

**THE IMPACT OF EARNINGS MANIPULATION RISK  
AND CORPORATE GOVERNANCE RISK ON THE  
EXTENSION OF AUDIT PLANNING  
CASE STUDY: COMPANY XYZ**

**By**

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Bachelor Degree in Economics Major in Management**



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**THESIS ADVISER  
RECOMMENDATION LETTER**

This thesis entitled **“THE IMPACT OF EARNINGS MANIPULATION RISK AND CORPORATE GOVERNANCE RISK ON THE EXTENSION OF AUDIT PLANNING”** prepared and submitted by Bella Firna in partial fulfillment of requirements for the degree of Bachelor in the Faculty of management has been reviewed and found to have satisfied the requirements for a thesis fit to be examined. I therefore recommend this thesis for oral Defense.

Cikarang, Indonesia, 30 January 2012

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The Panel of Examiners declares that the thesis entitled “**THE IMPACT OF EARNINGS MANIPULATION RISK AND CORPORATE GOVERNANCE RISK ON THE EXTENSION OF AUDIT PLANNING**” that was submitted by Bella Firna majoring in Management concentration in International Business from the faculty of Economic was assessed and approved to have passed the Oral Examination on February 17, 2012.

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## **DECLARATION OF ORIGINALITY**

I declare that this thesis, **“THE IMPACT OF EARNINGS MANIPULATION RISK AND CORPORATE GOVERNANCE RISK ON THE EXTENSION OF AUDIT PLANNING”** is, to the best of my knowledge and belief, an original piece of work that has not been submitted, either in whole or in part, to another university to obtain a degree.

Cikarang, Indonesia, 17 February 2012

**Bella Firna**

## ABSTRACT

This study is about to analyze the impact of earnings manipulation risk and corporate governance risk on the extension of audit planning. The researcher found that it is important to know the impact of those risks as the consideration of the management in CPA firm in term of the continuity of the audit engagement with the client. It is also important to be understood by the management of the client as the knowledge and information to improve their management and create good corporate governance that results the reliable financial statement.

This research used the quantitative and qualitative method with questionnaire as its research instrument. The researcher used the multiple regression analysis as the model to analyze the variables in this research. There are two kind variables used in the research which are independent variable: earnings manipulation risk ( $X_1$ ) and corporate governance risk ( $X_2$ ); and dependent variable which is audit planning ( $Y$ ). The writer used SPSS version 16.0 and Microsoft Excel 2007 to process the data. The research is conducted in Company XYZ, Jakarta.

The result of this research shows that earnings manipulation risk and corporate governance risk have significant impact on the extension of audit planning in Company XYZ which is proven by the  $F_{\text{value}}$  (36.611) is greater than  $F_{\text{table}}$  (2.38) with sig 0.000 less than alpha 0.1. The result of  $t_{\text{test}}$  could describe that partially, earnings manipulation risk and corporate governance risk have significant impact on the extension of audit planning which is proven by earnings manipulation risk value of  $B = 0.175$  with sig 0.098 and corporate governance risk value of  $B = 0.770$  with sig 0.000.

The future research is suggested recognizing and considering other factors such as size and culture of the CPA Firm, experience, and auditor knowledge about its client. The writer also suggest to do the further research using the Big Four CPA Firm as the respondent, prepare more and choose the right time in questionnaire distributing and collecting.

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I also say thank you to Company XYZ including the Financial Director who give the permission to doing research in the company, Human Resources Department Staffs who willing to help in handle the questionnaire distribution, all my associates in A Division who willing to give their time to help me, give me advice, and support me to finish the thesis, and all the auditors who have respond my questionnaires, thank you for the time and help to fill my questionnaire. I really appreciate your time and help.

I believe that without their help and support, I cannot finish this thesis well. In this great opportunity, hopefully this thesis will useful and give more knowledge for the reader.

**Jakarta, January 30<sup>th</sup>, 2012**

**Bella Firna**

Researcher

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# CHAPTER I

## INTRODUCTION

### 1.1. Background of Study

The needs of companies in improving the value which result the trust of stakeholders require them to have a confession or statement which is stated that the company has a promising business and potentially generate large profits. A company makes profit or suffers losses in its business can be seen from its financial statement. Based on those statements, relevant information about financial statement of the company is needed for making a good decision by management, creditors, investors, and the government. It creates demand for audit services provided by Certified Public Accountant (CPA) firm to examine the financial statements and collect strong evidence as a valid support for an opinion or statement on the fairness of the financial statement of the company.

There are risks in implementing the audit which can be identified as audit risk and business risk. Audit risk is a risk of error in the auditor which gives unqualified opinion on the financial statement materially misstated (Guy, et al., 2001). Business risk is a risk that auditor will suffer loss in professional practice due to litigation or public rejection in conjunction with the audit (Guy, et.al, 2001).

Statement on Auditing Standard (SAS) No.47, Audit Risk and Materialism in the Audit (AU 312), requires auditors to assess the audit risk, explaining that the risk of misstatement of material in the financial statement caused by fraud or management dishonest is part of the audit risk and asking specifically to assess the risk. There are many illustrated of the falsification of financial data to achieve companies such as Enron case

in the United States in late 1990 and the Lippo Gate case in Indonesia. The counterfeiting on the financial statement which creates earnings manipulation can be reduced by the presence of auditor and good corporate governance in the company.

Previously, Bedard and Johnstone (2004) and Aziza (2005) have also conducted research on earnings manipulation risk, corporate governance risk, auditor's planning and pricing decision. The importance of the understanding of earnings manipulation risk and corporate governance risk which are used as the basis of the audit planning encourages the researcher to examine the impact of earnings manipulation risk and corporate governance risk on the extension of audit planning in Company XYZ located in South Jakarta which including in the five biggest CPA firm in Indonesia. The research of Bedard & Johnstone (2004) and Aziza (2005) became the basic reference of this research.

## **1.2. Company Profile**

### **1.2.1. Company XYZ International**

The researcher did the research at CPA firm named Company XYZ. This CPA firm consists of two main parts; they are Company XYZ International and Company XYZ which is a CPA firm in Indonesia.

Company XYZ International is the 6<sup>th</sup> largest network of independent accounting and consulting firm worldwide, with 736 offices in 76 countries, and more than 32,000 people on hand to serve your needs. Company XYZ International is a global network of independently owned and managed professional service firms, united by a common desire to provide the highest quality of services to their clients. Company XYZ International exists to

make a positive difference to their future. High standards, common work ethic and clear focus make its members valuable partners for a varied client base worldwide (Employee Handbook version 10.01, 2011).

### **1.2.2. Company XYZ**

Company XYZ was established in 1985 by Amir Abadi Jusuf, with a Certified Public Accountant as the flagship firm, they began to provide reliable auditing and assurance services. Company XYZ is a member firm of Company XYZ International, a global organization of independent professional service firm, united by common desire to provide the highest quality services to the clients. Company XYZ consists of CPA Aryanto, Amir Jusuf, Mawar, & Saptoto and other business units under the name of Company XYZ.

Company XYZ is the 5th largest accounting and auditing practice in Indonesia, and they are well known in providing services for SOE and listed companies.

### **1.2.3. Vision, Mission, Values and Services**

#### **1. Vision**

Company XYZ vision is “To be the Right Partner to Our Stakeholders”.

To be the right partner to their Stakeholders, Company XYZ gives the best services by sending the professionals and do the audits process appropriately.



## **2. Mission**

The missions of Company XYZ are:

1. Support achievement of clients' excellence by rendering world class professional services.
2. Provide a rewarding and enjoyable professional working and learning environment
3. Give contribution to the profession and to the Indonesia economy

## **3. Values**

The values of Company XYZ are called "STAR", which consists of:

### **4. Smart**

It means that Company XYZ works smarter, not just harder.

- Do what human do, Think!; Not just do, but do the right thing; Know what you do; Learn from others; Maintain professionalism skepticism; Initiate ideas; Think outside the box; and Master your emotion.

### **5. Trust**

It means that Company XYZ builds the trust and maintains it.

- Practice what you preach; Earn your trust, maintain integrity; confidentially is a must; Always keep your promise; Live out unconditional responsibility, be a player not a victim; and Deficiency shows when you blame others.

## **6. Action**

It means that Company XYZ commits and makes things happen.

- Committed & dedicated your work; Consciously act and response to provide solutions; Never satisfy with minimum effort and quality; Always be prudent & meticulous; Eager to develop & increase competency; Communicate authentically and constructively; Always consider budget in executing tasks; Contributes value to all; and Coordinate impeccably and support your team and peers; and Enjoy work, bring out the best!

## **7. Respect**

It means that Company XYZ respects themselves and others.

- Have sense of ownership; Maintain positive attitude; Be nice, hostility won't take you anywhere; Appreciate differences, people take different roads seeking fulfillment; and Congratulate achievements, don't be selfish and envious.

## **4. Services**

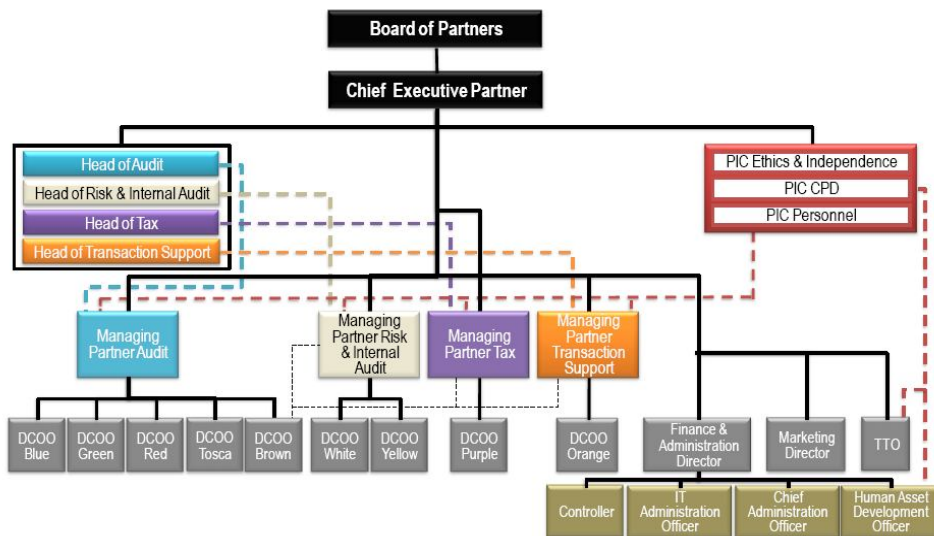
Company XYZ provides 7 (seven) kinds of services, they are: **Audit & Assurance, Risk and Internal Audit Advisory, Transaction Support & Capital Market, Business Establishment & Corporate Secretarial, Tax Advisory, Accounting & Administration, and IFRS.**

### 1.2.4. Organization Structure

Company XYZ divided into 7 (seven) divisions, which are:

1. Blue, focused on Audit & Assurance, IFRS
2. Green, focused on Audit & Assurance, IFRS
3. Red, focused on Audit & Assurance, IFRS
4. White, focused on risk & internal audit services.
5. Orange, focused on Transaction Support & Capital Market.
6. Purple, focused on Tax Corporate Services.
7. Brown, focused on All Service Lines. It is a branch from Company XYZ which located in Surabaya.

Each Division has a Managing Partner supported by Chief Operation Officer.



**Figure 1.1 Organization Structure**

*Source: Employee Handbook Company XYZ version 10.01, 2011*

### **1.3. Problem Identified**

The auditor needs to consider the various risks that might exist within the client at the time of receiving the audit assignment of the prospective client or to continue / discontinue the assignment longer than the old client such as earnings manipulation risk which impact on the extension of audit planning. When there is intervention, the auditor may reduce earning manipulation (Nelson et al., 2002) and the need of internal control which is good corporate governance, in order to improve the quality of the financial statement.

### **1.4. Statement of Problem**

This research is about determining the impact of earnings manipulation risk and corporate governance risk on the extension of audit planning in a CPA firm located at South Jakarta because the researcher wants to find out the relationship of risks that might exist within the client at the time of receiving the audit assignment of the prospective client or to continue / discontinue the assignment longer than old client toward audit planning in order to show whether those risks (earning manipulation risk and corporate governance risk) have significantly influence the auditor in preparing audit planning.

Thus this research focuses on the matters of:

*“How do Earnings Management Risk and Corporate Governance Risk impact on the extension of Audit Planning?”*

## **1.5. Research Objective**

The objectives of this research are:

1. To find out the impact of earnings manipulation risk on the extension of audit planning
2. To find out the impact of corporate governance risk on the extension of audit planning

## **1.6. Significance of Study**

This research analyzes on the impact of earnings manipulation risk and corporate governance risk on the extension of audit planning. This research expected to give the following benefits:

### **a. Academic Community**

This research will give knowledge on corporate governance risk and understand the impact of earnings management risk and corporate governance risk on the extension of audit planning. It also will contribute to the literature development related to auditing and accounting behavior about those audit risk.

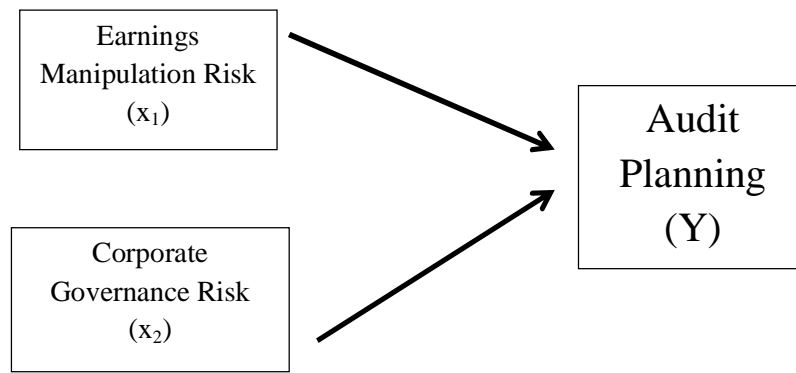
### **b. The Company**

For CPA Firm, it is hope that they will be aware of the impact of especially corporate governance risk and earnings manipulation risk in preparing the audit planning. From the company side, they have to take care of their especially corporate governance risk and earnings manipulation in order to minimize risks identified by the auditor which will reduce audit time and cost.

**c. The Writer**

This research will help the researcher to understand more about the audit risk (earnings manipulation risk and corporate governance risk) and the impact on the extension of audit planning.

**1.7. Theoretical Framework**



**Figure 1.2 Theoretical Framework**

Source: *Self-constructed by the researcher*

Based on figure 1.2, it is shown that the independent variables (X) which are Earnings Manipulation Risk ( $X_1$ ) and Corporate Governance Risk ( $X_2$ ) impact on the dependent variable which is Audit Planning (Y).

**1.8. Scope and Limitation**

This research is limited to analyze the impact of earnings manipulation risk and corporate governance risk on the extension of audit planning in Company XYZ, South Jakarta.

## 1.9. Hypothesis

Based on the theoretical framework, the hypotheses for the research are Earnings Manipulation Risk and Corporate Governance Risk have significant impact on the extension of Audit Planning.

## 1.10. Definition of Terms

**Audit:** An independent review of an asset, liability, activity, organization, or set of financial statements (O'Regan, 2004).

**Auditing:** The process or action of undertaking an audit (O'Regan, 2004).

**Auditor:** An individual or organization that performs an audit (O'Regan, 2004).

**Audit Planning:** The steps taken to prepare for an audit including: (i) information gathering to establish the background and circumstances of an entity or activity to be audited; (ii) discussion with an auditee to ascertain material facts; (iii) a risk assessment of the area under audit; (iv) logistical arrangements for visiting the location of an audit; and (v) analytical review of an organization's financial statements and trial balance (O'Regan, 2004).

**Corporate Governance:** The ways in which an organization is controlled and regulated and the manner in which an organization conducts its activities (O'Regan, 2004).

**Earnings manipulation:** a part of earnings management, which is management behavior that seeks to modify the earnings (Schoeder et al., 1987 cited in Sholihin and Na'im, 2004).

**Financial Statement:** Documents that report on a business in monetary amounts, providing information to help people make informed business decisions (Horngren and Harrison, 2007). Summaries of the accounting transaction and financial position of an organization or individual at a specific date (O'Regan, 2004).

**Materiality:** The importance and relevance of an item in an auditing context (O'Regan, 2004).

**Misstatement:** The inaccurate valuation of an item in financial statements or in a general ledger account (O'Regan, 2004).

**Material misstatements:** where a misstatement is the difference between what management asserts is the balance and the balance based on the auditor findings (Messier, 2003).

**Generally Accepted Auditing Standards (GAAS):** Rules and guidance for the conduct of external auditing (O'Regan, 2004).

**Statement of Auditing Standards (SAS):** United States external auditing standards. SAS comprise the main source of GAAS (O'Regan, 2004).



## **CHAPTER II**

### **LITERATURE REVIEW**

#### **2.1. Auditing Theory**

The etymology dictionary explain that the term of audit originates from the Latin word *atidire*, means “to hear”, and *audire* in ancient Rome referred to the “hearing of accounts”, a process in which one official compared his record with those of another official. Auditing has evolved into a technical discipline practice by professional auditors who provide opinion on whether or not the annual financial statements of an entity comply with set accounting standard (Tripathi, 2008). Auditing is the accumulation and evaluation about information to determine and report on the degree of correspondence between the information and established criteria. Auditing should be done by a competent (Arens and Loebbecke, 2006). The auditing is also identified as a systematic process of objectively and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between these assertions and established criteria and communicating the result to interested users (Hayes, et al., 2005). Auditing is all about evaluating the performance of an organization or part of an organization (Pain, 2010).

There are four theories of auditing (Hayes et al., 2005), which are:

##### **1. Policeman Theory**

An auditor’s job is to focus on arithmetical accuracy and on the prevention and detection of fraud.

## **2. Lending Credibility Theory**

Audited financial statements are used by management to enhance the stakeholders' faith in management stewardship.

## **3. Theory of Inspired Confidence**

The demand for audit service is the direct consequence of the participation of outside stakeholders in the company. The stakeholders demand accountability from the management, in return for their contribution to the company.

## **4. Agency Theory**

In the agency theory, originally proposed by Watts and Zimmerman, a reputable auditor is appointed not only in the interest of third parties but also the interest of management. A company (is seen as agent) is viewed as the result of more or less contract, in which several groups (are seen as principals such as banker, stockholder, and employees) make some kind of contribution to the company, given a certain "price", where the company tries to get these contribution under optimum conditions for management (low interest rates from banker, high share price from stockholders, and low wages for employees).

## **2.2. Audit Standard**

Based on Arens and Loebbecke (2000), auditing standards is general guidelines to aid auditors in fulfilling their professional responsibilities in the audit of historical financial statement. In Indonesia, Auditing Standard consist of ten standards which is issued and approved by *Institute Akuntan Publik Indonesia (IAPI)*, includes three general standards, three work field standards, and four reporting standards, which elaborate in *Pernyataan Standard Auditing (PSA)* or known as General Accepted Auditing Standards (GAAS) in United States. IAPI has an official site for public which is

[www.iapi.or.id](http://www.iapi.or.id) that aim to give information about CPA firm, applicable rules and standards, and the newest issues related to accounting. Furthermore, there are quality control standards in CPA firm to aid in satisfying the GAAS which have five elements including independence, integrity, and objectivity; personnel management; acceptance and continuation of clients and engagements; engagement performance; and monitoring (Arens and Loebbecke, 2000).

### **2.3. Corporate Auditing Theory**

Corporate auditing concepts are grouped in two ways. The first group includes certain ideas about the behavior of corporate auditor. It is partially grouped by Flint (1988) with the common name “Auditor Competence” means that corporate auditors have the sufficient knowledge, training, skill, and experience to prepare the audit corporation. This behavior also includes general concept of auditor and its independency which said by most theorist as a major part of the overall audit terms (Mautz and Sharaf, 1985; Sherer and Kent, 1983; Wolnizer, 1987; Flint 1988; and Lee, 1993, cited in Aziza, 2005). The last part of this behavioral of corporate auditor concept is the responsibility of the auditor or audit accuracy. The aspect of this audit theory believes that corporate auditors are responsible for the quality of their work in completion the task.

The second group related to the technical aspects and its function. This concept can be classified into two. The first is related to the reporting of the qualities that are estimated and determined to financial information which the auditor is required to report it. The second is related to the requirement of obtain the appropriate and sufficient evidence to allow the qualities reported are verified and reported by the auditor.

## **2.4. Audit Risk**

The risk that causes the greatest concern by the auditor is the risk that the auditor gives a clean audit opinion when the financial statements are materially misstated, known as audit risk (Hayes, et al., 2005).

Hall (2011) also stated that audit risk is the probability that the auditor will render an unqualified (clean) opinion on financial statements that are, in fact, materially misstated. There are three types of audit risk which are inherent risk, control risk, and detection risk. Inherent risk is associated with the unique characteristics of the business or industry of the client. Control risk is the likelihood that the control structure is flawed because controls are either absent or inadequate to prevent or detect errors in the accounts. Detection Risk is the risk that auditors are willing to take that errors not detected or prevented by the control structure will also not be detected by the auditor. Audit risk is assessed in order to direct audit test at the areas of highest risk: “Generally, the higher the assumed risk, the more stringent the audit action” (Lee, 1993, p-177 cited in O’Regan, 2004).

## **2.5. Audit Planning**

The audit plan sets out the nature, timing, extend of planned audit procedure required to implement the overall audit strategy into a comprehensive description of the work to be performed. It serves as a set of instructions to staff involved in audit and as means to control and record the proper execution of the work. It includes performance of risk assessment procedures. The auditor uses the information obtained from the risk assessment procedures to plan further audit procedures. As the auditor performs audit procedures outlined in the audit plan, the plan is updated and changed reflect the further audit procedures considered necessary given the circumstances. The combination of materiality (precision) and audit risk

(reliability) determines for each account balance and audit objective, how much evidence should be gathered (Hayes, et al., 2005).

Arens and Loebbecke (2000) stated several parts of audit planning which should be done by the auditor as follow:

1. Accept client and perform initial audit planning
2. Understanding the clients business and industry
3. Assess client business risk
4. Perform preliminary analytical procedure
5. Set materiality and assess acceptable audit risk and inherent risk
6. Understand internal control and assess control risk
7. Gather information to assess fraud risk
8. Develop overall audit plan and audit program

## **2.6. Creative Accounting**

Creative accounting is a form of accountancy that is not based on conservative following the basic rules, but a system that tries to maximize the loopholes in existing financial and tax laws, with as specific aim bloating the balance sheet (Barreveld, 2002, p-178). O'Regan (2004) defined creative accounting as the manipulation of financial statements through the use of imaginative or unusual accounting techniques. Creative Accounting techniques include, among other things, the following: (i) extension of the amortization period of long terms assets to reduce amortization expenses in the initial years of an asset's life; (ii) manipulation of reserves through cookie jar accounting; (iii) the use of off balance sheet items; and (iv) window dressing techniques.

Using creative accounting practices, managements can alter impressions about their firms' business performance. Assessments of corporate earning power can be rendered inaccurate, leading to

inappropriate prices for debt and equity securities. When resulting misstatements are discovered, the market can be unforgiving, causing precipitous declines in debt and equity prices (Mulford and Comiskey, 2002, p-8).

## **2.7. Earnings Manipulation**

Earnings Management is an opportunistic behavior that is meant to pursue some target number determined by the formal contracts signed between the firm and its constituency (Ronen and Yaari, 2008). Earnings management can be loosely defined as a strategy of generating accounting earnings, which “is accomplished through managerial discretion over accounting choices and operating cash flows” (Phillips, Pincus, and Rego, 2003, p.493 cited in Ronen and Yaari, 2008). Earnings Management is an umbrella for acts that affect the reported accounting earnings or their interpretation, starting from production and investment decisions that partly determine the underlying economic earnings, going through the choice of accounting treatment and the size of accruals when preparing the periodic reports, and ending in actions that affect the interpretation of the reported earnings, such as presenting non-GAAP earnings (commonly known as pro forma earnings) and asking the auditor who prepares an opinion casting doubt on the firm’s ability remain a “going concern” not to use the term (Butler, Leone, and Willernborg, 2004, footnote 2 cited in Ronen and Yaari, 2008).

Earnings manipulation is a part of earnings management, which is management behavior that seeks to modify the earnings. The reason of the earnings manipulation is because the performance measured often used to access the entity during one period is earnings (Schoeder et al., 1987 cited in Sholihin and Na’im, 2004). Besides as the performance measured in one

period, earnings are also considered as main information in the financial statement (Lev, 1989 cited in Sholihin and Na'im, 2004).

Here some definition about earnings management that provide some evidence that earnings manipulation is part of earnings management (Davidson, 1987 cited in Schipper, 1989), stated that earnings management is a process in which made deliberate steps within the limits of general accepted accounting principles to obtain the desired level of income. According to Schipper (1989), earnings management is the intervention in the process of external financial reporting to gain person benefits. Healy and Wahlen (1999) also stated that earnings management occurs when managers use an assessment in financial statement and the transaction structures to change the financial statement for misleading the shareholders about the company's economic performance or influence the impact of the agreement related to number reported in financial statement.

The term of earnings management comes as the direct consequences of the manager efforts or the financial statement maker to accounting information management, especially earnings, for the sake of personal and/or company. In addition, earnings management is defined as management action to influence the income that is reported and the report will give the false economic earnings information (Merchant, 1989). Earnings management also used to explain the management behavior (Nelson et al., 2002 in Aziza, 2005) as active manipulation of accounting result for the purpose of creating an altered impression of business performance (Mulford and Comiskey, 2002, p-59).

Furthermore, Dechow et al (1996) define earnings management as earnings manipulation, both within and beyond the limits of General Accepted Accounting Principles (GAAP). Scoot (2000) also defines earnings management as management actions to choose the accounting policy from the certain standard to maximize the welfare and/or company's market value.

## **2.8. Corporate Governance**

Corporate governance can be identified as a board one that attempts to reflect the modern company as an organization managed on behalf of a variety of stakeholders (Lee T., 1993) or a process by which the owners and creditors of an organization exert control and require accountability for the resources entrusted to the organization (Rittenberg, Schwieger, and Johnstone, 2008). It has been described by Sir Adrian Cadbury as the way organizations are directed and controlled. Using the wording of the Toronto Stock Exchange, corporate governance is the process and structure used to direct and manage the business and affairs of the corporations with the objective of enhancing shareholder value, which includes ensuring the financial viability of the business (Hayes, et al., 2005). Corporate governance is described as being concerned with the way corporate entities are governed, as distinct from the way business within those companies are managed (Tricker, 1984 cited in Calder, 2008).

Based on Calder (2008), there are three theories of corporate governance, they are:

### **1. The stewardship theory**

The stewardship theory of corporate governance holds that, because people can be trusted to act in public good in general and in the interest of their shareholders in particular, it make sense to create management and authority structure that, because they provide unified command and facilitate autonomous decision making, enable companies to act (and react) quickly and decisively to market opportunities.

### **2. The agency theory**

The agency theory of corporate governance sees shareholders as the principals and management as their agents. Agents will act with rational



self-interest: as employee directors of a company, they will tend to maximize their monetary compensation. They need to be monitored and controlled to ensure that principals' best interests are served.

### **3. The market theory**

The market theory of corporate governance holds that it doesn't really matter whether managers see themselves as stewards or agents, because shareholders will simply sell in the market the stocks and shares of those companies whose directors are not generating adequate returns their investment,

Based on National Committee on Governance (2006), there are five good corporate governance general principles, which are:

#### **1. Transparency**

To preserve and maintain the objectivity in practicing business, a company must provide material and relevant information that are easily accessible and understandable by stakeholders. A company must take the initiative to disclose not only the issues mandated by laws and regulations, but also other information deemed necessary by shareholders, creditors, and other stakeholders to form a decision.

#### **2. Accountability**

A company must be accountable for its performance transparently and fairly. Thus, a company must be managed in a proper and measurable manner, in such that it is aligned with the interest of a company by also considering the interest of shareholders and other stakeholders. Accountability is a prerequisite to achieve sustainable performance.

#### **3. Responsibility**

A company shall abide by laws and regulations and fulfill its responsibility to the communities and environment for the purpose of

maintaining long term sustainability of the business and to be recognized as a good corporate citizen.

#### **4. Independency**

To accelerate the implementation of the GCG principles, a company must be managed independently with an appropriate balance of power, in such a manner that no single company's organ shall dominate the other and that no intervention from other party shall exist.

#### **5. Fairness**

In conduction its activities, a company must always consider the interests of shareholders and other stakeholders based on a fairness principle.

The organs of a company have an important role in implementing the GCG effectively (National Committee on Governance, 2006):

##### **1. General Meeting of Shareholders**

The General Meeting of Shareholders is a company's organ that facilitates shareholders to make important decisions regarding their investment in a company, by observing provisions in the articles of association and the rules and regulations. Decisions taken in the General Meeting of Shareholders must be based on the long term interest of a company. The General Meeting of Shareholders and or shareholders cannot intervene in the exercise of the duty, function and authority of the Board of Commissioners and the Board of Directors, without curtailing the authority of the General Meeting of Shareholders to carry out its right in accordance with the articles of association and laws and regulations, including the replacement or termination of the members of the Board of Commissioners and or the Board of Directors.

## **2. Board of Commissioners and Board of Directors**

The management of limited liability Company in Indonesia is adopting a two board system, namely the Board of Commissioners and the Board of Directors, each of which has a clear authority and responsibility based on their respective function as mandated by articles of association and laws and regulations.

### **a. Board of Commissioners**

The Board of Commissioners as an organ of the company shall function and be responsible collectively for overseeing and providing advices to Board of Directors and ensuring that the Company implements in the GCG. However, the Board of Commissioners is prohibited from participating in making any operational decision. Each of the members of the Board of Commissioners, including the Chairman, has equal position. The duty of the Chairman of the Board of Commissioners as *primus inter pares* is to coordinate the activities of the Board Commissioners.

#### **a). Audit Committee**

The Audit Committee shall function to assist the Board of Commissioners to ensure that: (i) financial reports are presented appropriately in accordance with the general accepted accounting principles; (ii) internal control structure is adequate and effective; (iii) internal and external audits are conducted in accordance with applicable audit standards, and (iv) audit findings are followed up by the management.

#### **b). Nomination and Remuneration Committee**

The Nomination and Remuneration Committee shall function to assist the Board of Commissioners in determining the selection criteria for candidates of the member of the Board of Commissioners and the Board of Directors as well as the remuneration system

**c). Risk Policy Committee**

The Risk Policy Committee shall function to assist the Board of Commissioners in reviewing the risk management system established by the Board of Directors and evaluating the company's risk tolerance.

**d). Corporate Governance Committee**

The Corporate Governance Committee should function to assist the Board of Commissioners in reviewing the GCG policies prepared by the Board of Directors and monitoring the effectiveness of the GCG practices, including aspects related to the business ethics and social responsibility of the company.

**b. Board of Directors**

The Board of Directors as a company organ shall function and be responsible collegially for the management of the company. Each member of the Board of Directors can carry out its duty and take decisions in accordance with their respective assignment and authorities. However, the execution of tasks by each member of the Board of Directors remains to be a collective responsibility. The position of each respective member of the Board of Directors including President Director is equal. The duty of the President Director as *primus inter pares* is to coordinate the activities of the Board of Directors.

## **2.9. The Relationship between Earnings Manipulation Risk and Audit Planning**

Risk faced by the auditor in conducting the audit in particular risk of earnings manipulation is related to audit planning. The earnings manipulation happened because of the agency problem. One of the reasons of the existence of agency problem is the asymmetric information between agents and company principals. The possibility of earnings management is increasing as well as the increasing of asymmetric information (Dye, 1998 and Trueman and Titman, 1998 cited in Aziza, 2005). Furthermore, one of the concepts of Corporate Audit Theory by Lee (1993) said that the auditor performs the assessment to management practice in managing the finances and responsible/assure the quality of financial statement reported. Based on Nelson et al., (2002) the possibility of earnings manipulation is getting lower because of the auditor intervention. Based on those theories, earnings manipulation become a risk and should be considered by the auditor in audit planning.

Research which examines the relationship between earnings manipulation and audit planning is done by Bedard and Johnstone (2004) using OLS regression model, found that there are positive between the earnings manipulation and audit planning that identified in auditor's hour planning.

The result of Berdard and Johnstone (2004) research is in accordance with the requirement of Auditing Standard, said that the auditor should respond the risks related to the consideration of the nature, time, and audit procedures scope (SAS No.47; AICPA, 1983; SAS No.82; AICPA, 1997). The research is also in accordance with SA Section 311 and SA Section 312 (IAI, 2001). Furthermore, Zimbelman (1997) did a research about the impact of SAS No.82 which said that SAS No.82 has an important

role in planned audit hours to the level of fraud. Planned audit hours is increasing to the fraud risk is consistent with the purpose of SAS No.82.

## **2.10. The relationship between Corporate Governance Risk and Audit Planning**

In accordance with corporate governance concept which is ensure the quality of operational done by management (Dunlop, 1998 in Aziza, 2005), monitor the management performance, and ensure the management accountability to the shareholders (Keasey and Wright, 1993 cited in Aziza, 2005). So, it can be said that corporate governance will be able to reduce earnings management done by management. Besides that, good corporate governance system can provide an effective protection to the shareholders and creditors so that they can be sure that their investment would be worth high (Forum for Corporate Governance in Indonesia (FCGI). 2002).

This research led the auditor's consideration to the effectiveness of internal control process which is client internal corporate governance mechanism, because the process is possibly impact to the audit risk and auditor's business risk. Some research have proved that there are positive relationship between corporate governance quality and the reliability of financial statement (Dechow et al., 1996 and McMullen, 1996 cited in Aziza, 2005) and good audit committee able to limit the earnings management in a company (Deni, 2003 cited in Aziza, 2005).

## CHAPTER III

### METHODOLOGY

#### 3.1. Research Method: Quantitative and Qualitative

This research use quantitative and qualitative method. Quantitative research on the other hand uses number to prove or disapprove a hypothesis. The process of measurement is central to quantitative research because it provides the fundamental connection between empirical observation and mathematical expression of quantitative relationship. Quantitative research uses data that are structured in the form of numbers or that can be immediately transported into numbers (Ross, 1999 cited in Thesis Guidelines-Quantitative, 2011). Qualitative research is a naturalistic, interpretative approach concerned with understanding the meaning of certain observed phenomena or action. It examines, analyzes, and interprets observations for the purpose of discovering underlying meanings models. Qualitative research also provides explanation of reasons and associations between social variables (Ritchie and Lewis, 2003; Royse, 1999 cited in Thesis Guidelines-Quantitative, 2011).

Quantitative method refers to counts and measures of things and qualitative method refers to the meanings, concepts, definitions, characteristics, metaphors, symbols, and descriptions of things (Berg, 2001). In the quantitative research, the primary aim to determine the relationship between an independent variable and another set of dependent or outcome variable in a population and qualitative research is used for improving the impact of development operations by analyzing the view of the intended beneficiaries regarding an ongoing reform/process (Singh, 2007).

## **3.2. Research Time and Place**

This research was conducted at Company XYZ, which is located in South Jakarta, Indonesia. The researcher did the research on the company start from December 23<sup>rd</sup>, 2011 until January 25<sup>th</sup>, 2012.

## **3.3. Research Instrument**

### **3.3.1. Primary Data Collection**

The research used questionnaire as its primary data collection. Questionnaire is distributed to the auditors in Company XYZ coordinated by the Human Resource Department. The questionnaire is self-constructed by the researcher.

In this research, the questionnaire is divided into two parts which are respondent data and questionnaire items. The respondent data part will include the information about gender, age, education, and audit experience. The questionnaire items parts divided into three sections which are earnings manipulation risk section, corporate governance risk section and audit planning. Earnings manipulation risk section consists of eight questions that should be answered by the respondents. Corporate governance risk section divided into two sub sections which are sub section Board of Commissioners that consists of four questions and sub section Audit Committee that consists of twelve questions. The last section is audit planning section consists of seven questions that should be answered by the respondents

In this research, the researcher used the Likert scale, which is developed by Rensis Likert. The respondent should give the rate to



the statement whether it is high risk or low risk for measuring the statement related to independent variables on a 5-point scale with the following anchors:

1 = very low risk

2 = low risk

3 = neutral

4 = high risk

5 = very high risk

The respondent should give the rate to the statement whether agree or disagree for measuring the statement related to the dependent variable on a 5-point scale with the following anchors:

1 = strongly disagree

2 = disagree

3 = neutral

4 = agree

5 = strongly agree

### **3.3.2. Secondary Data**

Secondary data is needed to simultaneous activity along with the main survey (Singh, 2007). In this research, the research will also used secondary data as additional data. The secondary data is related to Company XYZ; therefore the write will find the data about Company XYZ using internet media, journals, and several related literatures that support the research.

### 3.4. Sampling Design

#### 3.4.1. Population

Population is the generalization of research object, in the other word is total number of object in one company that will be researched (Priyatno, 2010). The total number of auditors in Company XYZ is 300 auditors which incorporated to six divisions.

#### 3.4.2. Sampling

Research sampling is the specific number or part of the object that is decided to be researched (Priyatno, 2010). In this research, the researcher will use sampling slovin with error 10%.

$$n = \frac{N}{1 + Ne^2}$$

**Formula 3.1 Slovin Sampling**

*Note:*

n = sampling

N = population

e = error = 10%

Thus, in this research sampling used is:

$$n = \frac{300}{1 + 300 (0.1)^2}$$

$$n = \frac{300}{4} = 75 \text{ respondents}$$

### 3.5. Testing the Hypothesis

- H<sub>0</sub>: Earnings manipulation risk and corporate governance risk **have no** impact on the extension of audit planning
- H<sub>1</sub>: Earnings manipulation risk and corporate governance risk **have** impact on the extension of audit planning.

#### 3.5.1. Operational Definition and Variable Measurement

In this research, there are two kinds of variables used to measure the data, which are independent variable (X) and dependent variable (Y). Based on Priyatno (2010), independent variable is variable that influence other variable. Dependent variable is variable who is influenced by other variables. In other word, independent variable is variable that influence the dependent variable.

**The independent variables and dependent variables** of this research are:

No.	Variable	Indicators
1.	X <sub>1</sub>	<ul style="list-style-type: none"> <li>- Client has a history of modify the earnings.</li> <li>- Identified that client modify the accounting practices</li> <li>- Client conduct the accounting accurately</li> <li>- Certain accounting policies may be inappropriate to the business</li> </ul>

		<ul style="list-style-type: none"> <li>- Auditor team has no special attention about earnings manipulation</li> <li>- Management launch the non-accurate financial statement</li> <li>- There is element of intent of earnings manipulation in the presentation of client's financial statement.</li> <li>- The engagement teams only focus on general accounting behavior.</li> </ul>
2.	X <sub>2</sub>	<p><i>A. Board of Commissioners</i></p> <ul style="list-style-type: none"> <li>- There is the appointment of independent Board of Commissioners from outside the management</li> <li>- Board of Commissioners only conduct the meeting once in a year with CFO and internal auditor.</li> <li>- Board of Commissioners do not publish the information that is on time for the management behavior control permission.</li> <li>- Board of Commissioners solve the sensitive problem on time</li> </ul> <p><i>B. Audit Committee</i></p> <ul style="list-style-type: none"> <li>- Audit Committee have a formal researcher charter</li> <li>- Audit Committee only conduct a meeting once in a year with management and accounting staff.</li> <li>- Audit Committee ensure that findings are follow up by the management</li> </ul>

		<ul style="list-style-type: none"> <li>- Independent Audit Committee is not come from the management</li> <li>- There is no member of Audit Committee who have accounting/finance background</li> <li>- Audit Committees do not give the on-time information about management behavior monitoring.</li> <li>- The member Audit Committee comes from CPA firm which give audit/non audit service in the client.</li> <li>- Audit Committee review the financial statement which will be published by the client.</li> <li>- Audit Committee review the financial statement which will be published by the client.</li> <li>- Audit Committees do not report the Board of Commissioners about the risk faced by the client and risk management done by the Directors.</li> <li>- Audit Committees keep the confidentially of document, data, and information about the company.</li> <li>- Audit Committees have no authority to fully access the note, employees, financial, asset, and other resources from the company.</li> </ul>
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3.	Y	<ul style="list-style-type: none"> <li>- Early audit planning: related to the decision to accept or continue the audit performance in client, evaluate the client reason to be audited, choose the staff to the engagement, and conduct the engagement letter.</li> <li>- Gain understanding about the client nature/background</li> <li>- Assess client business risk</li> <li>- Perform the preliminary analytical procedures</li> <li>- Identify the materiality and possible audit risk, inherent risk, and fraud risk.</li> <li>- Understanding internal control and assess control risk</li> <li>- Develop overall audit plan and audit program.</li> </ul>
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**Table 3.1 Independent and Dependent Variable**

### **3.5.2. The Technique of Data Analysis**

#### **3.5.2.1. Data Quality Test**

According to Hair et al., (1998), the quality of data resulted from the used of research instrument should be evaluated through reliability test and validity test.

### 3.5.2.1.1. Validity Test

Validity test is used to measure the accuracy of items in the questionnaire or scale in measure things that will be measured (Priyatno, 2010), which the correlation of total coefficients can be measured by Bivariate Pearson use the formula as follow:

$$r_{ix} = \frac{n \sum ix - (\sum i)(\sum x)}{\sqrt{[n \sum i^2 - (\sum i)^2][n \sum x^2 - (\sum x)^2]}}$$

#### Formula 3.2 Bivariate Pearson

*Note:*

- $r_{ix}$  = Bivariate Pearson
- $i$  = Item Score
- $x$  = Total Score
- $n$  = Amount of Subject

### 3.5.2.1.2. Reliability Test

Reliability Test is used to make sure the consistency and reliability of instrument used to measure the research (Priyatno, 2010). In SPSS program, reliability test will be done by using Cronbach's Alpha method. Reliability formula using Alpha (Arikunto, 2002, cited in Priyatno, 2010) as follow:

$$r_{11} = \left[ \frac{k}{k-1} \right] \left[ 1 - \frac{\sum \sigma b^2}{\sigma_1^2} \right]$$

#### Formula 3.3 Cronbach's Alpha

*Note:*

$r_{11}$  = Instrument Reliability

$K$  = Total amount of questions

$\sum \sigma_b^2$  = Number of Variable

$\sigma_1^2$  = Total of variable

According to Sekaran (1992) cited in Priyatno (2011), if the value reliability is less than 0.6 means not good, if the value of reliability is 0.7 means acceptable, and if the value of reliability is greater than 0.8 means good.

### **3.5.2.2. Descriptive Statistic**

Descriptive Statistic is research that focuses on data interpretation and research object by presenting the data systematically (Priyatno, 2010).

Descriptive statistic used to give the general description about the respondent demography including gender, age, education, and audit experiences. It also describes the research variables which are earnings manipulation risk, corporate governance risk, and audit planning. The researcher uses absolute frequency distribution table which show the mean, median, and deviation standard.



### 3.5.3. Normality Test

Normality test is used to investigate whether the population is normal or not (Priyatno, 2010). Normality test can be done using SPSS by analyzing the graphic viewed, which shows that the points spread around the diagonal line and in line with the diagonal line (Situmorang et al, 2008).

### 3.5.4. Mutlicollinearity Test

Multicollinearity is a condition which there is perfect or close to perfect linear relationship of independent variable in regression model. Multicollinearity test used to find out whether there is the linear relationship or not of independent variable in regression model. The requirement needed in regression model is free from multilollinearity (Priyatno, 2010). There are some methods that able to use to do the multicollinearity test, they are:

1. By seeing the inflation factor (VIF) in regression model
2. By comparing the individual determination coefficient value ( $r^2$ ) with simultaneous determination value ( $R^2$ ).
3. By seeing the *Eigenvalue* and condition index.

In this research, multicollinearity test is done by seeing the tolerance value, the value of variance inflation factor (VIF), and the correlation between independent variables. A regression model is free from the multicollinearity problem when the inflation factor (VIF) less than 5 (five) (Santose, 2001 in Priyatno, 2010).

### 3.5.5. Heteroscedasticity Test

Heteroscedasticity is a condition where there is inequality variance from the residual to all observation in regression model. Heteroscedasticity test is used to find out whether there is the inequality variance from the residual in regression model. The requirement needed in regression model is free from heteroscedasticity. There are some methods which are able to use to do the test include Spearman's rho test, Glejser test, Park test, and investigate the regression graphic pattern (Priyatno, 2010).

### 3.5.6. Hypothesis Test

Hypothesis test is a test aim to investigate the conclusion in the sampling that could be applied to the population (Priyatno, 2010). In this research, the researcher tests the hypothesis using regression analysis as a model to predict and learn the relationship between dependent variable and independent variable.

*Here is the equation:*

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + e$$

#### **Formula 3.4 Multiple Regression**

*Note:*

Y	= Audit Planning
a	= Constant
X <sub>1</sub>	= Earnings Manipulation Risk
X <sub>2</sub>	= Corporate Governance Risk
β <sub>1</sub> β <sub>2</sub>	= Regression Coefficient
e	= Error

### 3.5.6.1. Coefficient Simultaneously Correlation Analysis ( $F_{test}$ )

$F_{test}$  is used to find out if the independent variables **collectively** influence the dependent variable significantly (Priyatno, 2010).

$$F_{test} = \frac{R^2/k}{(1 - R^2)/(n - k - 1)}$$

#### Formula 3.5 $F_{test}$

*Note:*

$R^2$  = Determination Coefficient

$n$  = Total Data

$k$  = Total Independent Variable

$H_0$ :  $\beta_1 = \beta_2 = \beta_3 = 0$ , means independent variable ( $X_1$  and  $X_2$ ) have no impact on the extension of audit planning (Y).

$H_1$ : at least one  $\beta_i \neq 0$ , when  $i = 1, 2, 3$ , means independent variable ( $X_1$  and  $X_2$ ) have impact on the extension of audit planning (Y).

The researcher uses the significance level ( $\alpha$ ) = 10% = 0.1, with acceptable criteria as follow:

The null hypothesis,  $H_0$  is **accepted** when  $F_{test} < F_{table}$  OR  $P_{value} > 0.1$

The alternative hypothesis,  $H_1$  is **accepted** when  $F_{test} > F_{table}$  OR  $P_{value} < 0.1$

### 3.5.6.2. Coefficient Partial Correlation Analysis ( $t_{test}$ )

In research,  $t_{test}$  is used to find out if in the regression model, the independent variables (X) **partially** have significant influence to dependent variable (Y) (Priyatno, 2010).

$$t_{test} = \frac{b_i}{Sb_i}$$

**Formula 3.6**  $t_{test}$

Note:

$B_i$  = Regression Coefficient Variable i

$Sb_i$  = Error Standard Variable i

The researcher use the significance level ( $\alpha$ ) = 10% = 0.1

$H_0$ :  $\beta_i = 0$ , when  $i= 1,2$ , which means partially, independent variable ( $X_1$  and  $X_2$ ) have no impact on the extension of audit planning (Y).

$H_1$ :  $\beta_i \neq 0$ , when  $i= 1,2$ , means partially, independent variable ( $X_1$  and  $X_2$ ) have impact on the extension of audit planning (Y).

The null hypothesis,  $H_0$  is **accepted** when  $t_{test} < F_{table}$  or  $P_{value} > 0.1$

The alternative hypothesis,  $H_1$  is **accepted** when  $t_{test} > F_{table}$  or  $P_{value} < 0.1$ .

### 3.6. Data Result of Validity and Reliability Testing

#### 3.6.1 Validity Test Result

The researcher use Pearson's Correlation coefficient. Validity test will evaluate the score of R-computing and r-table. R-computing is come from as the result of SPSS calculation and r-table comes from the Pearson's r-value product moment. In this test, the questionnaire stated as valid if R-computation is greater than r-table.

In validity test, the researcher distributed the questionnaire to 30 respondents randomly, with significant level 10%, the coefficient value of Pearson's r-table will be = 0.2960.

N	Significant of Level	
	5%	10%
20	0.4227	0.3598
25	0.3809	0.3233
30	0.3494	<b>0.2960</b>

**Table 3.2 Pearson's r-table**

Sources: "Statistical Explained", Hinton (2004)

The result of validity test done by the researcher using SPSS can be seen as followed:

Q	R-Computation	r-table	Remarks
1	0.378	0.296	VALID
2	0.310	0.296	VALID
3	0.434	0.296	VALID
4	0.490	0.296	VALID
5	0.614	0.296	VALID
6	0.339	0.296	VALID
7	0.339	0.296	VALID
8	0.684	0.296	VALID

9	0.154	0.296	<b>INVALID</b>
10	0.799	0.296	VALID
11	0.337	0.296	VALID
12	0.434	0.296	VALID
13	0.488	0.296	VALID
14	0.684	0.296	VALID
15	0.096	0.296	<b>INVALID</b>
16	0.614	0.296	VALID
17	0.434	0.296	VALID
18	0.490	0.296	VALID
19	0.614	0.296	VALID
20	0.339	0.296	VALID
21	0.337	0.296	VALID
22	0.434	0.296	VALID
23	0.154	0.296	<b>INVALID</b>
24	0.684	0.296	VALID
25	0.611	0.296	VALID
26	0.333	0.296	VALID
27	0.270	0.296	<b>INVALID</b>
28	0.322	0.296	VALID
29	0.337	0.296	VALID
30	0.799	0.296	VALID
31	0.337	0.296	VALID
32	0.434	0.296	VALID
33	0.799	0.296	VALID
34	0.337	0.296	VALID
35	0.322	0.296	VALID

**Table 3.3 Validity Test Result**

*Sources: Statistical of Package for Social Science (SPSS) and Primary Data*

Based on Table 3.3, there are 4 questions which are invalid because the R-computation is less than r-table (0.296), which are q9 (0.154), q15 (0.096), q23 (0.154), and q27 (0.270). The researcher decides to eliminate the questions and use all the remaining questions that is valid as many as 31 questions.

### 3.6.2 Reliability Test Result

The researcher also did the reliability test. SPSS give a facility to do the reliability test using Cronbach Alpha ( $\alpha$ ), which is a variable will be said reliable if give the value of Cronbach Alpha ( $\alpha$ )  $> 0,60$  (Nunnaly, 1969 in Imam Ghozali, 2005).

<b>Reliability Statistics</b>	
<b>Cronbach's Alpha</b>	<b>N of items</b>
0.901	31

**Table 3.4 Reliability Test Result**

*Sources: Statistical of Package for Social Science (SPSS) and Primary Data*

Based on Table 3.4, it is showed that the value of Cronbach's Alpha is greater than 0.80, which prove that the variable is reliable and strong. It means that the questions are reliable and acceptable to be used.

### **3.7. Limitation**

They are some limitation that the researcher finds in conducting the research, which are:

1. The researcher need much time to take care of the research permission procedures from the company to distribute the questionnaire.
2. During the high season in CPA firm (December – March), there will be a difficulties in collecting the data, so that the researcher use error = 10% to minimize the sampling needed.
3. The researcher cannot make sure if the correspondents are filling out the instruments distributed objectively.
4. The researcher has limit time to analyze the problem deeply and specifically.



## CHAPTER IV

### ANALYSIS AND INTERPRETATION

#### 4.1. Interpretation of Demographic Respondent

The next step done in this research is processing the data with SPSS 16.0 and Excel Program to get an overview and interpretation on the subject, data, and research results. Data instruments used in this research is questionnaire, the composition of the questions is 8 (eight) point statements related to variable  $X_1$ , 16 (sixteen) point statements related to variable  $X_2$ , and 7 (seven) point statements related to variable Y, the total statements is 31 (thirty one) statements.

Based on the questionnaire related to the earnings manipulation risk ( $X_1$ ), corporate governance risk ( $X_2$ ) and audit planning (Y), the population of this research is auditors, which are the auditors at Accounting Public Firm, named Company XYZ. Specifically the sample of this research was 75 respondents. To gain insight about characteristic of auditors who work in Company XYZ, the researcher classifies the characteristic of respondent by gender, age, education, and audit experiences.

The following demographic respondent data will show general information related to the present respondent condition includes gender, age, education, and audit experiences.

#### 4.1.1. Gender

<b>Gender</b>	<b>Total Number</b>	<b>Percentage (%)</b>
<i>Male</i>	51	68%
<i>Female</i>	24	32%
<b>Total</b>	75	100%

**Table 4.1 Respondents' Gender Profile**

Based on Table 4.1, most respondents in this research are male, as many as 51 people with percentage 68%. Female respondent is 24 people with percentage 32%.

#### 4.1.2. Age

<b>Age (years old)</b>	<b>Total Number</b>	<b>Percentage (%)</b>
< 25	18	24%
23 – 25	51	68%
35 – 45	6	8%
>45	0	0%
<b>Total</b>	75	100%

**Table 4.2 Respondents' Age Profile**

Based on table 4.2, most respondents in this research are in the age 23-25 years old, as many as 51 people with percentage 68%. The second largest respondent is in the age below 25 years old as many as 18 people with percentage 24% from the total respondents, and in the third rank is aged 35-45 years old with percentage 8%. There is no respondent in the age above 45 years old.

#### 4.1.3. Education

Education	Total Number	Persentase (%)
$S_1$	66	88%
$S_2$	9	12%
$S_3$	0	0%
<b>Total</b>	75	100%

**Table 4.3 Respondents' Education Profile**

Based on Table 4.3, the respondent mostly had bachelor degree ( $S_1$ ) as many as 66 people with percentage 88% and only 9 people with percentage 12% who had master degree. There is no respondent who had doctoral degree. The result shows that the education level of the respondents is high enough, so that have an ability to prepare the audit program.

#### 4.1.4. Audit Experiences

Audit Experiences	Total Number	Persentase (%)
<i>&lt; 2 years</i>	21	28%
<i>2 – 4 years</i>	47	63%
<i>5 – 10 years</i>	7	9%
<i>&gt;10 years</i>	0	0%
<b>Total</b>	75	100%

**Table 4.4 Respondents' Audit Experience Profile**

Based on table 4.4, respondents who have worked as auditor for less than 2 years are 21 people with percentage 28%, the respondents who have worked as auditor for 2 – 4 years is 47 people with percentage 63%, the respondent who have worked as auditor for 5 – 10 years are 7 people with percentage 9%, and there is no respondent who have worked for more than 10 years. Thus, most respondents in this research are the respondents who

have worked for 2 – 4 years. It can be said that the audit experience of this research is categorized as standard.

## 4.2. Statistic Descriptive

In a purpose to give the description about the variables used in the research which are earnings manipulation risk, corporate governance, and variable, the researcher use absolute frequency table which will show the range of theoretical, real range, average, and standard deviation.

<b>Descriptive Statistics</b>					
	N	Minimum	Maximum	Mean	Std. Deviation
EMR	75	3.31	4.69	3.9567	.29186
CGR	75	3.31	4.69	3.8984	.31178
AP	75	3.14	4.86	3.8648	.35995
Valid N (listwise)	75				

**Table 4.5 Descriptive Statistic Variable**

*Source: Statistical Package for Social Science (SPSS) and Primary Data*

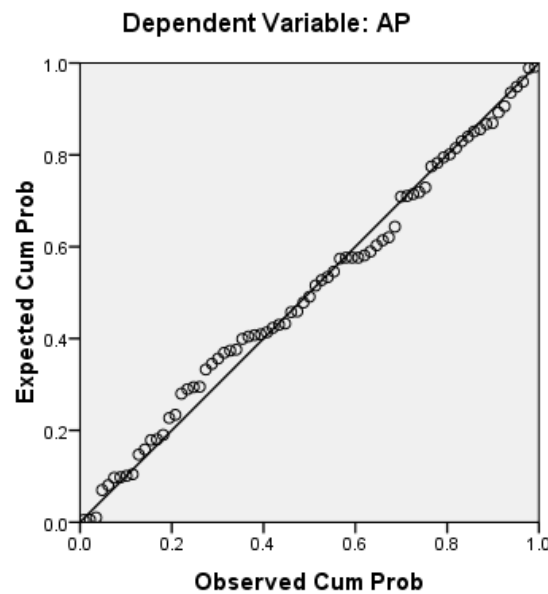
Based on Table 4.5 above, it is found that for variable Earnings Manipulation Risk (EMR) as  $X_1$  with total  $N = 75$ , has value of mean = 3.9567, minimum value of 3.31, maximum value of 4.69, and the value of standard deviation = 0.29186. Variable Corporate Governance Risk (CGR) as  $X_2$  with total  $N = 75$ , has value of mean = 3, minimum value of 3.31, maximal value of 4.69, and the value of standard deviation = 0.31178. Then, variable Audit Planning (AP) as  $Y$  with total  $N = 75$ , has value of mean = 3.8648, minimum value of 3.14, maximum value of 4.86, and the value of standard deviation = 0.35995.

## 4.3. Interpretation of Data Normality Test

The figure 4.1 below shows that the data is normally distributed, the points still along an approximately with the straight line drawn. The figure

normal plot of regression standardizes residual with earnings manipulation risk and corporate governance risk as independent variable and audit planning as dependent variable nearly make a straight line. The researcher conclude that the data has followed a linear relationship model and standardizes deviation has followed the normal standardized distribution.

**Normal P-P Plot of Regression Standardized Residual**



**Figure 4.1 Normal P-P Plot of Regression Standardized Residual Earnings Manipulation Risk and Corporate Governance Risk toward Audit Planning**

*Source: Statistical Package for Social Science (SPSS) and Primary Data*

#### **4.4. Interpretation of Multicollinearity Test**

In this research, multicollinearity test is done by seeing the tolerance value, the value of variance inflation factor (VIF), and the correlation between independent variables. A regression model is free from the

multicollinearity problem when the inflation factor (VIF) less than 5 (five) (Santose, 2001 in Priyatno, 2010). The general value to measure Tolerance is greater to 0.1 or close to 1, whereas the acceptable value for VIF is less than 5 to verify that there is no multicollinearity.

Based on table 4.6 below, the value of Tolerance result from Earnings Manipulation Risk (EMR) and Corporate Governance Risk is 0.958 which is greater than 0.1. Furthermore, the value of VIF of Earnings Manipulation Risk (EMR) and Corporate Governance Risk (CGR) is 1.044 which is less than 5. Thus, the researcher concludes that there is no multicollinearity between the independent variables.

**Coefficients<sup>a</sup>**

		Collinearity Statistics	
		Tolerance	VIF
1	EMR	.958	1.044
	CGR	.958	1.044

a. Dependent Variable: AP

**Table 4.6 Multicollinearity Test Result**

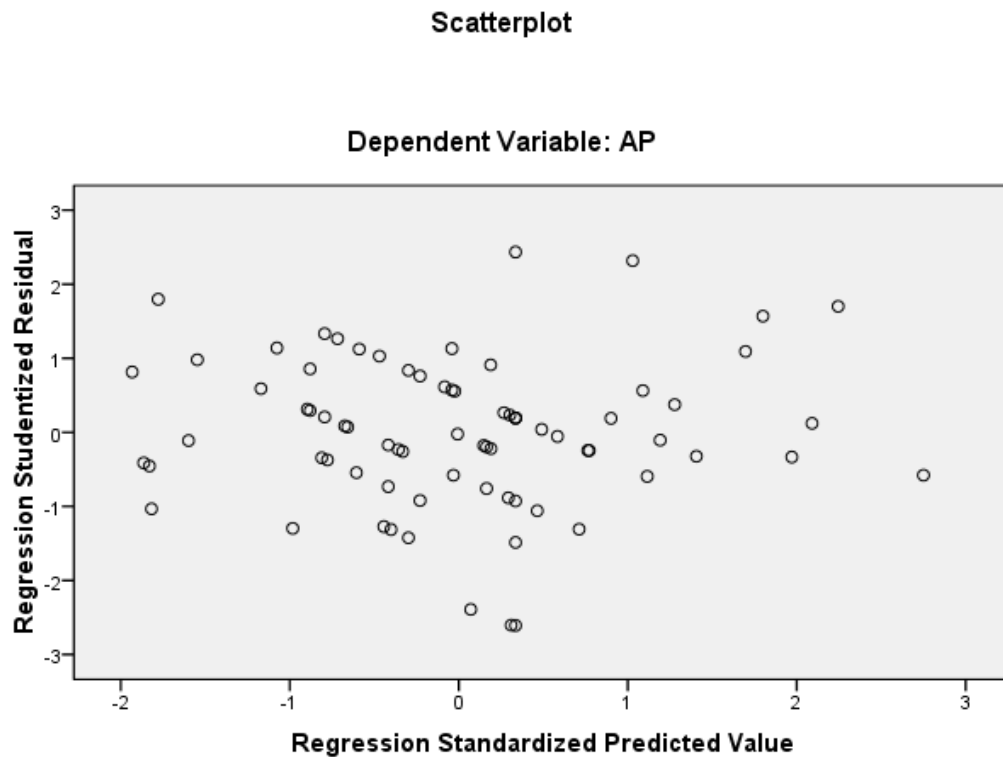
*Source: Statistical Package for Social Science (SPSS) and Primary Data*

#### **4.5. Interpretation of Heterocedasticity Test**

Data are normally distributed if the points evenly spread off in the area above 0 area and below 0 area, moreover, the points also have to not made a pattern. If there are tendencies the points to make a pattern, it means that the data are not normally distributed and considered as heteroscedasticity.

For addition, the points area spread must be in the average values -2 to 2. The figure 4.2 below shows that the data spread evenly through the area

above 0 area and below 0 area. The points are not made a pattern as well, thus the researcher conclude that the data have tendency to homoscedasticity and normally distributed.



**Figure 4.2 Heteroscedasticity Test Result**

*Source: Statistical Package for Social Science (SPSS) and Primary Data*

## **4.6. Interpretation of Hypothesis Test**

### **4.6.1. Model Evaluation**

This research has purposes to determine *the impact of Earnings Manipulation Risk and Corporate Governance Risk on the extension of Audit Planning*. Therefore in this data interpretation will be shown some models and graphics that describe the significant and the relationship of independent variables into the dependent variable.

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.169	.503		.337	.737
	EMR	.175	.105	.142	1.676	.098
	CGR	.770	.098	.667	7.866	.000

a. Dependent Variable: AP

**Table 4.7 Coefficient Earnings Manipulation Risk and Corporate Risk toward Audit Planning**

*Source: Statistical Package for Social Science (SPSS) and Primary Data*

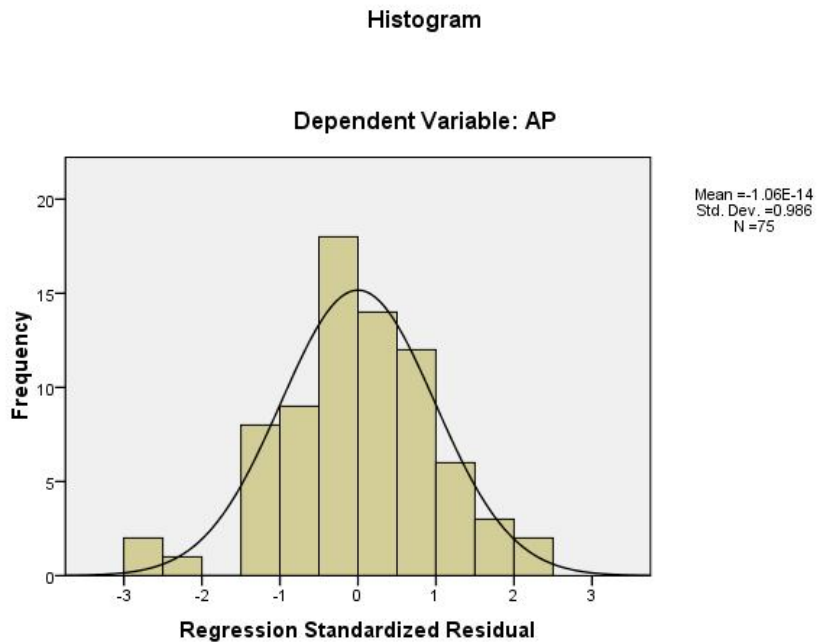
The result of the coefficient Table 4.7 shows the significant value (sig) for every independent variable relation. The value can be stated with standard partial regression coefficient, based on multiple regression result is:

$$Y = 0.337 + 0.175X_1 + 0.770X_2 + e$$

From the formula above, it explain that independent variable which are Earnings Manipulation Risk (EMR) and Corporate Governance Risk (CGR) have positive and significant impact on the extension of dependent variable (Audit Planning), which is determined by the positive value of B and the acceptable significant value < 0.1

The result of data processing obtained from the above equation is able to describe in the histograms of regression standardize residual as follow:





**Figure 4.3 Regression Standardized Residual**

*Source: Statistical Package for Social Science (SPSS) and Primary Data*

#### 4.6.2. Regression Model Summary

**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.710 <sup>a</sup>	.504	.490	.25694

a. Predictors: (Constant), CGR, EMR

b. Dependent Variable: AP

**Table 4.8 Model Summary**

*Source: Statistical Package for Social Science (SPSS) and Primary Data*

Adjusted R Square is used to measure the proportion or the percentage contribution of each independent variable which are

Earnings Manipulation Risk ( $X_1$ ) and Corporate Governance Risk ( $X_2$ ) toward the dependent variable which is Audit Planning (Y). Based on table 4.8, it is found that Adjusted R Square is 0.490, which indicates Earnings Manipulation Risk and Corporate Governance Risk is affecting 49% auditors in preparing the audit planning, and the remaining 51% influenced by other factors that are not examined in this research.

#### 4.6.3. Interpretation of $F_{Test}$

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	4.834	2	2.417	36.611	.000 <sup>a</sup>
Residual	4.753	72	.066		
Total	9.587	74			

a. Predictors: (Constant), CGR, EMR

b. Dependent Variable: AP

**Table 4.9 ANOVA Table Result -  
Earnings Manipulation Risk ( $X_1$ ) and Corporate Governance Risk ( $X_2$ )  
towards Audit Planning (Y)**

*Source: Statistical Package for Social Science (SPSS) and Primary Data*

Based on Table 4.9 ANOVA Table, obtained the  $F_{value}$  is 36.611 which is greater than  $F_{table}$  2.38 with sig 0.000 less than alpha 0.1, thus the model could be concluded that earnings manipulation risk and corporate governance risk give significant impact on the extension of Audit Planning in Company XYZ.

Therefore, this model could answer the research hypothesis, as follow:

H<sub>0</sub>: Earnings Manipulation Risk and Corporate Governance have no significant impact on the extension of Audit Planning, is **rejected** because the value above shows that the contribution and relationship of independent variable toward the dependent variable is quite strong proven by the significant value 0.000 less than 0.1. Hence, H<sub>1</sub>: Earnings Manipulation Risk and Corporate Governance have significant impact on the extension of Audit Planning, is **accepted**.

#### 4.6.4. Interpretation of t<sub>Test</sub>

In this research, hypothesis test will be also described in partial way, which means it measure each dimensions of audit risk (earnings manipulation risk and corporate governance risk) as independent variable to audit planning as the dependent variable by using t<sub>test</sub>. The t<sub>test</sub> will determine the significant level of the impact of each (X) independent variable (earnings manipulation risk and corporate governance risk) on the extension of audit planning (Y-dependent variable).

##### a. Earnings Manipulation Risk

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.169	.503		.337	.737
	EMR	.175	.105	.142	1.676	.098

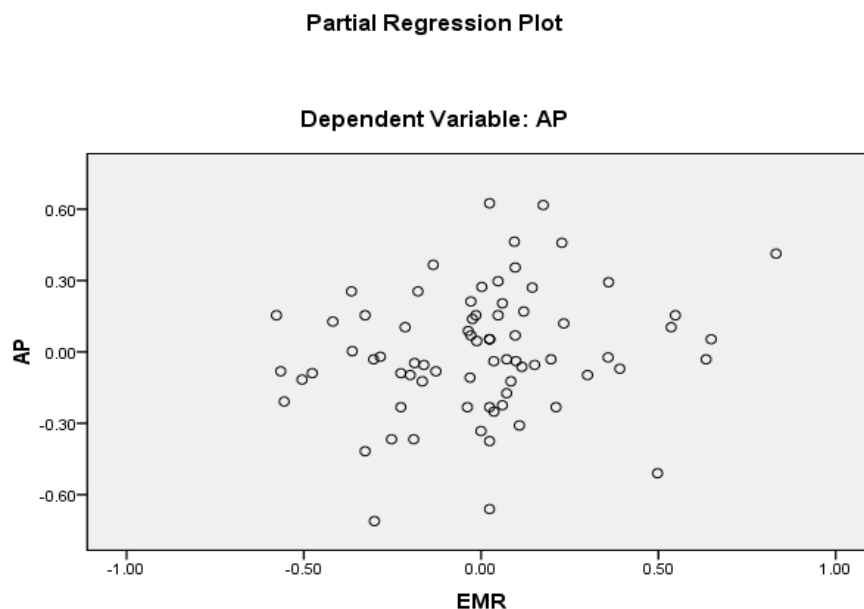
a. Dependent Variable: AP

**Table 4.10 t<sub>Test</sub> Results - Earnings Manipulation Risk (X<sub>1</sub>) towards Audit Planning**

*Source: Statistical Package for Social Science (SPSS) and Primary Data*

Based on Table 4.10, shows that Earnings Manipulation Risk (EMR) has significantly impact on the extension of audit planning. It is showed by the  $t_{\text{value}}$  which is 1.676 greater than  $t_{\text{table}}$  value 1.66629 and significant value is 0.098, less than 0.1. Earnings Manipulation Risk ( $X_1$ ) has impact on the extension of the audit planning (Y), proven by the positive B value 0.175, which means that if Earnings Manipulation increases by 1 unit, the audit planning also increased by 17.5%.

In plot figures of partial regression it could be illustrated as:



**Figure 4.4 Partial Regression Plot - Earnings Manipulation Risk towards Audit Planning**

*Source: Statistical Package for Social Science (SPSS) and Primary Data*

Based on Figure 4.4 the partial regression plot of earnings manipulation risk toward audit planning shows that the data are normally distributed, the points spread evenly and does not made a pattern, the points is above 0 and below 0 is nearly balanced

which means that there is no indication of heteroscedasticity. The researcher concludes Earnings Manipulation Risk has significant impact on the extension of Audit Planning.

**b. Corporate Governance Risk**

**Coefficients<sup>a</sup>**

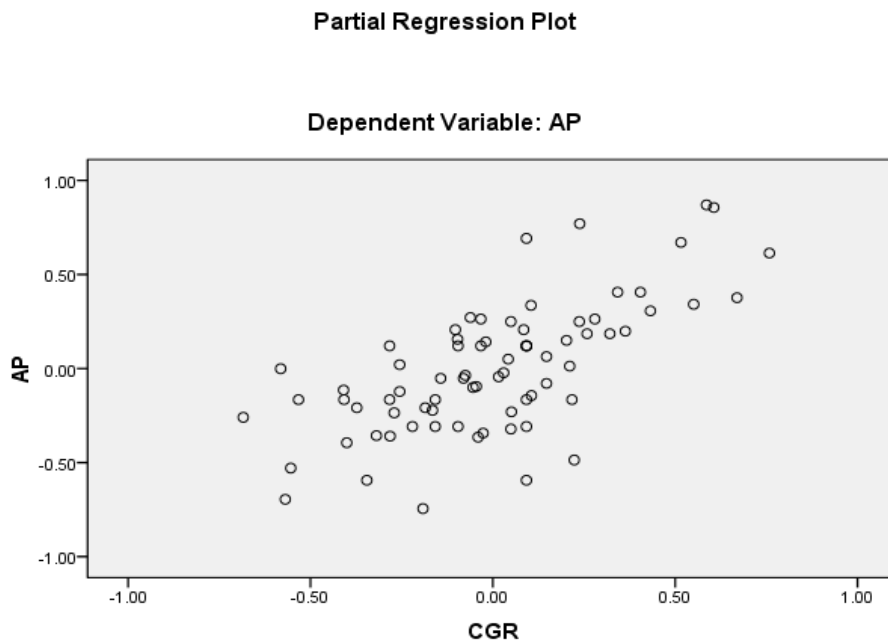
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.169	.503		.337	.737
	CGR	.770	.098	.667	7.866	.000

a. Dependent Variable: AP

**Table 4.11 t<sub>Test</sub> Results - Corporate Governance Risk (X<sub>2</sub>) towards Audit Planning**

*Source: Statistical Package for Social Science (SPSS) and Primary Data*

Based on Table 4.11, shows that Corporate Governance Risk (CGR) has significantly impact on the extension of audit planning. It is showed by the  $t_{value}$  which is 7.866 greater than  $t_{table}$  1.66629 and significant value is 0.000, less than 0.1. Corporate Governance Risk (X<sub>2</sub>) has impact on the extension of audit planning (Y), proven by the positive B value 0.770, which means that if Earnings Manipulation increases by 1 unit, the audit planning also increased by 77%. In plot figures of partial regression it could be illustrated as:



**Figure 4.5 Corporate Governance Risk towards Audit Planning**

*Source: Statistical Package for Social Science (SPSS) and Primary Data*

Based on Figure 4.5 the partial regression plot of corporate governance risk toward audit planning shows that the data are normally distributed, the points spread evenly and does not made a pattern, the points is above 0 and below 0 is nearly balanced which means that there is no indication of heteroscedasticity. The researcher concludes that Corporate Governance Risk has significant impact on the extension of Audit Planning.

## **4.7. Interpretation of Result**

### **4.7.1. The Impact of Earnings Manipulation Risk on the Extension of Audit Planning**

Based on the hypothesis test for earnings manipulation risk above, it is found that earnings manipulation risk has significant impact on the extension of audit planning. This result means that the higher earnings manipulation risk faced by auditor from its client, the longer time needed for preparing the audit planning.

This research's result is consistent with the result from Berdard and Johnstone (2004) which stated that there is positive relationship between earnings manipulation risk and audit planning. It also consistent with the corporate auditing concept stated by Lee (1993) which said that auditor should prepare the assessment to personal practice (management) in manage the financial and responsible for the quality of financial information reported.

However, this research's result is not consistent with the result from Aziza (2005) which stated that there is negative relationship between earnings manipulation risk towards audit planning. It can be happen because some reasons. Based on Guy, et al. (2001), risk assessment may vary on auditor depends on the situation faced in auditing. Aziza (2005) stated in her research that she found that her respondents are less responsive to earnings manipulation risk and cannot intervene in the existence of earnings manipulation risk. Thus, it is prove that the auditors in Company XYZ are more responsive to earnings manipulation risk.

#### **4.7.2. The Impact of Corporate Governance Risk on the Extension of Audit Planning**

Based on hypothesis test for corporate governance risk towards audit planning above, it is found that corporate governance risk has impact on the extension of audit planning. This result means that the higher corporate governance risk faced by the auditor from its client, the longer time needed for preparing the audit planning.

This research's result is consistent with the corporate governance concept which said that corporate governance involves the quality assurance of the operation of the board itself by evaluating the performance of the executive directors of the company for the company stakeholders (Dunlop, 1998). It is stated that management is concerned with the company's operation, governance with ensuring that the executives do their job properly (Sheridan and Kendall, 1992 in Dunlop, 1998).

However, this research's result is not consistent with the result from Berdard and Johnstone (2004) and Aziza (2005) which stated that there is negative relationship between corporate governance risks towards audit planning. It can be caused by several reasons which are in that time, the auditor found that the quality of corporate governance is weak, known by most respondent said that board of commissioner and audit committee is from management (not independent). Nowadays, it is found that the quality of corporate governance, especially listed companies in Indonesia become better. Companies start to aware of the importance of having good corporate governance for its company. They improve the quality of corporate governance and ask the auditor to audit it for getting a good opinion of it. Good Corporate Governance can enhance more trust and credibility from the shareholders and other stakeholders.



## CHAPTER V

### CONCLUSIONS AND RECOMMENDATIONS

#### 5.1. Conclusions

Based on the research and analysis done in the previous chapter, there are several conclusions, which could be stated for this research:

1. In overall, Earnings Manipulation Risk and Corporate Governance Risk have significant impact on the extension of Audit Planning at confident level 90% which means Earnings Manipulation Risk and Earning Manipulation Risk are the most important indicator for the extension of Audit Planning at Company XYZ. Therefore, the  $H_0$  which states Earnings Manipulation Risk and Corporate Governance Risk have no significant impact on the extension of Audit Planning is **rejected**. Hence, the  $H_1$  which states Earnings Manipulation Risk and Corporate Governance Risk have significant impact on the extension of Audit Planning is **accepted**.
2. Partially, Earnings Manipulation Risk and Corporate Governance Risk have significant impact on the extension of Audit Planning
3. Corporate Governance Risk variable is the most dominant factor which means that Company XYZ consider Corporate Governance Risk as the most impacting factor on the extension of Audit Planning.

## 5.2. Recommendations

1. Basically, for the next researcher who want to do further research related to this matter, it is important to recognize and consider many others factor which give impact to the relationship between earnings manipulation risk and corporate governance risk toward audit planning such as the size of Public Accounting Firm, culture, experience, and the knowledge of auditor about the client.
2. For the next research, it is recommended to explore more about this research using participants including the **Big Four** CPA Firm in Indonesia because the Big Four is known as the CPA firms which have good experience, knowledge and high credibility from their clients who will respond the questionnaire more reliable and valid.
3. As known that the auditor is a very busy worker, the writer recommend to prepare more time and choose the right time in term of questionnaire distribution. Auditors have hectic work time from December until March because the company close their financial statement in the end of year and auditor start to audit the financial statement and must be finished before March on the next year because the listed company should collect the audit report to the Indonesia Stock Exchange (IDX) before March 31<sup>st</sup>.
4. For the auditor, the researcher recommend to be more responsive to the possible risks which may exist in the clients, especially earnings manipulation risk and corporate governance risk seeing that those risk is commonly happen in the client which is identified as fraud.

5. For the companies (clients), the researcher recommend to be more aware to the quality of corporate governance which can supervisory the work of management so that the management can result the financial statement that can be accounted for the truth in public. When the companies (clients) can reduce the risks that can be identified by the auditor before prepare the audit, the auditors do not need longer time to prepare the audit planning which means less cost (less audit fee) for the company.

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**Website:**

[www.iaiglobal.or.id](http://www.iaiglobal.or.id)

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## **LIST OF APENDICES**

1. Company Confirmation Letter
2. Questionnaire
3. Reliability Test Result From SPSS
4. Validity Test Result from SPSS
5. Hypothesis Test Result from SPSS
6.  $F_{Table}$
7.  $t_{Table}$

# QUESTIONNAIRE

## A. Respondent Data

Please answer with **bold** on the answer available:

- |  |   |
|--|---|
| <p>1. Gender:</p> <ul style="list-style-type: none"> <li>a. Male</li> <li>b. Female</li> </ul> <p>2. Age:</p> <ul style="list-style-type: none"> <li>a. &lt; 25 years old</li> <li>b. 25 – 35 years old</li> <li>c. 36 – 45 years old</li> <li>d. &gt; 45 years old</li> </ul> | <p>3. Education:</p> <ul style="list-style-type: none"> <li>a. S1</li> <li>b. S2</li> <li>c. S3</li> </ul> <p>4. Audit Experiences:</p> <ul style="list-style-type: none"> <li>a. &lt;2 years</li> <li>b. 2 – 4 years</li> <li>c. 4 – 10 years</li> <li>d. &gt; 10 years</li> </ul> |
|--|---|

## B. Questionnaire Items

### *Part 1: Earning Manipulation Risk*

To answer the following items, the respondents consider the audit risk which is an earnings manipulation risk to accept the assignment in the client. Put a **cross (x)** in the answer column available.

- 1 = very low risk
- 2 = low risk
- 3 = neutral
- 4 = high risk
- 5 = very high risk

No.	The Statement	Consideration				
		1	2	3	4	5
1.	Client has a history of modify the earnings.					
2.	Identified that client modify the accounting practice.					
3.	Client conduct the accounting accurately					
4.	Certain accounting policies may be inappropriate to the business.					
5.	Auditor team has no special attention about earnings manipulation.					

6.	Management launch the non accurate financial statement.					
7.	There is element of intent of earnings manipulation in the presentation of client's financial statement.					
8.	The engagement teams only focus on general accounting behavior.					

***Part 2: Corporate Governance Risk***

To answer the following items, the respondent is faced by the risk audit of the effectiveness of client's corporate governance activity. Put a **cross (x)** in the answer column available.

- 1 = very low risk
- 2 = low risk
- 3 = neutral
- 4 = high risk
- 5 = very high risk

**A. Board of Commissionaires**

No.	The Statement	Consideration				
		1	2	3	4	5
1.	There is the appointment of independent Board of Commissionaires from outside the management.					
2.	Board of Commissionaires only conduct the meeting once in a year with CFO and internal auditor.					
3.	Board of Commissionaires do not publish the information that is on time for the management behavior control permission.					
4.	Board of Commissionaires solve the sensitive problem on time.					

**B. Audit Committee**

No.	The Statement	Consideration				
		1	2	3	4	5
1.	Audit committees have a formal written charter.					
2.	Audit committees only conduct a meeting once in a year with management and accounting staff.					
3.	Audit committees ensure that audit findings are follow up by the management.					
4.	Independent audit committee is not from the management.					
5.	There is no member of audit committees who have accounting / finance background					
6.	Audit committees do not give the on-time information about management behavior monitoring.					
7.	The members of audit committees come from Public Accounting Firm which give audit/ non audit service in the client.					
8.	Audit committees review the financial statement which will be published by the client.					
9.	Audit committees do not review the internal auditor performance.					
10.	Audit committees do not report to the Board of Commissionaires about the risk faced by the client and risk management done by Directors.					
11.	Audit committees keep the confidentiality of document, data, and information about the company.					
12.	Audit committees have no authority to fully access the note, employees, financial, asset, and other resources from the company.					

**Part 3: Audit Planning**

To answer the following items, the respondents consider the time needed by auditor to prepare the audit planning by considering the risks state above. Put a **cross (x)** in the answer column available.

- 1 = strongly disagree
- 2 = disagree
- 3 = neutral
- 4 = agree
- 5 = strongly agree

**Question: Based on the level of those risks identified above, the auditor will need longer time in take several step of audit planning below:**

No.	The Statement	Consideration				
		1	2	3	4	5
1.	<b>Early audit planning:</b> related to the decision to accept or continue the audit performance in the client, evaluate the client reason to be audited, choose the staff to the engagement, and conduct the engagement letter.					
2.	<b>Gain understanding about the client nature/ background:</b> understanding the business / industry, observe the office / manufacture, review the company policy, identify the parties who have special relationship and evaluate the needs of outside specialization.					
3.	Assess client business risk.					
4.	Perform preliminary analytical procedures.					
5.	Identify the materiality and possible audit risk, inherent risk, and fraud risk.					
6.	Understanding internal control and assess risk control.					
7.	Develop overall audit plan and audit program.					

***Thank You for Your Participation!***

# RELIABILITY RESULT TEST FROM SPSS

## Reliability Statistics

Cronbach's Alpha	N of Items
.901	31

## Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
q1	118.2667	69.030	.281	.901
q2	118.4333	69.909	.278	.901
q3	118.1667	67.316	.436	.898
q4	118.2000	68.372	.468	.898
q5	118.2333	65.151	.602	.895
q6	118.2667	70.616	.332	.900
q7	118.2333	64.185	.765	.892
q8	118.1333	66.533	.623	.895
q10	118.2333	64.185	.765	.892
q11	118.3000	69.666	.233	.902
q12	118.1667	67.316	.436	.898
q13	118.3667	68.240	.408	.899
q14	118.1333	66.533	.623	.895
q16	118.2333	65.151	.602	.895
q17	118.1667	67.316	.436	.898
q18	118.2000	68.372	.468	.898
q19	118.2333	65.151	.602	.895
q20	118.2667	70.616	.332	.900
q21	118.3000	69.666	.233	.902
q22	118.1667	67.316	.436	.898
q24	118.1333	66.533	.623	.895
q25	118.2000	68.648	.538	.897
q26	118.4333	69.840	.238	.901
q28	118.5000	69.845	.261	.901
q29	118.3000	69.666	.233	.902
q30	118.2333	64.185	.765	.892
q31	118.3000	69.666	.233	.902
q32	118.1667	67.316	.436	.898
q33	118.2333	64.185	.765	.892
q34	118.3000	69.666	.233	.902
q35	118.5000	69.845	.261	.901

# VALIDITY TEST RESULT FROM SPSS

## Correlations

		Total
q1	Pearson Correlation	.378 <sup>*</sup>
	Sig. (2-tailed)	.039
	N	30
q2	Pearson Correlation	.310
	Sig. (2-tailed)	.096
	N	30
q3	Pearson Correlation	.434 <sup>*</sup>
	Sig. (2-tailed)	.017
	N	30
q4	Pearson Correlation	.490 <sup>**</sup>
	Sig. (2-tailed)	.006
	N	30
q5	Pearson Correlation	.614 <sup>**</sup>
	Sig. (2-tailed)	.000
	N	30
q6	Pearson Correlation	.339
	Sig. (2-tailed)	.067
	N	30
q7	Pearson Correlation	.799 <sup>**</sup>
	Sig. (2-tailed)	.000
	N	30
q8	Pearson Correlation	.684 <sup>**</sup>
	Sig. (2-tailed)	.000
	N	30
q9	Pearson Correlation	.154
	Sig. (2-tailed)	.416
	N	30

q10	Pearson Correlation	.799**
	Sig. (2-tailed)	.000
	N	30
q11	Pearson Correlation	.337
	Sig. (2-tailed)	.069
	N	30
q12	Pearson Correlation	.434*
	Sig. (2-tailed)	.017
	N	30
q13	Pearson Correlation	.488**
	Sig. (2-tailed)	.006
	N	30
q14	Pearson Correlation	.684**
	Sig. (2-tailed)	.000
	N	30
q15	Pearson Correlation	.096
	Sig. (2-tailed)	.612
	N	30
q16	Pearson Correlation	.614**
	Sig. (2-tailed)	.000
	N	30
q17	Pearson Correlation	.434*
	Sig. (2-tailed)	.017
	N	30
q18	Pearson Correlation	.490**
	Sig. (2-tailed)	.006
	N	30
q19	Pearson Correlation	.614**
	Sig. (2-tailed)	.000
	N	30
q20	Pearson Correlation	.339
	Sig. (2-tailed)	.067



	N	30
q21	Pearson Correlation	.337
	Sig. (2-tailed)	.069
	N	30
q22	Pearson Correlation	.434*
	Sig. (2-tailed)	.017
	N	30
q23	Pearson Correlation	.154
	Sig. (2-tailed)	.416
	N	30
q24	Pearson Correlation	.684**
	Sig. (2-tailed)	.000
	N	30
q25	Pearson Correlation	.611**
	Sig. (2-tailed)	.000
	N	30
q26	Pearson Correlation	.333
	Sig. (2-tailed)	.072
	N	30
q27	Pearson Correlation	.270
	Sig. (2-tailed)	.149
	N	30
q28	Pearson Correlation	.322
	Sig. (2-tailed)	.083
	N	30
q29	Pearson Correlation	.337
	Sig. (2-tailed)	.069
	N	30
q30	Pearson Correlation	.799**
	Sig. (2-tailed)	.000
	N	30
q31	Pearson Correlation	.337

	Sig. (2-tailed)	.069
	N	30
q32	Pearson Correlation	.434*
	Sig. (2-tailed)	.017
	N	30
q33	Pearson Correlation	.799**
	Sig. (2-tailed)	.000
	N	30
q34	Pearson Correlation	.337
	Sig. (2-tailed)	.069
	N	30
q35	Pearson Correlation	.322
	Sig. (2-tailed)	.083
	N	30
Total	Pearson Correlation	1
	Sig. (2-tailed)	
	N	30

\*. Correlation is significant at the 0.05 level (2-tailed).

\*\* . Correlation is significant at the 0.01 level (2-tailed).

# HYPOTHESIS TEST RESULT FROM SPSS

## Descriptive Statistics

	Mean	Std. Deviation	N
AP	3.8648	.35995	75
EMR	3.9567	.29186	75
CGR	3.8984	.31178	75

## Model Summary<sup>b</sup>

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.710 <sup>a</sup>	.504	.490	.25694	.504	36.611	2	72	.000

a. Predictors: (Constant), CGR, EMR

b. Dependent Variable: AP

## ANOVA<sup>b</sup>

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.834	2	2.417	36.611	.000 <sup>a</sup>
	Residual	4.753	72	.066		
	Total	9.587	74			

a. Predictors: (Constant), CGR, EMR

b. Dependent Variable: AP

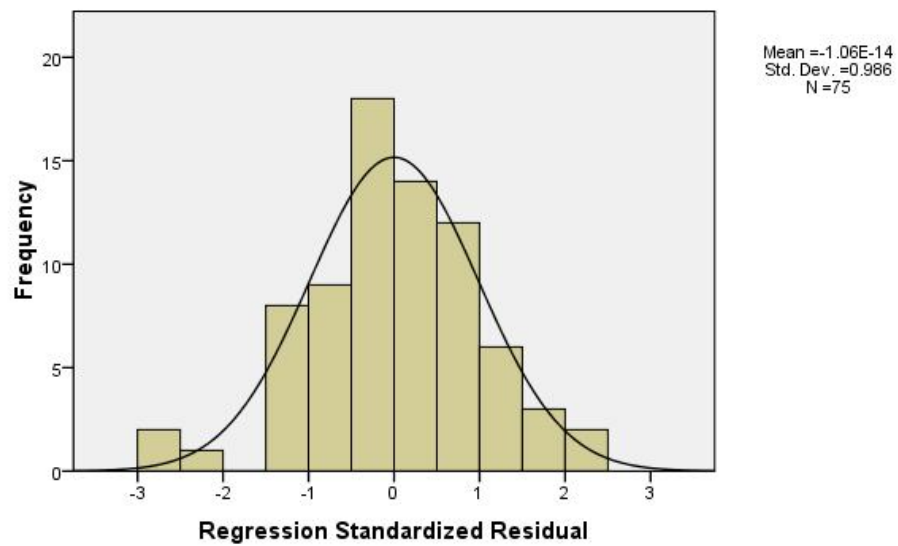
### Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	.169	.503		.337	.737					
	EMR	.175	.105	.142	1.676	.098	.280	.194	.139	.958	1.044
	CGR	.770	.098	.667	7.866	.000	.696	.680	.653	.958	1.044

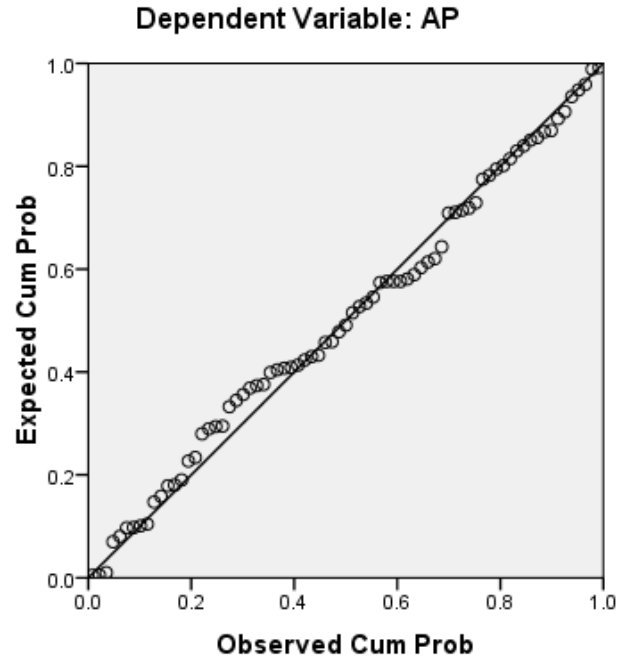
a. Dependent Variable: AP

### Histogram

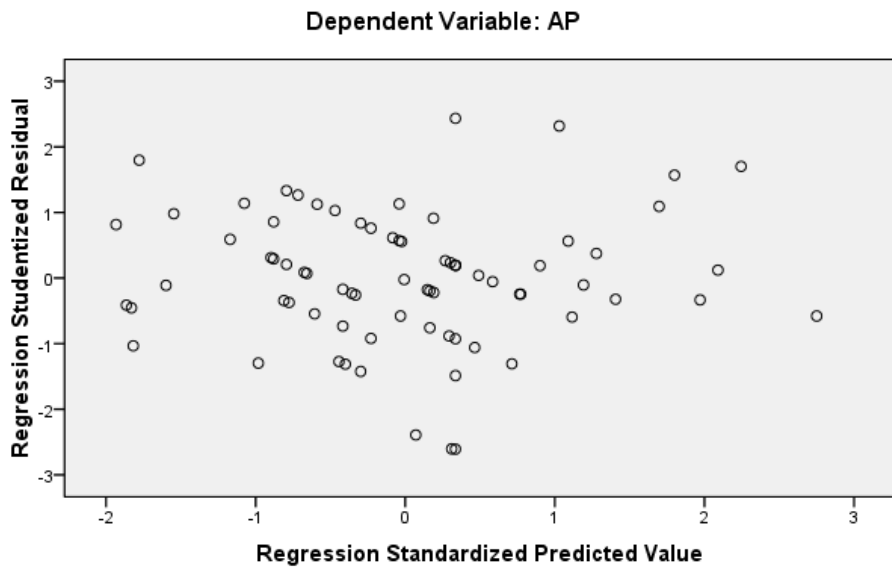
Dependent Variable: AP



Normal P-P Plot of Regression Standardized Residual

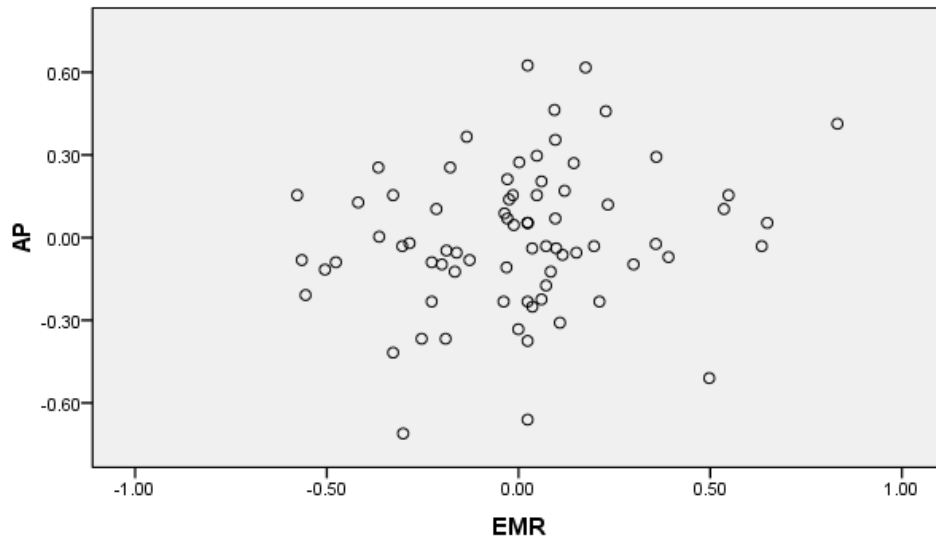


Scatterplot



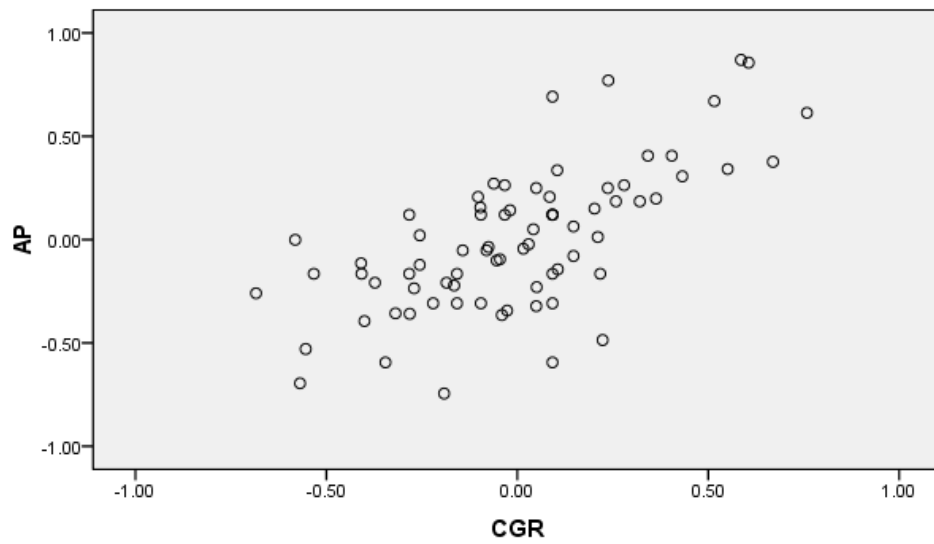
### Partial Regression Plot

Dependent Variable: AP



### Partial Regression Plot

Dependent Variable: AP



# F Table

df untuk penyebut (N2)	df untuk pembilang (N1)														
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
46	2.82	2.42	2.21	2.07	1.98	1.91	1.85	1.81	1.77	1.74	1.71	1.69	1.67	1.65	1.64
47	2.82	2.42	2.20	2.07	1.97	1.90	1.85	1.80	1.77	1.74	1.71	1.69	1.67	1.65	1.64
48	2.81	2.42	2.20	2.07	1.97	1.90	1.85	1.80	1.77	1.73	1.71	1.69	1.67	1.65	1.63
49	2.81	2.41	2.20	2.06	1.97	1.90	1.84	1.80	1.76	1.73	1.71	1.68	1.66	1.65	1.63
50	2.81	2.41	2.20	2.06	1.97	1.90	1.84	1.80	1.76	1.73	1.70	1.68	1.66	1.64	1.63
51	2.81	2.41	2.19	2.06	1.96	1.89	1.84	1.79	1.76	1.73	1.70	1.68	1.66	1.64	1.62
52	2.80	2.41	2.19	2.06	1.96	1.89	1.84	1.79	1.75	1.72	1.70	1.67	1.65	1.64	1.62
53	2.80	2.41	2.19	2.05	1.96	1.89	1.83	1.79	1.75	1.72	1.70	1.67	1.65	1.63	1.62
54	2.80	2.40	2.19	2.05	1.96	1.89	1.83	1.79	1.75	1.72	1.69	1.67	1.65	1.63	1.62
55	2.80	2.40	2.19	2.05	1.95	1.88	1.83	1.78	1.75	1.72	1.69	1.67	1.65	1.63	1.61
56	2.80	2.40	2.18	2.05	1.95	1.88	1.83	1.78	1.75	1.71	1.69	1.67	1.65	1.63	1.61
57	2.80	2.40	2.18	2.05	1.95	1.88	1.82	1.78	1.74	1.71	1.69	1.66	1.64	1.63	1.61
58	2.79	2.40	2.18	2.04	1.95	1.88	1.82	1.78	1.74	1.71	1.68	1.66	1.64	1.62	1.61
59	2.79	2.39	2.18	2.04	1.95	1.88	1.82	1.78	1.74	1.71	1.68	1.66	1.64	1.62	1.61
60	2.79	2.39	2.18	2.04	1.95	1.87	1.82	1.77	1.74	1.71	1.68	1.66	1.64	1.62	1.60
61	2.79	2.39	2.18	2.04	1.94	1.87	1.82	1.77	1.74	1.71	1.68	1.66	1.64	1.62	1.60
62	2.79	2.39	2.17	2.04	1.94	1.87	1.82	1.77	1.73	1.70	1.68	1.65	1.63	1.62	1.60
63	2.79	2.39	2.17	2.04	1.94	1.87	1.81	1.77	1.73	1.70	1.68	1.65	1.63	1.61	1.60
64	2.79	2.39	2.17	2.03	1.94	1.87	1.81	1.77	1.73	1.70	1.67	1.65	1.63	1.61	1.60
65	2.78	2.39	2.17	2.03	1.94	1.87	1.81	1.77	1.73	1.70	1.67	1.65	1.63	1.61	1.59
66	2.78	2.38	2.17	2.03	1.94	1.87	1.81	1.77	1.73	1.70	1.67	1.65	1.63	1.61	1.59
67	2.78	2.38	2.17	2.03	1.94	1.86	1.81	1.76	1.73	1.70	1.67	1.65	1.63	1.61	1.59
68	2.78	2.38	2.17	2.03	1.93	1.86	1.81	1.76	1.73	1.69	1.67	1.64	1.62	1.61	1.59
69	2.78	2.38	2.16	2.03	1.93	1.86	1.81	1.76	1.72	1.69	1.67	1.64	1.62	1.60	1.59
70	2.78	2.38	2.16	2.03	1.93	1.86	1.80	1.76	1.72	1.69	1.66	1.64	1.62	1.60	1.59
71	2.78	2.38	2.16	2.03	1.93	1.86	1.80	1.76	1.72	1.69	1.66	1.64	1.62	1.60	1.59
72	2.78	2.38	2.16	2.02	1.93	1.86	1.80	1.76	1.72	1.69	1.66	1.64	1.62	1.60	1.58
73	2.78	2.38	2.16	2.02	1.93	1.86	1.80	1.76	1.72	1.69	1.66	1.64	1.62	1.60	1.58
74	2.77	2.38	2.16	2.02	1.93	1.86	1.80	1.75	1.72	1.69	1.66	1.64	1.62	1.60	1.58
75	2.77	2.37	2.16	2.02	1.93	1.85	1.80	1.75	1.72	1.69	1.66	1.63	1.61	1.60	1.58

# tTable

df \ P	0.25	0.10	0.05	0.025	0.01	0.005	0.001
	0.50	0.20	0.10	0.050	0.02	0.010	0.002
41	0.68052	1.30254	1.68298	2.01954	2.42080	2.70118	3.30127
42	0.68038	1.30204	1.68195	2.01808	2.41847	2.69807	3.29595
43	0.68024	1.30155	1.68107	2.01669	2.41625	2.69510	3.29089
44	0.68011	1.30109	1.68023	2.01537	2.41413	2.69228	3.28607
45	0.67998	1.30065	1.67943	2.01410	2.41212	2.68959	3.28148
46	0.67985	1.30023	1.67865	2.01290	2.41019	2.68701	3.27710
47	0.67973	1.29982	1.67791	2.01174	2.40834	2.68454	3.27291
48	0.67961	1.29941	1.67722	2.01062	2.40656	2.68220	3.26891
49	0.67950	1.29902	1.67656	2.00954	2.40486	2.67996	3.26509
50	0.67940	1.29864	1.67591	2.00850	2.40322	2.67779	3.26141
51	0.67930	1.29827	1.67528	2.00750	2.40162	2.67572	3.25780
52	0.67920	1.29792	1.67468	2.00652	2.40008	2.67373	3.25426
53	0.67910	1.29757	1.67412	2.00557	2.39859	2.67182	3.25077
54	0.67900	1.29723	1.67358	2.00465	2.39714	2.66998	3.24735
55	0.67890	1.29690	1.67305	2.00376	2.39573	2.66822	3.24400
56	0.67880	1.29658	1.67252	2.00289	2.39436	2.66651	3.24072
57	0.67872	1.29628	1.67203	2.00204	2.39302	2.66487	3.23751
58	0.67864	1.29598	1.67155	2.00122	2.39172	2.66329	3.23438
59	0.67857	1.29569	1.67109	2.00043	2.39045	2.66176	3.23131
60	0.67850	1.29542	1.67065	2.00000	2.38922	2.66028	3.22831
61	0.67843	1.29516	1.67022	1.99962	2.38802	2.65884	3.22537
62	0.67837	1.29491	1.66980	1.99927	2.38684	2.65744	3.22249
63	0.67830	1.29467	1.66940	1.99894	2.38570	2.65606	3.21966
64	0.67824	1.29443	1.66901	1.99862	2.38460	2.65471	3.21688
65	0.67818	1.29420	1.66864	1.99831	2.38353	2.65338	3.21415
66	0.67812	1.29397	1.66827	1.99801	2.38249	2.65208	3.21147
67	0.67807	1.29375	1.66792	1.99771	2.38147	2.65081	3.20883
68	0.67801	1.29353	1.66758	1.99742	2.38047	2.64956	3.20623
69	0.67796	1.29332	1.66724	1.99714	2.37948	2.64833	3.20367
70	0.67790	1.29311	1.66691	1.99686	2.37851	2.64712	3.20115
71	0.67785	1.29290	1.66659	1.99659	2.37756	2.64593	3.19866
72	0.67780	1.29270	1.66628	1.99633	2.37662	2.64475	3.19620
73	0.67775	1.29250	1.66598	1.99607	2.37569	2.64359	3.19377
74	0.67770	1.29230	1.66568	1.99582	2.37478	2.64244	3.19137
75	0.67765	1.29210	1.66539	1.99557	2.37388	2.64130	3.18899
76	0.67760	1.29190	1.66511	1.99532	2.37298	2.64018	3.18664
77	0.67755	1.29170	1.66483	1.99507	2.37209	2.63907	3.18431
78	0.67750	1.29150	1.66456	1.99482	2.37121	2.63797	3.18200
79	0.67745	1.29130	1.66430	1.99457	2.37033	2.63688	3.17971
80	0.67740	1.29110	1.66404	1.99432	2.36946	2.63580	3.17744