

ANALYSIS OF THE INFLUENCE OF AUDITOR PROFIT AND REPUTATION MANAGEMENT ON ISLAMIC BOND RATING (SUKUK) IN INDONESIA

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ABSTRACT

This study aims to obtain empirical evidence that is the factors that influence the rating of sukuk in companies on the Indonesia Stock Exchange. The main variables used in this study consisted of earnings management and auditor reputation. The data used are secondary in the form of financial statements listed on the Indonesia Stock Exchange (IDX) and the ranking ranked by PEFINDO for the period 2013 to 2017. This research was conducted using descriptive data statistics and multiple linear regression with a 95% confidence level. The test results show that the company will conduct earnings management before the sharia bond rating. Earnings management harms sharia bond rating. The auditor's reputation harms sharia bond ratings.

Keywords: Earnings Management, Auditor Reputation, Sharia Bond Rating

1. INTRODUCTION

At this time, investment is significantly growing. Investment activities are not only limited to investment in physical form or commonly called real assets such as gold, property, or foreign exchange, but investment in the form of financial assets is also very important of interest to the public. Some examples of investments in the form of securities are: such as stocks and bonds. To avoid the risks faced by investors in bond investment, every bond issued by

a company will get a rating usually called a bond rating or a given bond rating by a securities rating agency¹.

A Bond-rating agency is an independent institution that provides risk scale rating information, one of which is bond securities, which indicates the security of a bond for investors. The process for rating a bond takes about one to two months. A bond rating is a symbol of character given by a rating agent to show the risk of bonds issued².

The rating itself is a reference for investors when deciding to buy a bond. The process for rating a bond takes about one to two months. There are two categories of bond rating groups: the investment-grade category and the non-investment grade category. So the question arises whether the bond rating is correct and accurate as of investors' view later. Islamic bond ratings provide informative statements and provide signals about the probability of a company's debt default. The ratings also serve to aid public policy to limit speculative investment by investors. The quality of the bonds can be assessed from the rating, and it can determine whether the investment chosen is good and profitable³.

The development of sukuk as one of the investment options has its features compared to other investments that make sukuk growth increase. Because sukuk provides more competitive income or profit-sharing ratio, payment of returns, and nominal value until the sukuk matures are guaranteed by the company or government that issues the sukuk, this allows additional income in

¹ Felicia, Faktor-Faktor Yang Mempengaruhi Peringkat Obligasi Lembaga Keuangan Yang Terdaftar Di BEI (*Jurnal Multiparadigma Akuntansi Tarumanagara*, 2020), Hal 136 – 145.

² Hartono, *Teori Portofolio dan Analisis Investasi* (BPFE: Yogyakarta), 2015.

³ Afiani, Pengaruh Likuiditas, Produktivitas, Profitabilitas, Dan Leverage Terhadap Peringkat Sukuk. (*Accounting Analysis Journal*, 2013).

the form of margin (capital gain), and most importantly the sukuk is safe and free from the elements of usury, gharar, and maysir.

However, one of the newest phenomena relates to bond ratings (Sukuk) is that the Indonesian Securities Rating Agency (Pefindo) downgraded the 2015 Sukuk Ijarah rating of PT Tiga Pilar Sejahtera Food Tbk (AISA) from CCC to D alias default. The decrease was due to Tiga Pilar's failure to pay debt interest on the 2013 TPS Food I Bonds and ijarah fees for the 2013 TPS Food I Sukuk Ijarah, which matured on 5 July 2018.

Tiga Pilar's management argued that the company did not have sufficient funds to pay interest. Earnings management is the action of managers to increase or decrease the profit for the company's current period managed to avoid losses. The company will increase its profit before the rating or ranking by the rating agencies, aiming to get a predicate as a company with good performance in investors and rating agencies' eyes⁴.

The auditor's reputation is a good name or image obtained for good work in his responsibilities as an auditor. In this research, the auditor's reputation with a high reputation is known as the Big Four Public Accounting Firm (*Kantor Akuntansi Publik: KAP*). Companies that the Big Four KAP audits can give positive signals because they can increase the credibility of the company's financial statements and provide better audit quality to attract investors who will later raise the company's bond rating⁵.

Previous Research on Islamic bond ratings is still very little in the context that involves financial ratios. Thus, the purpose of this study is to determine how the company will perform earnings

⁴ Andriyani, Pengaruh Manajemen Laba, Jaminan, dan Umur Obligasi terhadap Peringkat Obligasi, (*Seminar Nasional Cendekiawan* 2016), p2460-8696.

⁵ Susanto, Faktor-faktor yang Mempengaruhi Peringkat Obligasi pada Perusahaan Non Keuangan Tahun 2011-2013. (*Universitas Negeri Semarang*, 2015).

management by increasing earnings before the rating and whether management and auditors' reputation affect Islamic bond rating.

2. THEORETICAL OVERVIEW/LITERATURE REVIEW

2.1. Signal Theory

Argues that signal theory emphasizes companies' information on parties' investment decisions outside the company. Suppose a company's manager finds out that their company is strong, while investors do not know this for some reason. In that case, the manager can pay dividends or buy back shares, hoping that their company's quality signals to the market⁶.

The relationship between signal theory and this research is that management is always expected to provide signals on the company's condition, whether the company is in a strong or weak position. This information helps users of external financial reports. One way is to provide information about the rating of sukuk issued by the company. Sukuk rating is carried out by a third party, namely a securities rating agency issued by the company. Investors will know the Sukuk's security level to catch excellent or bad signals on the sukuk they will buy.

Therefore, it is important to rank sukuk, mainly because there are still rare rating agencies in Indonesia that rate sukuk. Sukuk rating is significant to be published to signal the company's financial condition and describe the possibilities that occur related to the debt it has. That way, published sukuk ratings can help investors make investment decisions.

⁶ Scott, *Financial Accounting Theory* (5th ed.), (Toronto: Pearson Prentice Hall, 2015).

2.2. Shari'ah/Islamic Bond

According to AAOIFI Shari'a Board, a financing alternative is made as a substitute for Sukuk bonds. In Indonesia, sukuk are known as Islamic bonds. Islamic bonds in investment activities are a breakthrough in the world of Islamic finance. According to some experts' opinions, it can be concluded that Islamic bonds (sukuk) are securities issued based on sharia principles, which oblige the owners of Islamic bonds to pay income to the holders of Islamic bonds employing profit sharing⁷.

There are two bond rating agencies in Indonesia: PEFINDO (Indonesian Securities Rating) and PT Kasnic Credit Rating. PT. Pefindo or PT Pemeringkat Efek Indonesia was established in Jakarta on 21 December 1993 through the Capital Market Supervisory Agency (BAPEPAM) initiative and Bank Indonesia. On 31 August 1994, PEFINDO obtained a business license from BAPEPAM with number 39 / PM-PI / 1994 and became one of Indonesia's capital market supporting institutions. The main task of PT Pefindo is to provide an objective, independent, and accountable rating of credit risk for the issuance of traded debt securities to the public at large.

2.3. Management of Profit

Earnings management is management's involvement in making external financial reports to achieve a certain income level to benefit themselves (or the company). The opportunity to report higher earnings than it should be due to the accounting method allows management to record specific facts in different ways and management opportunities to involve subjectivity in making

⁷ Kasim, Emerging issues for auditing in Islamic Financial Institutions: Empirical evidence from Malaysia. (*IOSR Journal of Business and Management*, 2013), p10-17.

estimates⁸. Provides the following definition of earnings management: earnings management is the potential use of accrual management to obtain personal benefits⁹.

Defines earnings management as Some Ability to Increase or Decrease Reported Net Income At-Will; this means that earnings management includes management's efforts to maximize or minimize earnings, including income smoothing, by the manager's wishes¹⁰. Company managers have at least three tools that can be used to manipulate profits, namely discretionary accruals, operating costs, and expectations of manipulating profit itself¹¹.

2.4. Auditor's Reputation

Auditor reputation is the need for reputable auditor services to bridge the company and investors or potential investors due to information asymmetry. In the reporting process, auditors who have a good reputation must guarantee financial data as a basis for decision-making in the stock market¹².

An audit is a process to reduce the misalignment of information between managers and shareholders by using external parties to validate financial statements. Users of financial statements, especially shareholders, will make decisions based on

⁸ Farichah, Management Compensation and Auditor Reputation on Earnings Management and on Share Returns, (*European Research Studies Journal* Volume XX, Issue 3A, 2017)

⁹ Scott, *Financial Accounting Theory* (5th ed.), (Toronto: Pearson Prentice Hall, 2015).

¹⁰ Wiyadi, Perspektif Positif Praktik Manajemen Laba: Kajian Empiris Pada Perusahaan Manufaktur Go Publik Di Bursa Efek Indonesia, (*Riset Akuntansi dan Keuangan Indonesia*, 2017).

¹¹ Mindak, Beating threshold targets with earnings management, (*Review of Accounting and Finance*, 2016), p198-221

¹² Meutia, Pengaruh Independensi Auditor Terhadap Manajemen Laba untuk KAP Big-5 dan Non Big-5". (*Jurnal Riset Akuntansi Indonesia*, 2015).

auditors' reports regarding a company's financial statements. It means that auditors have an important role in ratifying the financial statements of a company.

2.4.1. The Company Performs Earnings Management By Increasing Profits Before The Rating Period Of Islamic Bonds

Management's action to carry out earnings management is to increase profits, such as initial public offering and decrease/acquisition of corporate bond ratings into the non-investment grade category.¹³ Suppose a company gets a lower rating than these stipulations. In that case, it is an expensive sacrifice for the company because it has negative consequences, such as a decline in the company's reputation, a decline in stock prices on the stock exchange, and a decrease in creditor confidence. Therefore, management will anticipate it by performing earnings management in earnings management, which increases profits.

This downgrade of bonds will result in investors' negative perceptions regarding these bonds' credit quality. This has led the company's management to practice earnings management, hoping that the next period's bond rating will increase. The company will increase its profit before the rating or ranking by the rating agencies. The company aims to get a predicate as a company with good performance in investors and rating agencies' eyes. Thus, earnings management is carried out to provide information to rating agencies regarding its positive financial performance to provide the best rating¹⁴.

¹³ Adel, Analisis Pengaruh Penurunan/Perolehan Peringkat Obligasi Perusahaan ke dalam Kategori Non-Investment Grade Terhadap Praktik Manajemen Laba. (*Makalah Simposium Nasional Akuntansi VII Denpasar-Bali, 2004*). hal. 1102-1121

¹⁴ Dewi, Manajemen laba setelah penurunan peringkat obligasi perusahaan. (*E-Jurnal Akuntansi Universitas Udayana 12.2, 2015*): 280-294.

H_{a1}: It is expected that the company performed earnings management before the rating period for Islamic bonds in Indonesia.

2.4.2. The Effect of Earnings Management on the Rating of Islamic Bonds in Indonesia

Earnings management is the action of managers to increase (decrease) the company's current period profit managed to avoid losses and so on. An unstable but continually increasing profit can also be a reference for rating agencies in determining bond ratings. Profits getting bigger each year indicate an increase in company performance so that even though the company does not carry out a bond rating, it will still get a good rating. Thus, the higher the company's level of earnings management, the higher the bond rating in investors' eyes¹⁵. Earning management has an effect on bond ratings but not significant¹⁶.

H_{a2}: It is expected that earnings management has a negative effect on the rating of Islamic bonds in Indonesia.

2.4.3. The Effect of Auditor's Reputation on Sharia Bond Ratings in Indonesia

The auditor's reputation is a good name or image obtained for good work in his responsibilities as an auditor. Companies that the Big Four KAP audits can give positive signals because they can increase the credibility of the company's financial statements and provide better audit quality to attract investors who will later raise the company's bond rating¹⁷. Big Four KAP is tasked with

¹⁵ Andriyani, Pengaruh Manajemen Laba, Jaminan, dan Umur Obligasi terhadap Peringkat Obligasi. (*Seminar Nasional Cendekiawan*, 2016) P: 2460-8696

¹⁶ Wahyudi, Pengaruh Manajemen Laba Terhadap Peringkat Obligasi Pada Saat Emisi. (*Jurnal Maksipreuner*, 2014), Vol III. No. 2

¹⁷ Susanto, Faktor-faktor yang Mempengaruhi Peringkat Obligasi pada Perusahaan Non Keuangan Tahun 2011-2013. (*Universitas Negeri Semarang*, 2015).

overseeing companies' actions in performing aggressive earnings management and will provide non-misleading information to investors, one of which is its performance. The auditor's reputation with an outstanding reputation will provide reliable audit results; thus, the better the auditor's reputation will affect the bond rating. The auditor's reputation does not positively affect bond ratings because a high auditor reputation does not guarantee that a bond gets a high rating from a bond rating agency¹⁸.

H_{a3}: It is expected that the auditor's reputation positively affects the rating of Islamic bonds in Indonesia.

3. METHODOLOGY

3.1. Source of Data

The data used in this research is secondary, sourced from the company's audited annual financial statements from 2013 to 2017 published by the Indonesia Stock Exchange (IDX) (www.idx.co.id) and Islamic bond rating data obtained from the PT website. . Pefindo (www.pefindo.com).

3.2. Population and Sample

This research's population is corporate bonds listed on the Indonesia Stock Exchange (IDX) and listed in the Islamic bond rating issued by PEFINDO. The period used for observation is the data for the period from 2013 to 2017. The sample is part of the population.

The sample is selected from a population of non-financial companies whose bonds are registered at PT. Pefindo and traded on the Indonesia Stock Exchange (IDX). The sample selection in

¹⁸ Erdawati, Pengaruh Reputasi Auditor, Likuiditas, Profitabilitas, Leverage Terhadap Peringkat Obligasi Perusahaan Perbankan Yang Terdaftar Di BEI. (*Jurnal Fak. Ekonomi. UMRH, 2016*)

this study using the purposive sampling method. The criteria established to be used as a research sample:

1. Companies that issued Islamic bonds for 2013 - 2017 in Indonesia Stock Exchange.
2. Companies that have complete financial reports for the period 2013 - 2017. As well as companies with PEFINDO ratings.
3. Companies that have data by the research variables.

3.3. Definition of Variable Operational

3.3.1. Management of Profit

The Modified Johnes Model formula is as follows. The following formula determines discretionary accruals (DA) as a measure of earnings management:¹⁹

$$DA_{it} = \frac{TA_{it}}{A_{it-1}} - NDA_{it}$$

3.3.2. Reputasi Auditor

States that audit quality is not something that can be directly observed. Perceptions of audit quality are related to auditor reputation. In this case, the good reputation of the audit company is the most important picture²⁰. Investors will be more inclined towards accounting data produced by reputable auditors. The company will not replace the KAP if the KAP is already reputable. Auditor reputation measurement:

1. Measurements are made by giving a value of 1 if the bond rating is audited by the big four and audited by the non-big

¹⁹ Dechow, Detecting Earnings Manajement. (*The Accounting Review*, April, 1995)

²⁰ Meutia, Pengaruh Independensi Auditor Terhadap Manajemen Laba untuk KAP Big-5 dan Non Big-5". (*Jurnal Riset Akuntansi Indonesia*, 2015).

four, but the total asset value is enormous (> IDR 50,000,000,000).

2. Measurements are made by giving a value of 0 if the bond rating is audited by non the big 4 with a small total asset value (<IDR 50,000,000,000).

3.3.3. Rating of Islamic Bond

The dependent variable in this study is the Islamic bond rating. This variable is seen based on the ratings issued by PEFINDO, which are generally divided into two, namely investment grade (AAA, AA, A, BBB) and non-investment (BB, B, CCC, D), which are estimated to be influenced by earnings management and auditor reputation. The measurement scale is nominal.

Tabel 1. Score Rating Obligasi

Rating	Score	Rating	Score
AAA	4	BB	3
AA	4	B	3
A	4	CCC	2
BBB	3	D	1

3.4. Method of Data Analysis

The entire data collected is then analyzed to provide answers to the problems discussed in this study. This study uses the SPSS v.25.0 programs to process data. The research using quantitative/descriptive methods, namely statistics, describes or gives an overview of the object under study through sample

data or population—group description via mode, median, mean, and group variation via ranges and standard deviation²¹

3.4.1. Paired T-Test

Paired sample t-test is one of the testing methods used to assess treatment effectiveness, marked by differences in the average before and after treatment. In this study, the authors tested whether there was a comparison of the sample and non-sample earnings management by comparing discretionary accruals²². The basis for accepting or rejecting H_0 in this test is if $t > t$ table and probability (Asymp. Sig) < 0.05 , H_0 is rejected, and H_a is accepted.

3.4.2. Normality Test

The normality test in the regression model is used to test whether the residual value resulting from the regression usually is distributed or not. A good regression model has a residual value that is normally distributed. The One Kolmogorov Smirnov test. The decision-making criterion is if the Asymp. Sig. (2-tailed) ≥ 0.05 , data is normally distributed.

3.4.3. Regression

This model aims to predict the magnitude of the dependent variable using the independent variable's data whose size is known and used to test the effect of two or more independent variables on the dependent variable with an interval or ratio measurement scale in a linear equation. The formula is as follows:

$$RS = B_0 + B_1ML + B_2RA + e$$

3.4.4. Determination Coefficient Test (R2)

The coefficient of determination (R^2) measures the linear regression model's ability to explain the dependent variable's

²¹ Ghozali, *Aplikasi Analisis Multivariate dengan Program IBM SPSS 23*. (Semarang: BPFE Universitas Diponegoro, 2015)

²² Ghozali, *Aplikasi Analisis Multivariate dengan Program IBM SPSS 23*. (Semarang: BPFE Universitas Diponegoro, 2015)

variation. The coefficient of determination is between 0 (zero) and 1 (one). A small R-value indicates the independent variables' limitations in explaining the variation in the dependent variable. The value of R is getting closer to 1 (one), meaning that the independent variables are increasingly able to predict variations in the dependent variable.

3.4.5. Hypothesis (t-test)

The t-test is used to test how far the independent variables used in this study are used individually (partially) in explaining the dependent variable. H_a is accepted if t is greater than the t table or the probability is smaller than the significance level ($\text{Sig} < 0.05$).

4. RESULT AND DISCUSSION

4.1. Result

The total number of companies that issued Islamic bond ratings listed on the IDX from 2013 - 2017 is 26. Companies that do not issue Islamic bond ratings for 2013 - 2017 on the IDX are 13 companies. Companies that do not have complete financial statements for the period 2013 - 2017 are 1 company. Companies that are not rated by PT. PEFINDO is 1 company. Companies that do not have data according to the research variable (rupiah currency) are 1 company. So the companies taken as a sample are 10 companies, and the number of observations made during 2013 - 2017 is 50 samples.

4.1.1. Descriptive statistics

Tabel 2. Statistik Deskriptif

Variabel	N	Minimum	Maximum	Mean	Std. Deviation
Sukuk Rating	50	2	4	3,64	0,663
Management of Profit	50	-0,261	0,152	-0,029	0,101

Auditors' Reputation	50	0	1	0,36	0,485
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Based on the test results with a sample of 50. The sukuk rating (Y) minimum value is 2, while the maximum value is 4. The average value is 3.64, and the standard deviation is 0.663. These results indicate that the sukuk rating variable has a standard deviation value smaller than the average value, which indicates that the variable data indicates a fairly good result. This is because the standard deviation, which reflects the variable data's deviation, is relatively low because it is smaller than the mean value.

Meanwhile, earnings management (X1) shows the average value owned is -0.029 and a standard deviation of 0.101. These results indicate that the earnings management variable has a standard deviation value more significant than the average value, which indicates that the variable data indicates an unfavorable result. This is because the standard deviation, which reflects the variable data deviation, is relatively high. After all, it is greater than the mean value.

Meanwhile, the auditor's reputation (X2) shows the average value owned is 0.36, and the standard deviation is 0.485. These results indicate that the auditor's reputation variable has a standard deviation value more significant than the average value, which indicates that the variable data indicate poor results. This is because the standard deviation, which reflects the variable data deviation, is relatively high. After all, it is greater than the mean value.

4.1.2. Paired T-Test

Tabel 3. Uji Paired T-Test

Pair 1
MAN_1 - MAN_2

Paired	Mean		0,052
Differen	Std. Deviation		0,171
ces	Std. Error Mean		0,024
	95% Confidence Interval of the	Lower	0,004
	Difference	Upper	0,100
t			2,149
df			49
Sig. (2-tailed)			0,037

From table 3 above, it can be seen that the level of significance of earnings management is 0.037, which is smaller than $\alpha = 0.05$ ($0.037 < 0.05$). Therefore, H_a is accepted. That is, there is a comparison between the discretionary accruals of sharia bond companies and non-sample companies.

4.1.3. Normality Test

Tabel 4. Uji Normalitas Data

		Unstandardized Residual
N		50
Normal	Mean	0E-7
Parameters ^{a,b}	Std. Deviation	0,564
Most Extreme	Absolute	0,155
Differences	Positive	0,092
	Negative	-0,155
Kolmogorov-Smirnov Z		1,098
Asymp. Sig. (2-tailed)		0,179

The table above shows that the Asymp.Sig. (2 - tailed) on all dependent and independent variables of 0.179. From these results, it can be seen that the significant value with the one-sample Kolmogorov - Smirnov test is greater than 0.05, so it can be concluded that the data is usually distributed. The research can be continued using a parametric test tool.

4.1.4. Multiple Linear Regression Test

Based on the estimation of multiple linear regression with the SPSS 25.0 program, the results are as follows:

Tabel 5. Uji Regresi Linier Berganda

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	3,727	0,102	-	36,626	0,000
Manajemen Laba	-3,579	0,886	-0,550	-4,039	0,000
Reputasi Auditor	-0,530	0,186	-0,388	-2,846	0,007
R Square			Adjusted R Square		
0,246			0,277		

In this study, the multiple linear regression model used to analyze the effect of earnings management and auditor reputation on the sukuk rating is formulated with the following equation:

$$RS = 3,727 - 3,579 ML - 0,530 RA + e$$

Based on the results of the above equation, it can be seen that:

1. If the value of earnings management and auditor reputation is constant ($X_1, X_2 = 0$), the sukuk rating will increase by 3,727.
2. If earnings management (X_1) is increased by 1x with the auditor's reputation being constant ($X_2 = 0$), the sukuk rating will increase by - 3.579.
3. If the auditor's reputation value (X_2) is increased by 1x with ongoing earnings management ($X_1 = 0$), the sukuk rating will increase to - 0.530.

4.1.5. Determination Coefficient Test (R²)

The table shows that the R-value is 0.277, indicating that the relationship between the independent and dependent variables is not strong enough or tends to be weak. Meanwhile, the coefficient of determination test results showed that the Adjusted R-value was only 0.246. These results indicate that the independent variables can only explain the variation to the dependent variable by 24.6%. The low Adjusted R-value of the determination test results shows that the earnings management variable and the auditor's reputation affect 24.6% on the sukuk rating. Simultaneously, the remaining 75.4% is influenced by other factors outside the regression model or other variables.

4.1.6. Hypothesis (t-test)

The table shows that there is at count for each variable while the t table is 1.677. So it can be concluded that each variable is as follows:

Hypothesis 1 (Ha₁)

The table above shows that the level of significance of earnings management is 0.037, which is smaller than $\alpha = 0.05$ ($0.037 < 0.05$). Therefore, Ha is supported, namely that there is a comparison between Islamic bond companies' discretionary accruals and non-sample companies. This means that the company will carry out earnings management by increasing the profit before the rating agency's rating process.

Hypothesis 2 (Ha₂)

The earnings management variable (X₁) has the account of -4.036, which means that ($4.036 > 1.677$) and a significant level of $0.000 < 0.05$. Thus Ha is supported. The company will carry out earnings management before rating Islamic bonds. Moreover, earnings management has a negative effect on the rating of Islamic bonds (sukuk).

Hypothesis 3 (H_{a3})

The auditor's reputation variable (X₂) has an account of -2.846, which means that ($2.846 > 1.677$) and a significant level of $0.007 < 0.05$, thus H_a is not supported, which means that the auditor's reputation has a negative effect on the rating of Islamic bonds (sukuk).

4.2. Discussion

4.2.1. The Company Performs Earnings Management Before Rating of Sharia Bonds

The discretionary accruals (DA) calculation results show that most companies will carry out earnings management before rating Islamic bonds. By the theory of management agencies that carry out the earnings management process, they want the company's profits to look good to affect the bond rating to be in an investment-grade condition. This downgrade of bonds will result in investors' negative perceptions regarding the credit quality of these bonds²³.

This has led the company's management to practice earnings management, hoping that the next period's bond rating will increase. The company will increase its profit before the rating or ranking by the rating agencies, aiming to get a predicate as a company with good performance in investors and rating agencies' eyes. Thus earnings management is carried out to provide information to rating agencies regarding the company's positive financial performance to provide the best rating.

4.2.2. The Effect of Earnings Management on Islamic Bond Rating

²³ Dewi, Manajemen laba setelah penurunan peringkat obligasi perusahaan. (*E-Jurnal Akuntansi Universitas Udayana* 12.2, 2015): 280-294.

The multiple linear regression test results show an effect of earnings management on the Islamic bond rating with a negative sign. The hypothesis testing results find evidence that earnings management has a negative and significant effect on Islamic bond ratings and supported Ha. The results show that the greater the practice of earnings management, the lower the rating of Islamic bonds. The bond rating of a company can be influenced by earnings management by increasing the company's profit. The company's performance looks good in the eyes of investors, and investors ultimately entrust to provide debt to the company. An unstable but continuously increasing profit can also be a reference for rating agencies in determining bond ratings.

Profits getting bigger each year indicate an increase in company performance so that even though the company does not carry out a bond rating, it will get a good rating. Thus, the bigger the company performs earnings management, the investor is not interested in investing its capital. So the results of the study state that management has a negative but significant effect on bond ratings. This study's results are in line with research conducted, which states that Profit Management has a negative effect on Bond Ratings²⁴.

4.2.3. The Effect of Auditor's Reputation on Sharia Bond Rating

The multiple linear regression test results show that there is an effect of the auditor's reputation on the Islamic bond rating with a negative sign. This means that Ha is not supported. The test results show that this hypothesis is not supported because the auditor's reputation has a significant adverse effect on predicting

²⁴ Wahyudi, Pengaruh Manajemen Laba Terhadap Peringkat Obligasi Pada Saat Emisi. (*Jurnal Maksipreuner*, 2014), Vol III. No. 2

Islamic bond ratings. The company's financial reports audited by a reputable KAP (the big four) tend to be trusted because they are considered to have high credibility. Companies that a reputable KAP audit will have good audit quality to affect the sukuk rating. However, the reason that can be given in this study is that the increase in auditor reputation causes a decrease in the sukuk rating. This is since most companies are not audited by KAP non-big four. A company with a high auditor reputation may influence the rating agency, but a high reputation will affect the bond rating. It will not guarantee that the rating agency will rate the company very highly.

States that auditor reputation does not positively affect bond ratings because a high auditor reputation does not guarantee that a bond gets a high rating from a bond rating agency²⁵.

5. CONCLUSION AND RECOMMENDATION

5.1. Conclusion

This study aims to obtain empirical evidence, namely the factors that affect companies' sukuk ratings on the Indonesia Stock Exchange. The main variables used in this study consist of earnings management and auditor reputation. The data used are secondary data in financial reports listed on the Indonesia Stock Exchange (IDX) and rankings ranked by PEFINDO for 2013 to 2017. This research was conducted using descriptive statistics data and multiple linear regression with a 95% confidence level. Following are the conclusions of the results of hypothesis testing:

1. Earnings management has a negative effect on the rating of Islamic bonds in Indonesia.

²⁵ Erdawati, Pengaruh Reputasi Auditor, Likuiditas, Profitabilitas, Leverage Terhadap Peringkat Obligasi Perusahaan Perbankan Yang Terdaftar Di BEI. (*Jurnal Fak. Ekonomi. UMRH, 2016*)

2. Auditor reputation has a negative effect on the rating of Islamic bonds in Indonesia.

5.2. Recommendation

Based on the research results and conclusions, the suggestions put forward for further research are:

- 1) Extending the research period to see trends that occur in the long term will describe the actual conditions that occur.
- 2) Grouping companies into more specific types of the industry can be seen more clearly, which types of industry apply more factors that affect the sukuk rating.
- 3) It adds variables related to the company's external conditions, such as economic conditions, new information technology, and other factors that affect Islamic bonds' rating.

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