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THE EFFECT OF INVESTOR PROTECTION BASED ON GOVERNMENT QUALITY OF EARNINGS QUALITY: AN ANALYSIS IN INDONESIA AND SINGAPORE

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ABSTRACT

The purpose of this study was to examine the determinants of earnings quality. Also, It examined, first, the indirect relationship between investor protection based on governance quality and earnings quality mediated by audit quality. Second, the implementation of corporate governance as well as the moderating effect of IFRS adoption on the relationship between audit quality and earnings quality. This research was conducted in the context of comparative countries between Indonesia and Singapore. Data analysis in this study uses path analysis with the application of the Structural Equation Model - Partial Least Square (SEM-PLS). The result of the study showed that "investor protection based on governance quality" in Indonesia has a negative effect on audit quality and corporate governance implementation. Meanwhile, "investor protection based on governance quality" in Singapore has a positive effect on audit quality and corporate governance implementation. In Indonesia, the variable of investor protection based on government and audit quality has no effect on earnings quality, but it does in Singapore. Corporate governance implementation has a positive effect on earnings quality for both Indonesia and Singapore. Empirical evidence for Indonesian auditing the quality of variables is not able to mediate the effect of investor quality-based investor protection on earnings quality. This result contradicts with Singapore auditing that the quality of variable can mediate this effect. The variable of corporate governance implementation can mediate the effect between investor quality-based investor protection on earnings quality for both Indonesia and Singapore. This research concluded that the adoption of IFRS, both Indonesia, and Singapore, can moderate between audit quality and earnings quality.

KEYWORDS

Audit quality, earnings quality, implementation of corporate governance, IFRS, investor protection, Indonesia, Singapore.

Accounting standards provide flexibility for companies in choosing the method of accounting or estimating the recording of income. Flexibility will affect the quality of earnings generated by the company. Schipper et al., (2003) and Lestari (2013) said that the low earnings quality would disturb investors and other users of financial statements that cause misallocation of capital. It is called high-quality earnings when the reported earnings can be used to make the best decisions , describe the performance of the company, or predict the price and stock return (Dechow, 2010; Li, 2014; Machdar, 2017).

Factors that affect the quality of earnings can be grouped into external and internal factors. External factors relating to the company's financial reporting institutional environment such as the legal system and law enforcement. The institutional environment will affect the claims against the company's managers to present the financial statements of quality to provide better protection for investors. Applicable accounting standards in a country is also the external factors that affect the quality of earnings. It is not only the field of business and finance that increases but also cross-country trade transactions too, as well as the flow of investment capital to move around the world without any obstacles. These things lead to the emergence of the need for an international accounting standard single. International Accounting Standards Board (IASB) works out and adopts international financial reporting standards (International Financial Reporting Standards/IFRS) to harmonize the preparation of financial statements in each country. IFRS has been applied by several countries in the worldwith different adoption rates, and according to *International Accounting Standard Board* (IASB) in 2017, there have been around 149 countries worldwide applying IFRS and supporting the harmonization of standards.

Internal factors affecting the opportunities and incentives for management relates to corporate governance practices in the company and the auditor selected by the company to audit its financial statements. The effect of quality audit on the quality of earnings has been documented by several previous studies stating that companies audited by public accounting firms with high quality better return (Lawrence et al., 2011; Becker et al., 1998; and DeAngelo, 1981).

The effect of accounting standards, corporate governance practices, and quality audits of the quality of earnings was also affected by the protection for investors. Hope et al., 2006 and Hoque et al., 2012 proved that the obligation to adopt IFRS is usually powered enoughagainst the investor. These studies stated that the adoption of IFRS in a country is a signal of their commitment to providing better protection to investors. Then, Campa and Donnelly (2012) and Klapper and Love (2004) also proved that the legal environment in a country associated with the protection of investors would affect the implementation of corporate governance at the company. In addition, empirical evidence states that the the level of investor protection influences the quality of audits from public accounting firms with an international reputation in a country, for example, Francis and Wang (2008).

Therefore, it can be concluded that the proper legal protection for investors in a country would make the economic climate in the country develop well and of course, we need regulation and policies that make investors are not afraid to invest their money in existing companies or financial institutions. Governments have an essential role regarding the flow of investment through the formed policies due to the flow of investments is necessary for the growth of a country (Alfaro and Ozcan, 2007: Kok and Ersoy, 2009).

Research on audit quality in the ASEAN countries showed differences in audit quality caused by the difference in the legal environment, especially laws and regulations in these countries (Marchesi, 2000). This study showed that the differences in the legal environment lead to a lack of uniformity in the role of auditors that will ultimately lead to different audit quality in the ASEAN countries. This study also found that the quality of the audit was very compromised in some countries due to the lack of rules regarding auditor independence, including Indonesia. Indonesia is categorized as countries with low lawsuits against auditors due to accounting firms in Indonesia rarely experienced lawsuits from aggrieved parties on the company's financial reporting.

Teets (2002) stated that the prevailing standards greatly influenced the quality of accounting information relating to profit. Previous research suggests that the use of IFRS does not affect the quality of accounting numbers (Chiha et al., 2013 and Lin et al., 2012). Ismail et al.(2013) explained that the lower level of earnings management and the relevance of the higher value after the adoption of IFRS. Krismiaji et al. (2013) proved that the relevance and reliability of information increased the adoption of IFRS. However, Li et al., 2014 found the flexibility of financial reporting increased after adopting IFRS, providing more opportunities yo profit management companies to operate in emerging markets where the protection of investors and weak corporate governance.

In general, corporate governance mechanisms can reduce the incentive to manipulate earnings management so that the quality of earnings will be better and have more quality information for investors (Kolsi, 2017; Gaio and Raposo, 2014; Man, 2013). However, Siregar, 2005, and Purwanto found that corporate governance mechanisms did not affect earnings quality.

This study was conducted in the context of state comparisons between Indonesia and Singapore since they represent the diversity of institutional characteristics that vary the level of economic, accounting systems and different economic policies. Besides, it reflects the developing and developed countries in Southeast Asia; moreover these two countries are members of ASEAN. In 2015, ASEAN member countries entered the era of the free market, namely the *ASEAN Economic Community (AEC). The establishment of the AEC is an economic liberalization measure among its member states.* This condition can create a climate that supports Foreign Direct Investment (FDI), which can stimulate economic growth in ASEAN countries. Therefore, the AEC member states will implement policies of their respective governments with good quality to attract FDI.

LITERATURE REVIEW

Agency Theory

Agency theory arises because of the development of modern management science, which shifts the classical theory, namely the rule which separates the owner of the company (principal) with the managers of the company (the agent). When companies grow more prominent, especially shareholders increasingly dispersed, the more the agency costs incurred so the owners will be unable to exercise effective control of managers who manage the company. According to Jensen and Meckling (1976), the potential conflicts of interest can occur between related parties such as between shareholders and company managers (the agency costs of equity) or between shareholders and creditors (the agency costs of debt).

Theory of Corporate Governance

The term corporate governance firstly appeared in 1984 in the writings of Robert I. Tricker. The development of a mainstream concept of corporate governance basing on three philosophical foundations is the cornerstone of structural-functionalist organization, the historical foundation of the organization, and the modern corporation, as well as the psychological foundation of the interested parties in the organization. The third cornerstone of this physiological theory of corporate governance considers things such as (a) the necessity of clear rules; (b) the necessity of the separation between operational and control activities; and (c) the existence of a variety of interests and political mechanisms contained in the organization (Syakhroza, 2003).

The Concept of Government Quality

The quality of governance focuses on the processes, systems, practices, and procedures on how to run a government agency, the impelemntation of regulations, and the relationship among the rules. Government regarding the implementation of the power possessed by the government (Rothstein and Teorell 2003, Rothstein et al, 2010; OECD, 2005). In developing countries, the quality of governance supports the country's economic growth. It means that the quality of governance is the key to the economic success of a country.

Earnings Quality

Earnings quality, according to Schipper et al. (2003) and Suwardjono (2006), shows the closeness level of earnings reported by hicksian income, which is profit economic is the amount that can be consumed in one period by keeping the ability of the company at the beginning and end of the period remains the same. The quality of profit may be defined as the degree to which earnings can reflect the real economic impact of a transaction. Earnings quality can distinguish between 'superior' (more useful) information and and 'inferior' (less useful) information.

Framework

The conceptual model is based on a theoretical basis. The phenomenon and the theoretical framework in this study is as follows:

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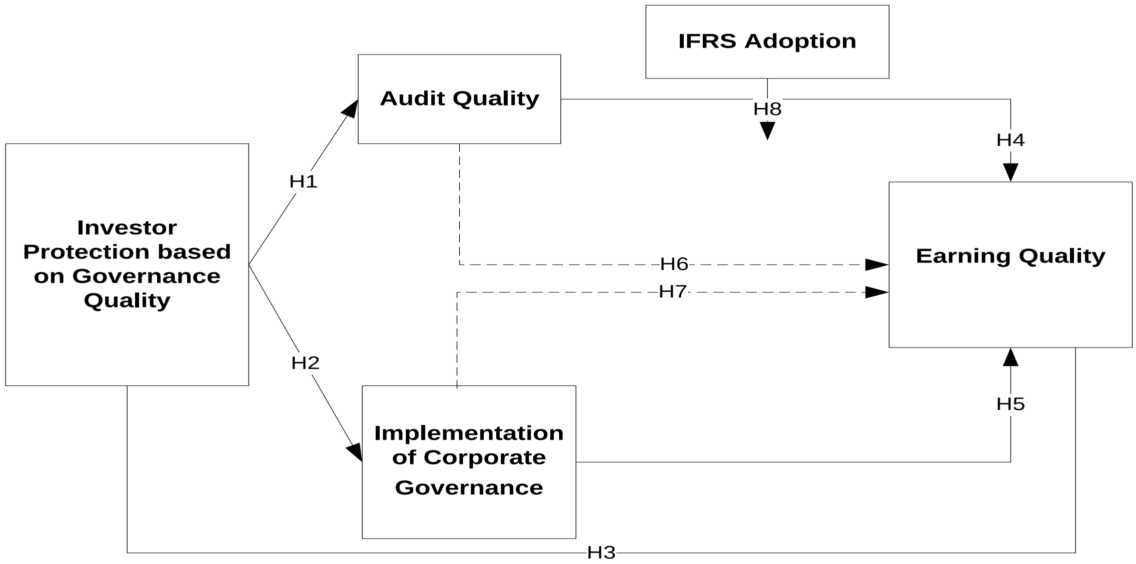

Figure 1 – Framework (Source: developed study)

Hypothesis

The effect of Investor Protection based on Governance Quality on Audit Quality

The role of the independent auditor is to verify by outsiders on the reasonableness of accounting figures. The litigation risk faced by auditors will significantly influence the quality of the audit process. The risk of litigation is strongly influenced by law enforcement in the country where the auditor operates. In countries with better investor protection, the auditor will be faced with a higher risk of litigation.The empirical evidence stated that the quality of the audited accounting firm of international repute was influenced by the level of investor protection (Francis and Wang, 2008; La Porta et al.1998). Auditors will be more cautious in carrying out its audit process. The better the legal environment in a country, the higher the demands to perform a quality audit process. While the low risk of litigation faced by auditors causes the drive to provide less significant-quality audit compared to countries that have a robust legal system in the protection of the investor

Therefore, the proposed hypothesis is as follows:

H1: Governance Quality-based Investor Protection affects to *Audit Quality.*

The effect of Government Quality-Based Investor Protection on the Implementation of Corporate Governance

Environmental laws and policies in a country that is getting better will lead to higher demands for applying the principles of corporate governance. Therefore, the legal system in a country will bolster the role of corporate governance. La Porta (2000) proving that the law and how the quality of law upheld by regulators and courts is a vital element of corporate governance and finance. Research conducted by Hasan, Nada Kobeissi, and Liang Song (2011) showed that the reform investor protection law has a long-term goal to promote reform at the state level, and short-term goals in parallel will improve corporate governance. Several other kinds literature have also found that regulatory factors play a role in the implementation of good corporate governance for their closer scrutiny.

So the hypothesis is as follows:

H2: The effect of Government Quality-Based Investor Protection on the Implementation of Corporate Governance.

The effect of Governance Quality-Based Investor Protection on Earnings Quality

Based on agency theory, managers tend to avoid the risk of litigation. Therefore, countries with reliable protection against investor and proper law enforcement system can reduce the incentive to commit fraud manager. Investors' need for protection against the allocation of resources is not optimal nor appropriate (Vries, 2012). Countries with weak

protection for minority shareholders provide an opportunity for management to commit fraudulent practices in accounting which, resulted in lowering the quality of earnings. Some studies suggest a significant effect will be investor protection to earnings quality, namely by Boonlert-U-Thai (2005) and Wardhani (2009). Meanwhile, research conducted by Hoque et al (2012) showed that the weak investor protection for minority shareholders provides an opportunity for management to commit fraudulent practices in accounting, resulting in decline in the quality of earnings.
Based on the explanation above, the hypothesis is as follows:
H3: The effect of Governance Quality-Based Investor Protection on Earnings Quality.

The Effect of Audit Quality on Earnings Quality

Based on agency theory which assumes that man is always self-interest, the presence of an independent third party as a mediator in the relationship and the principal agent is necessary, in this case is the independent auditor. The auditor's opinion is a source of information for parties outside the company as a guide for decision-making. It is just a qualified auditor who can ensure that the reports (information) are generated reliably. Skinner and Srinivasan (2012) stated that high external audit quality is an essential component of the capital market. This is because high-quality auditors can help improve the quality of financial reports and reduce the level of earnings management activities (Balsam et al. 2003; Krishnan 2003). Sun and Guoping (2013) argue that industry specialist auditors can limit earnings management not only through financial audit but also through interaction with the internal governance mechanisms. Auditors should ensure that the reported income is reasonable following accounting standards and reflect the real condition.
Therefore, the hypothesis is as follows:
H4: The effect of Earnings Quality on Audit Quality.

The effect of Corporate Governance Implementation on Earnings Quality

The primary purpose of corporate governance mechanism is to reconcile the differences of interest between investors and managers that act as incentives for opportunistic manager behavior. Income statement as information products of a company involves the manager of the company: management, the board of directors, and shareholders. Policies and decisions will determine the quality of earnings. Earnings quality is influenced by earnings management and mechanisms in the management of the company (corporate governance mechanism). Dechow et al., 2010 stating that corporate governance is an oversight mechanism which can be applied in controlling the company's management of opportunistic actions decreasing the quality of financial statements. Man (2013) showed that corporate governance could reduce or even eliminate the earnings management.
Therefore, the hypothesis is as follows:
H5: The Effect of Corporate Governance EImplementation on Earnings Quality.

The effect of Governance Quality-Based Investor Protecion on Earnings Quality mediated by Audit Quality

Investors need protection from things that can harm the investment, for example, not an optimal allocation of resources or acts of appropriation management (La Porta et al., 1999; Vries, 2012). Excellent protection for investors can prevent the management from manipulating earnings, which in turn can improve the quality of earnings. Auditors have a crucial role as gatekeeper to the capital markets in maintaining the quality of) public company's earnings by blocking various forms of opportunistic actions that could harm investor management. Previous studies documenting the effects of high audit quality are measured by a specific proxy (i.e., Big4, industry specialization, audit tenure, client importance. While Gerayli et al., 2011 stated that the auditor size is negatively related to earnings management as measured by discretionary accruals, suggesting that companies using the Big4 auditor earnings management will be lower with the companies audited by non-Big4 auditors. Thus the hypothesis proposed in this research are:

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H6: The Effect of Governance Quality-Based Investor Protection on Earnings Quality mediated by Audit Quality.

The Significant Effect of Governance Quality-Based Investor Protection on Earnings Quality mediated by Corporate Governance Implementation

Less qualified earnings can occur because in running the business of the company, management is not the owner of the company. Ownership separation could lead to conflict in the control and company management that caused the manager to act following the wishes of the owner. One mechanism is expected to be used to control the agency conflict by implementing good corporate governance (GCG). Some corporate governance mechanisms can be used to solve the agency problem by significantly increasing managerial ownership (Jansen and Meckling, 1976). Man (2013) proves that *corporate governance* can reduce or even eliminate the earnings management. Meanwhile, according to Lin and Hwang (2010), the structure of good corporate governance helps to ensure that management truly utilize company resources for the benefit of the owner and a reasonable report financial condition and operating performance of the company.

The proposed hypothesis is as follows:

H7: The Significant Effect of Governance Quality-Based Investor Protection on Earnings Quality mediated by Corporate Governance Implementation.

The Effect of FRS Moderation Adoption on the relationship between Audit Quality and Earnings Quality

Some empirical evidence suggests that the adoption of IFRS impact on the decreased level of earnings management performed by the manager and improve the quality of the information presented in the financial statements (Ward, 2009). Research conducted by Chen et al. (2010) also found that the rates of accrual earnings management discretional go down after IFRS adoption. Therefore, it is expected that IFRS can improve the quality of earnings in the financial statements. Indirect interaction adoption of IFRS and investor protection will affect the quality of the profit. Skinner and Srinivasan (2012) stated that high-quality external audit is an important component of the capital markets. This is because high-quality auditors can help improve the quality of the report. Another study found that the quality of financial reporting received improvements under the adoption of amendments to IFRS (Lin et al., 2012; Chiha et al., 2013; Kim et al., 2012).

Therefore, the proposed hypothesis is as follows:

H8: The adoption of IFRS will affect the relationship between Audit Quality and Earnings Quality.

METHODS OF RESEARCH

Research Design and Data Analysis

This study was categorized as the study of causality because this was conducted to test hypotheses about causal relationships between one or more variables with one or several other variables. Data analysis and data testing used the Structural Equation Model-Partial Least Square (PLS-SEM).

Population and Sample Research

The population used in the study are that companies listed on the Indonesia Stock Exchange and the Singapore Exchange in 2013-2017. The sample of this study were all companies listed in Indonesia Stock Exchange and the Singapore Exchange in 2013-2017. Also, it has the required data related to the measurement of the variables used for research during the period 2013-2017.

Variables Research

The independent variable in this study is the Investor Protection based on Governance Quality by using eight measures: legal origin, enforcement of securities laws, voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption.

Mediation variables are audit quality that uses auditor industry specialization and the level of corporate governance implementation in a company by using a corporate governance implementation mechanism with five variables according to the research of Black et al. (2006, 2013): Shareholder Rights, Board of Directors, Outside Directors, Audit Committee and Internal Auditor, and disclosure to investors. The moderating variable in this study is the adoption of IFRS based on mandatory disclosure items based on the Deloittle IFRS Presentation and Disclosure Checklist obtained from the website www.iasplus.com

The independent variable is earnings quality using seven measures: accruals quality, persistence, predictability, earnings smoothness, value relevance, timeliness, and conservatism.

RESULTS AND DISCUSSION

Data Analysis with Partial Least Square (PLS)

Fitness model developed could be seen through t the research model test

Evaluation Measurement Model (Outer Model)

Table 1 – Evaluation of the Outer Model

No	Information	Provision	Result	
			Indonesia	Singapore
		Convergent Validity		
1	validity indicator	Valid indicator has an outer declared loading> 0.70	• 4 valid indicators • 2 invalid indicators	All valid indicator
2	reliability Construct	Constructs are reliable if the value of composite reliability above 0.70 and Cronbach's alpha above 0.60	all constructs have composite value reliability above 0.70 and Cronbach's alpha above 0.60	
3	*Average Variance Extracted* (AVE)	The expected Average Variance Extracted (AVE) is more than 0.5	All variables gain more value from 0.5	
4	*Discriminant Validity*	Loading factor value is higher than the loading factor with other constructs	All values are higher than the loading factor with other constructs	

Source: Data processed, 2019

Evaluation of Structural Model (Inner Model)

The structural model (Inner Model) can be seen from the value of R-Square and Path Coefficient for each endogenous variable as the predictive power of the structural model.

a. The coefficient of determination (R^2)
The coefficient of determination for Indonesia and Singapore showed moderate with an R-square value above 0.33.
b. Path Coefficient
Indonesia's results bootstrap coefficient showed the influence of Investor Protection based on Governance Quality (IP) on the Audit Quality (AQ), IP on Corporate Governance (CG), CG on the Earnings Quality (EQ), IFRS on EQ , but there is no influence of IP on EQand AQ on EQ. Whereas for Singapore, the statistical t value is above the critical value or 1.96, showing a significant result (Ghozali, 2014).

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Hypothesis Test Results

a. Direct Impact of Hypothesis Testing

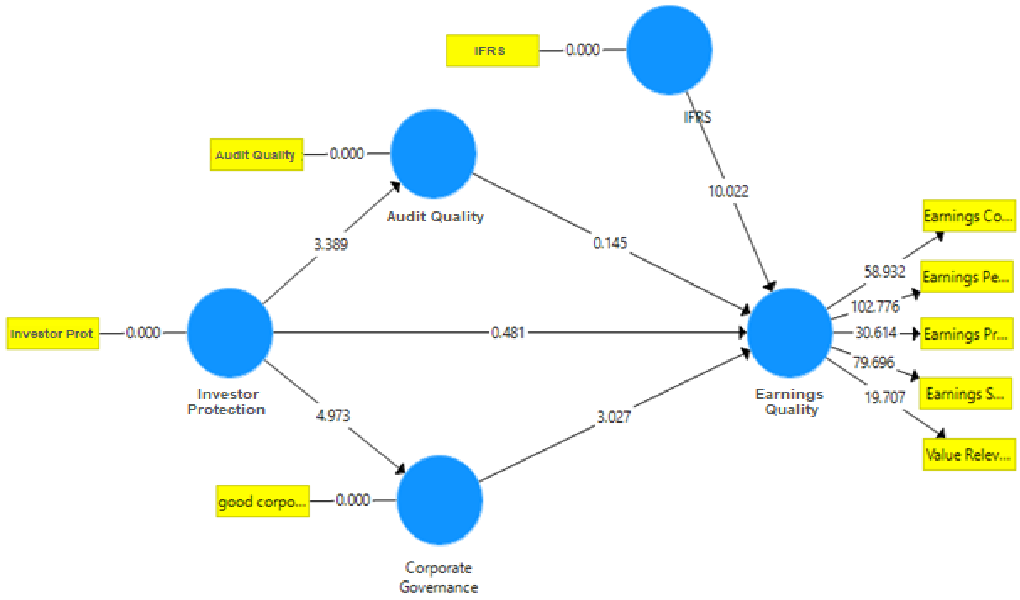

Figure 2 – PLS results of Indonesia' s algorithm bootstrapping
Source: Output Smart PLSVer 3.0

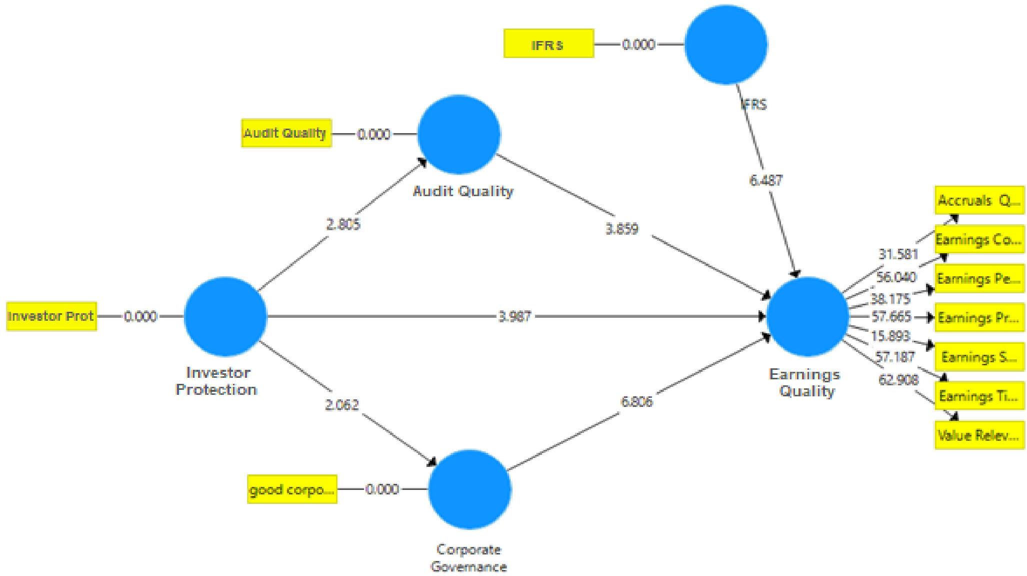

Figure 3 – PLS results of Singapore's Algorithm bootstrapping
Source: Output SmartPLS Ver 3.0

Table 2 – Summary results of the Direct Effect

Hypothesis	Construct	Indonesia t-statistic	Description	Singapore t-statistic	Information
H1	IP ->AQ	3389	Accepted	2.805	Accepted
H2	IP -> CG	4973	Accepted	2062	Accepted
H3	IP ->EQ	0481	Rejected	3.987	Accepted
H4	AQ ->EQ	0145	Rejected	3.859	Accepted
H5	CG ->EQ	3.027	Accepted	6.806	Accepted

Source: Data processed, 2019.

b. Hypothesis Testing of Indirect Influence

Table 3 – Summary results of the indirect effect

Hypothesis	Construct	Indonesia t-statistics	Description	Singapore t-statistics	Information
H6	IP->AQ ->EQ	0145	Unmediated	2,268	Mediated
H7	IP-> CG ->EQ	2.586	Mediated	1,973	Mediated

Source: Data processing by Sobel Test Calculator, 2019

c. Moderation Testing Variables Adoption of IFRS

Table 4 – Moderation Test Results Variable Adoption of IFRS

H8	path Coefficient	Indonesia t-Statistik	path Coefficient	Singapore t-Statistik	Description
AQ->EQ	0009	0145	0285	3,859	Moderate
IFRS->EQ	0344	10 022	0457	6487	Moderate

Source: Output SmartPLSVer 3.0, 2019

The effect of Investor Protection based on Governance Quality on *Audit Quality*

Statistical analysis showed hypothesis 1 is accepted for Indonesia and Singapore. Indonesia's IP coefficient value of -0.144 showed that the weak protection of investors in Indonesia tends to choose higher-quality auditors (auditors specialist) to provide confidence to investors about the security of their investments. These results support the study done by Tendeloo and Vanstraelen, 2005; Mihret, 2017. Meanwhile, Singapore has a an IP coefficient value of 0.139. State legal systems protect the investor as well encourage auditors to be more cautious in carrying out the audit process. Meanwhile, the lower the level of investor protection in a country, the more increases the urge management of opportunistic behavior (Hung, 2001; La Porta et al., 1997).

The effect of Investor Protection based on Government Quality on theImplementation of Corporate Governance

Statistical analysis showed that hypothesis 2 was for Indonesia and Singapore. Indonesia's IP variable coefficient of -0.287 showed that the company would implement a certain level of corporate governance following the internal condition. *Corporate governance was* more critical in countries with a weak legal system because the company can not rely on the law of the country and will conduct better corporate governance mechanisms as a replacement. On the other hands, Singapore has an IP coefficient value IP of 0.123. La Porta (2000) prove the law and how regulators regulators uphold the quality of the law. Some literature has found that regulatory factors play a role in the implementation of good corporate governance.

The effect of Investor Protection based on Governance Quality on Earnings Quality

Statistical analysis showed that hypothesis 3 is rejected for Indonesia and accepted for Singapore. These results indicate the sense that the legal protection for investors in Indonesia is still weak. The strength or weakness of the legal system and law enforcement related to the protection of investors will influence the behavior of managers to disclose informationso that it will affect the quality of the presentation of information. As for Singapore, the coefficient value of IP is 0.207. Leuz et al. (2003) provided empirical evidence that firms in countries with developed capital markets, spreading ownership structure, reliable investor protection, high disclosure, and vigorous law enforcement reduce earnings management. Countries with reliable protection against investors and a good law enforcement system can reduce the incentive to commit fraud managers that will affect the quality of information of the company's earnings.

The effect of Audit Quality to Earnings Quality

Statistical analysis showed hypothesis 4 was rejected for Indonesia and accepted for Singapore. The results of this study prove that specializes auditors not able to improve the quality of earnings. It is possible still the occurrence of earnings management practices because the company has a desire to look at excellent financial performance for investors, but it ignores the existence of specialized auditors. Singapore's coefficient value was 0.285. This means that the auditor industry specialization can detect errors and have a better experience than non-specialists of different industry auditors. Industry specialization auditors have a better understanding of the characteristics of the industry, adherence to auditing standards, risks and problems in the audited industry, and the ability to detect errors better than non-industrial specialties auditors. Therefore, industry specialization auditors can better reduce earnings management accrual rather than non-auditor industry specialization (Januarsi, 2009).

The effect of Implementation of Corporate Governance on Earnings Quality

Statistical analysis showed that hypothesis 5 was received both for Indonesia and Singapore. The coefficient value of Indonesia's corporate governance implementation is 0.163 and 0.550 for Singapore. It shows that the variable implementation of corporate governance has a positive influence on the quality of corporate earnings. This study proves that the implementation of corporate governance at the company level affectsle the quality of earnings. It was not only rational providing to the legal system and law enforcement, but also corporate governance at the company level providing incentives to management in the financial reporting process. They affect the quality of earnings is presented. Therefore, through the implementation of corporate governance, the company will become more transparent and better in the financial reporting process, so that the information in the profit value will have a higher quality. Man (2013) showed that corporate governance can reduce or even eliminate the earnings management.

The effect of Investor Protection based on Governance Quality on Earnings Quality mediated by Audit Quality

Statistical test results showed that Indonesia rejected hypothesis 6 because the quality of audit is not mediating variables (unmediated) while by Singapore accepted it because audit quality may mediate. Countries that have a legal environment that protects the investors will encourage auditors to be more cautious in carrying out the audit since the auditor will face the risk of litigation larger. For that matter, the quality of the audit will be better if the auditor runs the audit process in countries where protection for investors was terrible.

The effect of Investor Protection based on Governance Quality on Earnings Quality mediated by Implementation of Corporate Governance

Statistical test results showed that hypothesis 7 is acceptable for Indonesia and Singapore since the *corporate governance variable* can mediate. This study argued that the quality of corporate profits varies among countries because of differences in the effectiveness of the rule relating to the investors' protection. Klapper and Love (2004) proved that the legal environment in a country associated with the protection of investors would affect the implementation of corporate governance at the company level. When companies operate in countries that have an excellntegal system, corporate governance will be able to work well. Therefore, the implementation of corporate governance will affect the incentives of management in financial reporting the quality of the reporting ,and the quality of the company's profit for the better.

The Effect of IFRS Adoption Moderation on the relationship between Audit Quality and Earnings Quality

Statistical test results showed that hypothesis 8 is acceptable for Indonesia and Singapore. It was explained that the IFRS adoption could moderate variable (strengthening) the relationship between the quality of the audit to the quality of corporate profits. The applicable accounting standards largely determine the financial information reporting process. Applicable accounting standards in a country will determine the quality of financial information, mainly information generated by the company's earnings. Houqe et al. (2012) stated that the high-quality financial statements are affected by the quality of a good standard and the protection of investors of a country. IFRS is a standard financial reporting to increase the transparency of cross-border and improve the comparability of financial statements across companies (Dickins and Cooper, 2010). Siregar (2016) also showed the same results that the IFRS adoption will improve the quality of earnings reported by the company.

CONCLUSION

Following the test results, it can be drawn conclusions as follows: (1) Investor Protection based on Governance Quality has an influence on the Audit Quality and the Implementation of Corporate Governance for Indonesia and Singapore, (2) Investor Protection based on Governance Quality and the quality of the audit to Indonesia there has no effect on the quality of earnings, but it has an effect for Singapore, (3)Implementation *Corporate Governance* has an excellent effect on the quality of earnings for Indonesia and Singapore, (4) Indonesia's audit quality variables can not mediate investor protection based on governance quality of earnings, while Singapore’s audit quality may mediate these effects, (5) The implementation of corporate governance can mediate the influence of investor protection based on governance quality on the quality of earnings for Indonesia and Singapore, (6)IFRS adoption can moderate (strengthen) the relationship between audit quality and earnings quality for Indonesia and Singapore.

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