was 78%. While 22% of other Islamic banks are audited by Non-Big Four. The average value of Earnings Quality variable is Rp -664.621.464.741,500. This value indicates that the sample average earning management of Islamic banks to lower profits of approximately Rp 664.621.464.741,500.

Table 2  
Results of Regression Analysis

Model	B	t-value	Significance
Size → Profit Quality	0,223	3,094	0,002
Independence → Profit Quality	0,265	3,217	0,002
Expertise → Profit Quality	0,030	0,414	0,680
Former Audit Partner → Profit Quality	0,227	2,960	0,004
Gender Diversity → Profit Quality	- 0,328	-4,969	0,000
Size*external auditor → Profit Quality	0,052	0,480	0,632
Independence*external auditor → Profit Quality	- 0,306	-3,070	0,003
Expertise*external auditor → Profit Quality	0,165	1,659	0,099
Former audit partner*external auditor → Profit Quality	0,109	0,603	0,548
Gender diversity*external auditor → Profit Quality	0,403	2,529	0,013

Adjusted  $R^2 = 0,432$ 

F-test = 11,423 (significance 0,000)

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Size of the audit committee has a positive influence on earnings quality (significance value of 0.002 and the regression coefficient value of 0,223). This can also be interpreted if the greater the size of the audit committee in an Islamic bank, the higher the level of reported earnings quality. The results of this study are in accordance with *Stewardship theory*. This theory explains that the large size of the audit committee will make it easier for members of the audit committee to provide good service in the interests of investors, that is by providing oversight to management to always work with an orientation towards the interests of investors. Effective supervision of the audit committee encourages management to present financial statements that contain high quality earnings. The results of this study are in line with previous studies conducted by Mansor, et al. (2013), Inaam and Khamoussi (2016), Mersni and Othman (2016), and Qamhan, et al. (2018) which states that the greater the size of the audit committee, it makes it easier for them to minimize the existence of earnings management so that the financial statements prepared and presented contain high earnings quality. In contrast, the results of this study do not support research conducted by Hamdan, et al. (2013) which states that the size of the audit committee is inversely proportional to the quality of earnings.

Independence of the audit committee has a positive effect on earnings quality (significance value is 0,002). This can also be interpreted if the higher the level of independence of the audit committee in an Islamic bank, the higher the level of reported earnings quality. Based on Table 1 it can be seen that the average Islamic bank has an independent audit committee member of 80.1%. These results indicate that on average Islamic banks have met what is recommended that the company must have an audit committee member, the majority of which are independent audit committees. The increasing number of independent audit committees in Islamic banks will certainly be able to improve their performance in carrying out the supervisory function more effectively and efficiently. The results of this study are in accordance with previous studies conducted by Mansor, et al. (2013), Sharma and Kuang (2013), Soliman and Ragab (2014), Saleem and Alzoubi (2016), and Qamhan, et al. (2018) which states that the higher the independence level of the audit committee, it makes it easier for them to minimize the existence of earnings management so that the financial statements prepared and presented contain high earnings quality. Behind the similar results, the results of this study cannot support the research conducted by Hamdan, et al. (2013) and Al-Rassas and Kamardin (2015) which states that the independence of the audit committee has no influence on earnings quality.

The expertise of the audit committee has no influence on the quality of earnings. Based on Table 1 can be seen that the average Islamic banks have at least one member of the audit committee with two skills at once both the financial and banking expertise only amounted to 58 % of Islamic banks, Islamic banks while 42% only have an audit committee members with accounting expertise alone. The results of this study do not support research conducted by Bajra and Cadez, 2017, and Bilal, et al. 2018 which states that the audit committee's financial expertise has a positive relationship with earnings quality. However, the results of this study are in line with research conducted by Al-Rassas and Kamardin (2015) who found evidence that the expertise of the audit committee did not affect earnings quality.

The former audit partner has a positive influence on earnings quality (significance value is 0.004). It can be interpreted that if there is a former audit partners in an Islamic bank, the higher level of quality of reported earnings. In statistic descriptive, it can be seen that the average Islamic bank has at least one member of the audit committee who is a former audit partner of 23 % of Islamic banks. These results indicate that several Islamic banks have begun to select former audit partners as the main candidates to serve the audit committee as financial experts. The results of this study support with previous research conducted by Naiker and Sharma (2009) finding evidence that ex-audit partners have a negative effect on the lack of internal control. The results of this study are otherwise

not in line with research conducted by Al-Rassas and Kamardin (2015) which states that the former audit partner has a negative effect on earnings quality.

Table 2 shows that the regression coefficient value shows a negative value with a significance value of less than 0.05 (hypothesis rejected). This result can be interpreted that the gender diversity of the audit committee has a negative influence on earnings quality. Based on Table 1 can be seen that the average Islamic banks which have at least one member of the audit committee with female gender only for 33 % of Islamic banks. The small number of audit committees with gender women makes their position in conducting supervision tends to be weak. This makes the supervision carried out less effective. The results of this study are not in line with research conducted by Zalata, et al. (2018) which states that gender has a negative influence on earnings management. However, the results of this study are in line with research conducted by Endraswati (2018) who found evidence that the proportion of women on the board has a negative influence on the performance of Islamic banks in Indonesia.

Testing result of interaction moderation variables between the size of the audit committee, audit committee expertise, former audit partners, and external auditor on earnings quality obtained a statistical t value is less than the t table value of 5% (see table 2). This result certainly contradicts the hypothesis proposed in this study. This result indicates that there has been a lot of Islamic banks are audited by a Big Four accounting firm, but it turns out not being able to improve the quality of earnings, despite the large size of the audit committee. The same thing happened to external auditors variable cannot affect the relationship of the audit committee's expertise variable to earnings quality. Many Islamic banks only have one member of the audit committee with two expertise, but many other Islamic banks do not have a single member of the audit committee with two expertise at the same time. Interaction of moderation variables between external auditors and former audit partners or independence on earnings quality obtained unsignificance value. Based on Table 1, it can be seen that 78% Islamic banks audited by the Big Four dan 23% audit committees come from ex-audit partner. These results indicate that many Islamic banks have been audited by the Big Four but are unable to improve earnings quality, even though independence and the former audit partner has a direct influence on earnings quality. This situation made the external auditor conducting the audit process less independent because there is audit committee who is his former colleague.

Direct testing variables gender diversity audit committee on the quality of earnings show results is not significant but when interacted with external auditor, the result is a significant. The number of female audit committees is smaller than the number of male audit committees (see table 1). This condition makes the position of women's audit committee in conducting supervision tends to be low. The weakness of the role of the female audit committee in the process of monitoring and evaluating the financial statements prepared by management results in an ineffective supervision process. The existence of an external auditor who has the duty to audit the financial statements provides benefits for investors. This is because external auditors who are independent and have integrity will decrease the imbalance of roles between male and female audit committees.

## CONCLUSION AND LIMITATION

This study found evidence that the size of the audit committee, the independence of the audit committee, and the former audit partner had a positive influence on earnings quality. The audit committee's expertise and the audit committee's gender diversity does not have an effect on earnings quality. Meanwhile, the external auditor only moderates the relationship between the audit committee's gender diversity and earnings quality. The existence of an external auditor can decrease inequality of roles between male and female audit committees.

Limitation of this study is *Adjusted R<sup>2</sup>* score that is quite low. The next researcher should consider other variables such as audit committee meetings and management ownership of shares. Another limitation is the use of a dummy score to measure the expertise of the audit committee and external auditors. Future research should use the percentage of audit committee expertise and external auditor fees.

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