

ABSTRACT

This research examines the role of audit adjustment on earnings quality. The earnings quality will be measured by the earnings attributes such as earnings variability, earnings persistence, and earnings predictability. They are calculated for each company in pre-audit earnings and post-audit earnings. The population are banking companies listed in Indonesia Stock Exchange period 2004-2013. There are 21 samples that meet the criteria. Methods of data analysis is paired samples t-test.

The results show that there are more number of banks that the post-audit earnings are more smooth, persistent, and predictable than the pre-audit earnings. However, paired samples t-test shows no significant results for differences in earnings variability, earnings persistence, and earnings predictability. It means that the audit adjustments have no effect on the earnings quality in bank industry, so that there is no difference between the earnings quality before and after the audit. The percentage of audit adjustments in Indonesia banking industry, namely 47.14% downwards adjustment, 11.90% no adjustment, and 40.95% upwards adjustment. Downwards adjustment generally occurs on the banks of small amount of assets, while upwards adjustment occurred in banks with large asset holdings.

Keywords: Pre Audit Earnings, Post Audit Earnings, Audit Adjustments, Earnings Variability, Earnings Persistence, and Earnings Predictability