



# Audit Committee, Audit Quality, and Earnings Management: Moderate Role Investigation of Internal Auditor

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## Abstract:

**Purpose:** This study aims to investigate the effect of audit committee and audit quality on earnings management with internal audit as moderating variable.

**Research Methodology:** This study used a sample of 69 manufacturing corporations that were listed on the Indonesia Stock Exchange in 2018-2020. Purposive sampling was used in the sampling method in this study. This study uses ordinary least squares regression.

**Results:** According to this study, companies with audit committees and companies using BIG4 auditors are able to improve earnings management practices. The existence of internal audit and the interaction between internal audit and audit quality on earnings management can reduce earnings management. While the interaction between internal audit and the audit committee has no effect on earnings management.

**Limitations:** The secondary data used allows error in entering data, this study still uses a modified Jones model, and lack of references to support the result of this research.

**Contribution:** This research can be used as a reference material for the combined presence of audit committee, audit quality and internal auditors in earnings management.

**Keywords:** Audit Committee, Audit Quality, Internal Audit, Earnings Management

## I. Introduction

Financial statements become the basis for evaluating the company's performance. Good quality financial reports can help provide relevant information to decision makers and investors. Financial statement users are interested in the quality of profit, since this information influences decision-making, especially those related to contracts and investments (Johl et al., 2013). Therefore, independent evidence from the financial statements through the management of the company is needed. Managers have a responsibility to provide financial reporting information, but they have possible opportunities to misuse the information.

Earnings management occurs when managers use accounting policies to regulate company profits so that they can mislead financial statement users and cause financial statements to be non-transparent (Imoleayo et al., 2017) and (Kamran & Shah, 2014). The audit committee, internal audit and audit quality have a very important role in the presentation of financial statements. Audit serves to minimize irrelevant information and conflicts between managers and shareholders. Therefore, it is assumed that the internal audit process is a monitoring tool that will minimize the incentives of managers to manage earnings (Alzoubi, 2019).

In several companies' financial reporting scandals, decision makers and investors have criticized the audit committee and internal audit for misinterpreting audited financial statements, leading to accounting errors. (Alzoubi, 2019) proves that the audit committee and internal audit each have a negative and significant

effect on earnings management.(Alves, 2013)found that the audit committee has a positive and significant effect on earnings management.(Ghaleb et al., 2020)proves that internal audit has a negative and significant effect on earnings management.

In addition to the audit committee and internal audit, audit quality is also important in examining its impact on earnings management. Currently, the audit quality measure is divided into 2, namely companies audited by BIG4 and companies audited not by BIG4. In several previous studies it was found that the financial statements audited by BIG4 were involved in less earnings management because BIG4 was more transparent and had a good reputation in auditing.(Alzoubi, 2016)proves that audit quality has a negative and significant effect on earnings management.(Astami et al., 2017)also found that audit quality has a negative and significant effect on earnings management.

So the researcher aims to investigate the impact of the audit committee, audit quality and earnings management with internal audit as a moderating variable. The author replicates the research conducted by(Alzoubi, 2019)which examines the audit committee, internal audit function and earnings management in manufacturing companies on the Amman Stock Exchange for the period 2007-2010. The difference between the author's research and previous research is the object and the addition of an independent variable, namely audit quality. While the object in the author's research is a manufacturing company listed on the Indonesia Stock Exchange (IDX) in 2018-2020. Researchers conducted this study and selected a manufacturing company in Indonesia for the following reasons. First, it adds to and expands on Indonesia's limited corporate governance literature. Second, many financial statement scandals have occurred due to earnings management practices. Like the scandal involving Merck and Enron. And in Indonesia there are several earnings management practice scandals including by PT. Kimia Farma Tbk, PT, PT Kereta Api Indonesia, and in 2019 PT Garuda Indonesia. This is a factor in the weak supervision of earnings management.

## II. Literature Review and Hypotheses Development

### Agency Theory

Agency theory proposes a conflict of interest between all parties in a company. This shows that each side is trying to realize its interests (Othman, 2016). The difference in interests between the principal and the manager causes management to manipulate financial statements so that management's performance is considered good. Managers have more information which results in managers having more opportunities to carry out earnings management.

The manipulation of a company's reported results in a way that does not accurately reflect the company's financial position is known as earnings management (Arioglu, 2020). Indeed, some executives engage in earnings management in order to manipulate the company's financial results through accounting decisions and discretionary accruals (Alqatamin et al., 2017). This is because better income indicates an increase in the value of the entity, while reduced income indicates a decrease in the value of the entity(Rajeevan & Ajward, 2019). So it causes some to do earnings management to attract investors.

The audit committee, audit quality and internal audit seem to have a role in efforts to reduce earnings management practices. Some of the duties of the audit committee are supervising financial reports, supervising the external audit function, and supervising the internal control system as well as the internal audit function(Al-Thuneibat et al., 2016).This duty is expected to increase financial reports monitoring while also reducing earnings management activities.

Auditor quality is the center of external oversight, and it is one of the main determinants of earnings management (Astami et al., 2017).Audit quality is divided into 2, namely BIG4 and Non BIG4. It is believed that BIG4 is able to increase the credibility of financial statements. So that companies that use BIG4 are less involved in earnings management practices.

Internal audit is defined by the Institute of Internal Auditors (IIA) as an independent and objective consulting and assurance activity designed to enhance the operations and value of an corporation(Al-

Thuneibat et al., 2016). Internal audit can also assist external audit in increase the quality of financial reports. Internal audit also has the task of testing and evaluating the company's internal controls.

#### **Audit Committee on Earnings Management**

The audit committee is proxied by the existence of an audit committee that can decrease earnings management activities because the audit committee is an internal control company that has a function to provide supervision over financial reporting by management, if the financial reporting of a company is better, it can decrease the company's earnings management activities .

(Alzoubi, 2019) proves that the audit committee has a negative and significant effect on earnings management. Which means that the existence of an audit committee can reduce earnings management practices. (Zgarni et al., 2016) prove the effectiveness of the audit committee has a negative and significant effect on earnings management. (Alves, 2013) proves that the audit committee has a positive and significant effect on earnings management. However (Abdullah & Ismail, 2016) proves that the audit committee has no impact on earnings management. Some previous studies have shown that the audit committee may have an impact on earnings management. Thus, the first hypothesis proposed is as follows :

H<sub>1</sub>: The existence of an audit committee affects earnings management

#### **Audit Quality on Earnings Management**

Currently, the audit quality measure is usually categorized into 2 things, namely companies audited by BIG4 and companies audited not by BIG4. A negative association between audit quality and earnings management has been discovered in several research. This shows that the companies audited by BIG4 participate in less earnings management. (Houque et al., 2017) proves that corporations that use quality auditors do less earnings management. (Alzoubi, 2016) proves that audit quality has a negative and significant effect on earnings management. This is because BIG4 operates on a large scale. They have more technology, human resources, capital, and experience that enable them to provide quality audit results compared to non-BIG4 audit firms. (Zgarni et al., 2016), (Astami et al., 2017), and (Soliman & Ragab, 2014) found that audit quality has a negative and significant effect on earnings management. However (Yaşar, 2013) and (Yasser & Soliman, 2018) found that audit quality had no significant effect on earnings management. Some previous studies have shown that audit quality may have an influence on earnings management. Thus, the second hypothesis proposed is as follows:

H<sub>2</sub>: Audit quality affects earnings management.

#### **Internal Audit on Earnings Management**

Internal audit is proxied by the existence of an internal audit in a company that has the function to test and evaluate the company's activities so as to increase risk management efficiency and reduce earnings management practices. An effective internal audit function will increase value and organization's performance (Al-Hroot, 2013).

(Alzoubi, 2019), (Mansor et al., 2013), and (Ghaleb et al., 2020) proves that Internal audit has a negative and significant effect on earnings management. This means that internal audit can reduce earnings management practices. However (Al-Thuneibat et al., 2016) found that internal audit had no significant effect on earnings management. With the differences in findings from several previous studies. The third hypothesis proposed as follows:

H<sub>3</sub>: The existence of internal audit affects earnings management.

**Interaction of the Audit Committee and Internal Audit on Earnings Management**

The control mechanism of the audit committee and internal auditors is part of the company's inclusive corporate governance structure, so they cannot work alone within the corporate structure. As part of corporate governance, The audit committee is in charge of reviewing the company's financial information and facilitating internal auditors and financial accountants in their work. (Alzeban & Sawan, 2015). The audit committee also has the task of overseeing the internal audit performance. (Zaman & Sarens, 2013) found that the audit committee and the internal audit had informal meeting in addition to previously scheduled formal regular meetings..

(Alzoubi, 2019) proves that the meeting between the audit committee and internal auditors is significantly negatively related. This means that the meeting between the internal audit and the audit committee has an affect that can decrease earnings management practices. This is in accordance with the duties of audit committee and internal audit in supervising financial reporting. However, (García et al., 2012) found that the interaction of the audit committee and internal audit had no significant impact on earnings management. With evidence from previous research findings that the interaction of the audit committee and internal audit has an influence on lab management. Therefore, the proposed hypothesis is as follows:

H<sub>4</sub>: Internal audit moderates the effect of the audit committee on earnings management

**Interaction of Quality Audit and Internal Audit on Earnings Management**

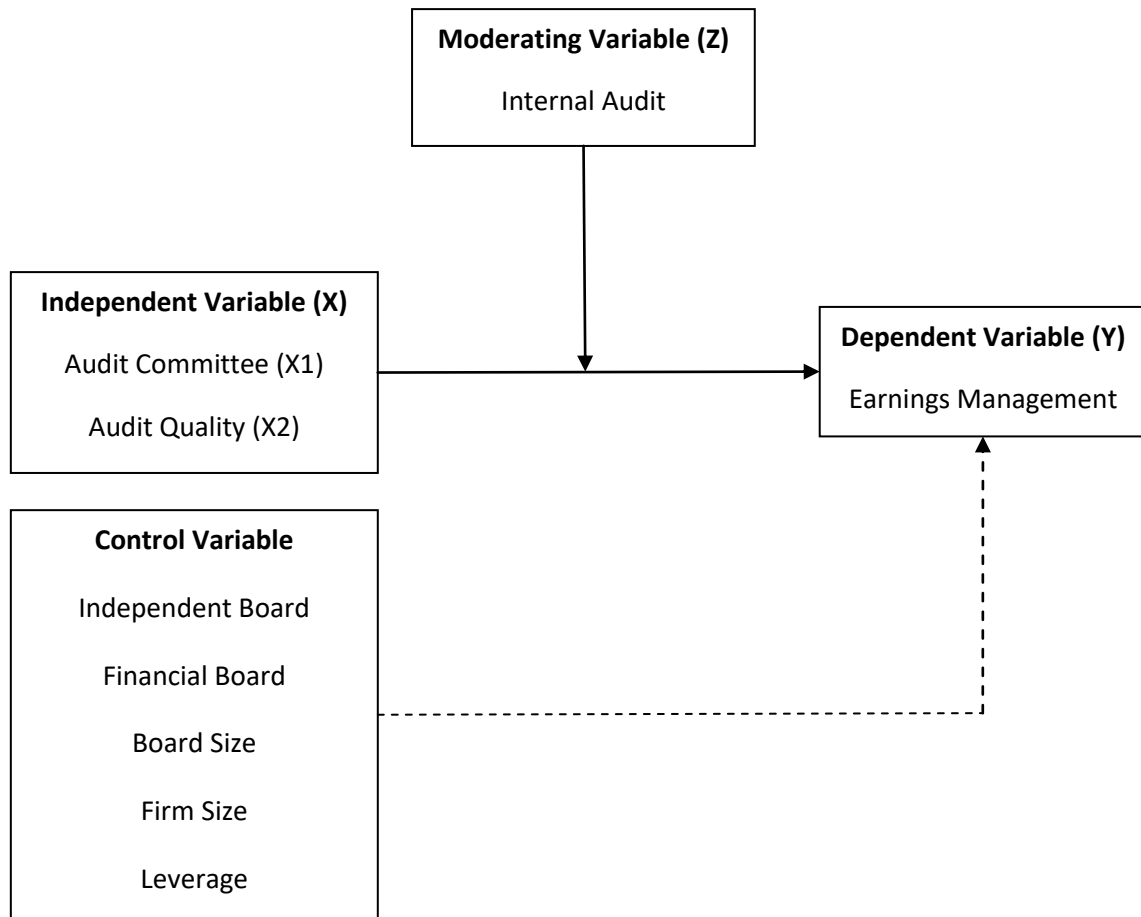
Internal audit is designed to enhance the value and performance of an independent entity. The audit of financial reports is related to the activities of obtaining and evaluating evidence about the entity's reports with the aim of providing quality audit results and minimizing fraudulent financial statements. Internal audit is often associated with the implementation of GCG, where one of the components of GCG is the company's internal control related to the quality of financial reports, so that the financial statements presented can be trusted.

(Madawaki et al., 2021) proves that there is a positive and significant relationship between the internal audit quality of the work performed, internal control activities, coordination between internal and external auditors and FRQ. This means that the presence of an internal auditor can improve the quality of financial reporting. (Zgarni et al., 2016), (Astami et al., 2017), and (Soliman & Ragab, 2014) proves that audit quality has a negative and significant effect on earnings management. However (Yaşar, 2013) and (Yasser & Soliman, 2018) found that audit quality had no significant effect on earnings management. Given the evidence from previous research, it is possible that the existence of internal audit can help audit quality to reduce earnings or in other words, internal audit is able to moderate the impact of audit quality on earnings management. So the hypothesis proposed is as follows:

H<sub>5</sub>: Internal audit moderates the impact of the audit quality on earnings management.

**Conceptual Framework**

The framework below is a conceptual framework of research that shows how the dependent variable and the independent variable are related with the internal audit variable as a moderating variable.



### III. Research Method

#### Data

The researcher uses manufacturing companies listed on the Indonesia Stock Exchange in 2018-2020 as the population in this study. The source of data in this research is [www.idx.co.id](http://www.idx.co.id) and related company websites.

The data was collected by purposive sampling method, namely the sampling method with certain criteria. The sample criteria determined for this study are as follows:

1. Companies are listed on the IDX consecutively in 2018-2020.
2. Manufacturing companies that publish financial reports for the period 2018-2020.
3. Manufacturing companies that issue financial statements in rupiah.
4. The company earns profit for the period 2018-2020.
5. Companies with missing data related to audit committee, internal audit, audit quality and earnings management will be omitted from the study sample.

So that obtained 69 corporations that fulfill the criteria with a research period of 3 years in other words obtained a sample of 207 samples used in this study.

#### Data Analysis

This study uses ordinary least squares regression analysis. The following regression equation is used to test the proposed hypothesis. Where DAC is the discretionary accrual (absolute value) assessed through the Jones modification.

$$DAC = \alpha + \beta_1 AC + \beta_2 BIG4 + \beta_3 IA + \beta_4 AC^* IA + \beta_5 BIG4^* IA + \beta_6 BRDIND + \beta_7 BRDFIN + \beta_8 BRDSIZE + \beta_9 FRMSIZE + \beta_{10} LEV + \varepsilon$$

### Variable Measurement

#### Dependent Variable

The dependent variable in this study is earnings management. Earnings management is measured by discretionary accruals which are calculated using the modified Jones model. To measure earnings management using discretionary accruals proxy with modified Joanes model cross-sectional version. This model divides accruals into discretionary accruals (DAC) and non-disrectionary accruals (NDAC). That if the DAC level is high, the company has the potential to participate in pearnings management practices.

The basis of this model is that the DAC rate for a particular firm is calculated as the difference between the firm's Total Accruals (TAC) and its NDAC, as calculated using the following equation:

$$NDAC_{it} = \alpha_0 (1/A_{it-1}) + \beta_1 (\Delta Rev_{it} / A_{it-1} - \Delta Rec_{it} / A_{it-1}) + \beta_2 (PPE_{it} / A_{it-1})$$

Calculating Total Accruals (TAC) using the following equation:

$$TAC_{it} / A_{it-1} = \alpha_0 (1/A_{it-1}) + \beta_1 (\Delta Rev_{it} / A_{it-1}) + \beta_2 (PPE_{it} / A_{it-1}) + e$$

Calculating discretionary accruals:

$$DAC_{it} = TAC_{it} - NDAC_{it}$$

#### Independent Variable

- Existence of audit committee (AC): dummy variable is 1 if the company has an audit committee, and 0 otherwise.
- Audit quality is expressed in a dummy variable based on the external auditor used by the company (BIG4): a value of 1 is given if the company uses BIG4, and a value of 0 if the company uses non BIG4.

#### Moderating Variable

Internal audit (IA) is a dummy variable that takes a value of 1 if there is an internal audit in place at the company, and 0 otherwise.

The monitoring mechanisms of the audit committee and internal auditors are part of the inclusive corporate governance structure, and therefore, it is not possible for them to work independently within the corporate structure. Likewise, internal audit functions to evaluate evidence about entity reports in order to provide quality audit results and minimize fraud on financial statements.

#### Control Variable

VariabelKontrol	Measurement
Independent Board (BRDIND)	Number of independent boards.
Financial Board (BRDFIN)	Number of commissioners with a financial or accounting background.
Board Size (BRDSIZE)	Total number of board members
Firm Size (FRMSIZE)	<i>Logaritma</i> (Total Assets)
Leverage (LEV)	Total Debt / Total Assets

#### IV. Results and Discussion

##### 1. Descriptive Statistics

Table I. Descriptive Statistics

Variable	N	Mean	Min.	Max.	SD
DAC	207	0.0102	-0.25	0.24	0.04182
AC	207	1.0000	1.00	1.00	0.00000
BIG4	207	0.2899	0.00	1.00	0.45479
IA	207	1.0000	1.00	1.00	0.00000
AC*IA	207	1.0000	1.00	1.00	0.00000
BIG4*IA	207	0.2899	0.00	1.00	0.45479
BRDIND	207	1.7633	0.00	5.00	1.00339
BRDFIN	207	1.9372	0.00	6.00	1.38680
BRDSIZE	207	4.2029	2.00	9.00	1.91250
FRMSIZE	207	28.3984	20.62	32.73	1.74730
LEV	207	0.3706	0.00	0.87	0.18744
Valid N (list wise)	207				

Table I is descriptive statistics for 207 observation data. Earnings Management (DAC) has the lowest score of -25 percent and the highest score of 24 percent. Earnings management has an average value of 1.02 percent with a standard deviation of 4.182 percent. This shows that the average manufacturing company on the Indonesia Stock Exchange in 2018-2020 has positive earnings management of 1.02 percent.

The variables of the audit committee (AC), audit quality (BIG4) and Internal Audit (IA) are dummy variables so that they are analyzed based on the amount of data and percentages. The AC variable has the lowest value of 1 and the highest value of 1 with 207 data. This shows that from 207 data on companies that have an audit committee, 100 percent. Then for the average value of the audit committee is 100 percent with a standard deviation of 0 percent.

The BIG4 variable has the lowest value of 0 with 147 data and the highest value of 1 with 60 data. This shows that of the 207 samples using Big4 auditors 28.99 percent and those using non-Big 4 auditors 71.01 percent. Then for the average value of audit quality (BIG4) is 28.99 percent with a standard deviation of 45,479 percent

The internal audit variable (IA) has the lowest value of 1 and the highest value of 1 with 207 data. This shows that of the 207 data that have an internal audit of 100 percent. Then for the average value of internal audit is 100 percent with a standard deviation of 0 percent. This finding found the interaction between the audit committee and internal audit in a sample of 100 percent of companies. And the interaction between audit quality and internal audit is 28.99 percent.

Furthermore, from 207 data, the average BRDIND is 1.7633 with at least not having an independent board and at most 5 independent board members. BRDFIN has an average score of 1.9372 with at least no members of the board of commissioners with a financial background and a maximum of 6 members with a financial background. BRDSIZE has an average score of 4.2029 with a minimum of 2 members of the board of commissioners of a company and a maximum of 9 members. FRMSIZE has an average value of 28.3984 with the lowest value of 20.62 and the highest value of 32.73. LEV has an average value of 0.3706 or 37.06 percent of the average company making debt payments.

## 2. Correlation Coefficient

Table II. Correlations Matrix

Variable	1	2	3	4	5	6	7	8	9	10	11
1. DAC	1.000										
2.AC	0.039	1.000									
3. BIG4	-0.086	-0.003	1.000								
4. IA	0.119	-0.021	-0.188	1.000							
5.AC*IA	0.114	0.395	-0.076	0.264	1.000						
6. BIG4*IA	-0.062	0.080	0.956	-0.073	0.078	1.000					
7. BRDIN	0.072	0.133	0.287	0.045	0.128	0.303	1.000				
8. BRDFIN	0.060	-0.006	0.315	0.034	0.118	0.311	0.457	1.000			
9. BRDSIZE	0.084	0.098	0.321	-0.012	0.087	0.304	0.814	0.675	1.000		
10.FRMSIZE	0.036	0.091	0.322	-0.024	-0.019	0.317	0.433	0.250	0.503	1.000	
11. LEV	0.092	-0.146	-0.033	-0.073	-0.064	-0.076	0.126	0.163	0.210	0.113	1.000

The correlation coefficient examines the degree of relationship between the studied variables. Table II shows the results of the Pearson correlation for the variables used in this study. Only audit quality (BIG4) and the interaction between audit quality and internal auditors (BIG4\*IA) have a negative effect on earnings management. While other variables have a positive effect on earnings management.

## 3. Multivariate Analysis

Table III. Parametric Test (OLS Regression)

DAC	Prediction	Coefficient	SE	t	P >  t	Concluded
AC	Significant	4.511	1.643	2.745	0.007***	H <sub>1</sub> accepted
BIG4	Significant	1.719	0.773	2.222	0.027**	H <sub>2</sub> accepted
IA	Significant	-6.190	1.474	-4.200	0.000***	H <sub>3</sub> accepted
AC*IA	Significant	0.573	2.080	0.275	0.783	H <sub>4</sub> rejected
BIG4*IA	Significant	-2.287	0.907	-2.522	0.012**	H <sub>5</sub> accepted
BRDIND		-0.236	0.504	-0.468	0.640	
BRDFIN		0.109	0.284	0.385	0.700	
BRDSIZE		0.104	0.329	0.317	0.751	
FRMSIZE		0.183	0.190	0.960	0.338	
LEV		2.143	1.526	1.404	0.162	
—cons		-3.637	5.905	-0.616	0.539	
No. of obs	207					
Adj. R <sup>2</sup>	0.534					
F(10,196)	4.200					
Prob. < 1%	0.000					

Note: \*, \*\*, \*\*\* indicate the statistical significance of the P value at the level  $\leq 0.10$ , 0.05, dan 0.01

Based on the table, the regression equation can be arranged as follows:

$$\text{DAC} = -3.637 + 4.511\text{AC} + 1.719\text{BIG4} - 6.190\text{IA} + 0.573\text{AC*IA} - 2.287\text{BIG4*IA} - 0.236\text{BRDIND} + 0.109\text{BRDFIN} + 0.104\text{BRDSIZE} + 0.183\text{FRMSIZE} + 2.143\text{LEV}$$

The researcher conducted a normality test on the variables to determine the type of statistical analysis that was suitable for use in this study. This study found a statistical result of a probability value of 0.062



$>0.05$ . So that the assumption of normality of this study is met. The multicollinearity test that was carried out resulted in a tolerance value of 1.0 and a VIF of 1.0, so the independent variables in the study met the absence of multicollinearity symptoms. And the heteroscedasticity test that was carried out resulted in the probability value of each variable 0.05, so there were no symptoms of heteroscedasticity in the residuals. Because the normality test, multicollinearity test, and heteroscedasticity test were met, the parametric test using the least squares method (OLS) was suitable for use in multivariate analysis in this study.

Table III presents the results of OLS regression for this research sample. This table shows that this research model has a value of Adj.  $R^2$  is 0.534. This means that this study is explained by 53.4% by the variables that exist in this model. While the rest is explained by other variables not included in the model. It is known that  $DF_1 = 10$  and  $DF_2 = 196$ , so the value of the F table is 1.879. Therefore, the calculated F is  $4,200 > F$  table 1,879, this proves that the independent variables simultaneously have a significant impact on profit management.

The test results on H1 show  $= 4.511$ ,  $t = 2.745$ ,  $< 0.01$ . These results indicate that the audit committee has a positive and significant effect on earnings management. So it can be concluded that H1 is accepted. This shows that the existence of an audit committee in a company tends to show greater earnings management practices. The first possibility is because the audit committee has less information than the manager. Second, the lack of knowledge of the audit committee about accounting information. Third, the company deliberately conducts earnings management to attract investors' attention. Some of these possibilities show that the existence of an audit committee is not necessarily effective in reducing earnings management. This finding is consistent with previous research by (Alves, 2013).

Testing on H2 resulted in  $= 1.719$ ,  $t = 2.222$ ,  $< 0.05$ . These results indicate that audit quality has a positive and significant effect on earnings management. So it can be concluded that H2 is accepted. This is consistent with the findings of previous research by (Zgarni et al., 2016), (Astami et al., 2017), and (Soliman & Ragab, 2014). However, in contrast to previous studies, we found that the effect of audit quality on earnings management tends to be positive. Therefore, companies with BIG4 are generally only intended to increase the credibility of financial statements so that they can be more trusted by investors but have not been able to limit the occurrence of earnings management by managers.

Testing on H3 shows  $= -6190$ ,  $t = -4.200$ ,  $< 0.01$ . These results indicate that internal audit has a negative and significant effect on earnings management. So it can be concluded that H3 is accepted. This finding is consistent with (Alzoubi, 2019), (Mansor et al., 2013), and (Ghaleb et al., 2020) which proves that Internal audit has a negative and significant effect on earnings management. This means that the existence of an internal audit in a company causes the internal control system to be better. The better the internal control system, the more difficult it will be for management to manage earnings.

Testing on H4 shows  $= 0.573$ ,  $t = 0.275$ ,  $> 0.1$ . These results indicate that internal audit has a positive and insignificant effect on earnings management. This means that internal audit has not been able to moderate the influence of the audit committee on earnings management. So it can be concluded that H4 is rejected. This finding is in line with (García et al., 2012) who found the interaction of the audit committee and internal audit had no significant effect on earnings management. Having a meeting between the audit committee and internal audit is not effective enough to prevent earnings management practices. However, this finding finds positive results, which means that audit committee meetings and internal audits tend to improve earnings management.

Testing on H5 shows  $= -2.287$ ,  $t = -2.522$ ,  $< 0.05$ . This shows that the interaction of internal audit and audit quality has a negative and significant effect on earnings management. Or in other words, internal audit is able to moderate the effect of audit quality on earnings management. So it can be concluded that H5 is

accepted. The audit quality proxied by BIG4 is believed to have a high quality of financial reporting compared to Non BIG4. Meanwhile, internal audit is often associated with the implementation of GCG, where one of the components of GCG is the company's internal control related to the quality of financial reports, so that the financial statements presented can be trusted. This finding is in line with (Madawaki et al., 2021) who found that there was a positive and significant relationship between the internal audit quality of the work performed, internal control activities, coordination between internal and external auditors and FRQ. So it can be concluded that the existence of an internal audit can help BIG4 in presenting high quality financial reporting so as to avoid deviations made by managers. Therefore, companies that have internal audit and use BIG4 together tend to reduce earnings management actions.

This study found that the control variables, namely independent board (BRDIND), financial expert board (BRDFIN), board size (BRDSIZE), firm size (FRMSIZE) and leverage (LEV) had no significant effect on earnings management.

## V. Conclusion

The goal of this research is to investigate the impact of audit committee and audit quality on earnings management, with internal audit as a moderating variable.. This study uses a sample of 69 manufacturing corporations listed on IDX in 2018-2020. Simultaneously, it can be concluded that the audit committee, audit quality and internal audit have a significant impact on earnings management in manufacturing corporations on the IDX in 2018-2020.

The results of this study indicate that companies with audit committees can improve earnings management practices. Companies that use BIG4 are not effective in reducing earnings management. Companies with BIG4 tend to improve earnings management because companies with BIG4 in general only want to increase the credibility of financial statements so that investors can be more trusted. Companies that have an internal audit can reduce earnings management actions. This study also found that independent boards, financial expert boards, board size, firm size and leverage did not have a significant effect on earnings management.

This research has some limitations. First, this study uses secondary data which may contain inaccuracies in data entry in the form of numbers.. Second, this study uses the modified Jones model which is still often used in calculating earnings management. Meanwhile, there are other models that are rarely used to calculate earnings management. Third, the limitations of references to be used to support the results of this study.

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