International Journal of
Economics Development Research, Volume 4(3), 2023
pp. 1729-1744

The Effect of Audit Committee, Audit Quality and Financial Distress on Earnings Management

Nurmawati Mambuhu [1], Ridwansyah [2], Tri Widyastuti Ningsih [3], Irwan Moridu [4], Hermiyetti [5]

Abstract:

Many companies are starting to dare to go public so that the need for accounting services is also increasing. Accountant services are used to audit the company's financial statements, which later the quality of the audit results can have an impact on the actions the company will take in continuing its business. One condition that is not desired by all companies is financial distress, which is a condition where the company is on the verge of bankruptcy. This study aims to analyze and examine the factor influence of audit committee, audit quality and financial distress on earnings management. The method of research is using the quantitative and regression analysis. The sample is manufacturing companies that consistently publish financial reports for the 2017-2021 period listed on the Indonesia Stock Exchange with a total sample of 12 companies. The sampling technique used a purposive sampling. The data was analyzed with EViews 10 and was carried out by several tests such as classic assumption test, feasibility analysis, panel regression analysis and coefficient of determination test. The results of this study indicate that the audit committee and audit quality have no significant effect on earnings management. Meanwhile, financial distress has a significant effect on earnings management in manufacturing companies for the period 2017-2021. There is also a result which shows that the audit committee, audit quality and financial distress simultaneously influence earnings management. This research provides a practical contribution in minimizing earnings management actions and conceptual contributions to the development of literature on earnings management at a later date.

Keywords: *Audit Committee, Audit Quality, Financial Distress, Manufacturing Companies, Earnings Management*

1. Introduction

The fundamental principle that every organization must adhere to is related to business continuity. A healthy financial condition is a strategic step to maintain the company's

[1] *Accounting Study Program, Universitas Muhammadiyah Luwuk, Indonesia. nunumambuhu@gmail.com*
[2] *Sharia Banking Study Program, Universitas Islam Negeri Lampung, Indonesia. ridwansyahxanda@yahoo.co.id*
[3] *Universitas Islam Negeri Walisongo Semarang, Indonesia triwidyastuti010@gmail.com*
[4] *Management Study Program, Universitas Muhammadiyah Luwuk, Indonesia. irwan@unismuhluwuk.ac.id*
[5] *Accounting Study Program, Universitas Bakrie, Indonesia. hermiyetti99@gmail.com*

business survival. The financial condition and performance of the company will be seen in the annual financial report and will be declared successful when it is in optimal condition. (Arista & Serly, 2023). The preparation of financial statements will bring various benefits, including guiding investment decisions. The desire of investors to invest can increase when they see good prospects from a company *going public*. The value of the company is crucial because it shows the quality of the company itself (Gunanti & Mahyuni, 2023). (Gunanti & Mahyuni, 2022).. The high existence and credibility of the company will be able to increase the value of a company. When the company has a high value, investor confidence can increase, because the company's performance and prospects will definitely be good. Investors will certainly be interested in reputable and quality companies as a place to invest capital. Surely the company's value will be good if the profit generated is high every year. (Ratmojoyo et al., 2021)..

In managing a company, it is required that financial difficulties can always be avoided. *Early warning* signs must be considered before actual financial difficulties occur so that the company can avoid them. (Lubis & Sipahutar, 2022). Financial difficulties that occur do not always indicate bankruptcy, but if the company experiences it continuously and for a long time, bankruptcy may be experienced by the company. Through financial reports, it is predicted that the company's health in financial terms is important to prevent bankruptcy or bankruptcy. (Lailatul & Yanthi, 2021).

Several special notations have been pinned by the Indonesia Stock Exchange (IDX) for a number of listed companies. Such as the M and E notations that are most widely pinned on various issuers. The E notation will reflect the negative conditions in the issuer's latest financial statements. Meanwhile, the postponement of debt payment obligations (PKPU) experienced by the issuer will be reflected in the notation M. It is stated in Circular Letter No.SE-00017 / BEI / 07-2021 regarding the Addition of Special Notation Information Display to the Listed Company Code is not a punishment, but as a way to inform the company's status about its condition to all parties. So that investors can find out the state of the company when analyzing investment opportunities.

Audit quality, audit committee and financial difficulties are factors that cause companies to carry out earnings management. Through the audit committee, the company will be monitored for better management through the analysis of financial statements to prevent various risks. Performance parameters can use various characteristics of the audit committee (Albersmann & Hohenfels, 2017).. It is hoped that with the presence of an audit committee the company can be more open and responsible for financial reports because its activities are always monitored. The audit committee also plays a role so that the company can produce quality and reliable financial reports. Because it guarantees credibility in the preparation of financial reports and the implementation of supervision to achieve *good corporate governance*. The effectiveness of the function of the audit committee causes better company control, so that conflicts in internal management can be minimized. (Santosa et al., 2022).

On the other hand, corporate earnings management is also influenced by aspects of audit quality. Through audit quality, there will be a possibility that the auditor will find a violation in the accounting system and then report it. Quality audit results will be obtained through professional auditors, so that they can find out the errors in the financial statements prepared. (Hadi & Tifani, 2020). If the auditor finds many irregularities in the financial statements, the auditor will be considered to have good quality. This is because auditors have the ability and understanding in preparing financial reports so that they are said to be able to maximize financial reports with improvements from auditors to management. (Ulina et al., 2018). There is also the professionalism of auditors in certain industries, so that they are able to understand more deeply about problems and risks, so fraud and errors in financial statements can be minimized. (Muthmainnah, 2020).

Apart from the aspects of the audit committee and audit quality, *financial distress* also determines the company's earnings management. *Financial distress* is a situation where a company has financial problems. The statement that the company is in financial distress is when the company no longer has the ability to pay off its obligations to creditors when payment is due. (Alafiah et al., 2022). This condition indicates that there is earnings management carried out when financial difficulties occur. Based on the opinion of (Irfani, 2020)Based on the opinion of (Irfani, 2020), that in the business industry there are conditions such as financial difficulties due to intense competition with competitors as a cause of company bankruptcy and unable to carry out its operations again. Weakened finances also cause managers to carry out earnings management because the company's shareholders must be given the benefits of the best performance and maximum profit from the company and that is the responsibility of management. (Supriyadi et al., 2019).. Financial instability is a driver of earnings management, including *income increasing, income decreasing*, income *smoothing* and other actions to be able to present attractive earnings in the financial statements. The trigger for *financial distress* can be caused by several conditions and factors from outside or inside the company. (Dwikusumowati & Rahardjo, 2013).

Manipulation of financial statements will result in unreliable information and low integrity. Companies become more aware of financial problems due to uncertain conditions so that managers will be more conservative, causing the integrity of the resulting financial statements. Integrated reporting has also attracted a lot of attention from academics, investors and researchers contributing to the development of literature. The purpose of this study is to analyze the effect of audit committee, audit quality and *financial distress* on earnings management in companies listed on the Jakarta Islamic Index (JII) for the period 2017-202.

2. Theoretical Background

Audit Committee

Based on Law Number 55 /POJK.04 of 2015 in Article 1 concerning the Establishment and Implementation Guidelines for the Audit Committee, it states that the audit committee is a select number of members of the board of directors of a company whose responsibility is to support the work of the management auditors. The number of audit committees is at least three people as well as a total of seven directors from outside company management. The audit committee's expertise is needed when dealing with external auditors because its role is to mediate between external auditors and management. (Indriasih, 2020). Based on OJK Regulation Number 55 of 2015, the audit committee must have at least 1 (one) member with professional accounting and financial expertise. It is also required that audit committee members properly understand financial statements, especially those related to the activities of public companies (issuers), risk management, and the audit process as well as applicable laws and regulations. The audit committee plays a crucial role for the sustainability of the company. (Haalisa & Inayati, 2021).

The existence of this audit committee is a form of representation of the enforcement of good corporate governance procedures. The audit committee in carrying out its duties and functions cannot be separated from meeting activities as a means of completing its responsibilities. It is through this meeting activity that the audit committee can meet with management and external auditors in the context of reviewing financial reports, audit processes and internal controls. (Haalisa & Challen, 2020). It is imperative for the audit committee to be independent in carrying out its duties, so that it is free from the intervention of various parties. The existence of an audit committee is also important as an effort to provide transparency and fairness for all stakeholders and ensure that management has disclosed all information amid their conflicts of interest. (Lidiawati & Asyik, 2016).

Audit Quality

Audit quality is the competence of auditors to be able to find and report opportunities for irregularities in a company's financial statements. The quality of the audit can be seen from their ability to account for various accounting information for stakeholders. (Christiani & Nugrahanti, 2014). Audit quality is not only based on the findings obtained, but also efforts to act on these findings based on reliable evidence to get the truth. The meaning of audit quality is the auditor's ability to find to make reports on errors and irregularities in the accounting system of a company. (Hapsoro & Annisa, 2017).

A high-quality audit is expected to be able to make investors increasingly confident in the financial statements that the company publishes. Because it is believed that auditors are able to detect various irregularities so as to minimize the enactment of earnings management and make financial reports more efficient. Financial statement audits determine whether disclosures are made according to previously established practices based on general accounting provisions. The activity of manipulating data on earnings management is carried out by reducing or increasing the amount of profit which can cause invalid decision making because the information is inaccurate. (Sanjaya, 2017).

Financial Distress
Financial distress is said to be a condition when there is financial difficulty in the company. Based on the opinion (Rahmat, 2020) financial distress is a situation where the income received by the company is unable to cover obligations to debtholders. Before bankruptcy occurs, it will be characterized by financial distress. Because bankruptcy will not happen suddenly, but there is a long process accompanied by danger signs. (Arifin, 2018). Financial distress is also defined as a state of decline in company finances that causes its obligations to be unable to be fulfilled, especially short-term debt. If this condition is not resolved quickly, it will cause the business to go bankrupt. So that assistance and unity from various parties both inside and outside the company are needed. (Wulandari et al., 2018).

Financial ratios are not the only determinant of financial distress. However, fraud or irregularities from various parties in the company are also the cause. So that companies need proper corporate governance. Accurate implementation of corporate governance can prevent conflicts of interest within the company. However, generally financial distress can occur because the debt continues to accumulate, due to the interest that companies bear increasing but their income decreases. When this financial problem occurs, management will try aggressively to maximize the return given to its investors. (Solikhah, 2018).

Earnings Management
According to the opinion of (Scott, 2015)(Scott, 2015), earnings management is an option that management can take in order to be able to meet predetermined profit targets, thereby influencing the decisions of stakeholders. Earnings management occurs because there is management judgment in the preparation of financial statements by manipulating the amount of profit, so that it can affect the final decision of shareholders and debtholders who depend on reported financial information. The importance of the value of earnings, it is not surprising that company management has full attention to how earnings are reported. This is what encourages managers to want to understand the effects of accounting choices so that they can make the best decisions for the company. (Saraswati et al., 2018). If viewed from the point of view of efficiency, it is said that managers provide information about cash flow and minimize agency costs because between managers and stakeholders there is a conflict of interest.

Two methods of earnings management are indicated, including real and accrual management. On the real earnings management side, earnings engineering is carried out which is recorded in the financial statements with the aim of providing information about profits so that investors get the wrong investment analysis results, and management does this for personal gain. Meanwhile, accrual earnings management is carried out when the amount of profit is not achieved in accordance with the target, which illustrates poor performance on the manager so that there is the potential for dismissal or compensation for this condition.

The Effect of the Audit Committee on Earnings Management in Companies listed on the Jakarta Islamic Index (JII)

The role of the audit committee is to monitor external audits, financial reports, and internal controls in order to prevent earnings management and opportunistic behavior in the company (Aprilliani, 2017). Through the presence of the audit committee, transparency and fairness can be achieved for all parties, causing all information to be disclosed amidst conflicts of interest on the part of management. The potential for earnings management will be lower when the company has a large number of audit committee members. It is required that the audit committee understand basic accounting problems along with providing solutions to these problems aimed at the Board of Commissioners (Harahap 2017). The high number of Audit Committees will have the opportunity to produce more professional performance. Based on research results (Damayanti & Krisnando, 2021; Santosa et al., 2022) shows that the audit committee has a significant negative effect on earnings management.

H1 : The audit committee has a significant negative effect on earnings management in companies listed on the Jakarta Islamic Index (JII).

The Effect of Audit Quality on Earnings Management in Companies listed on the Jakarta Islamic Index (JII)

The length of experience gained by the auditor can affect the auditor's proficiency to report acts of manipulation of financial data carried out in management practices. Earnings management efforts can be prevented when auditors have high quality, because they are able to analyze so that they are aware of any deviations or errors that occur. Auditors with good quality are able to convey their views to management so that earnings management is avoided, and provide advice on the strategic use of income, because the more qualified the audit, the smaller the earnings management action will be. Auditors and management who have been working together for a long time will increase the risk of shaky independence from the audit committee and tend to support management's interests. (Wulandari et al., 2021).. So the audit committee will decrease its independence when working if the collaboration is carried out for a long time. Familiarity between management and the audit committee can lead to auditors hiding manipulations by management of the financial statements, causing low integrity of the audit results. In line with the research results (Arista et al., 12018; Fatimah, 2020) states that audit quality has a significant negative effect on earnings management.

H2 : Audit quality has a significant negative effect on earnings management in companies listed on the Jakarta Islamic Index (JII)

The Effect of *Financial Distress* on Earnings Management in Companies listed on the Jakarta Islamic Index (JII)

A high level of *financial distress* leads to breach of contract by the company. This indicates weak financial performance and the inability of management to run the company's operational activities properly. Companies experiencing financial distress face serious agency problems between management and stakeholders due to information asymmetry. Management of companies experiencing *financial distress* is more likely to disclose optimistic information going forward to reduce the potential for negative responses from *stakeholders*. Management tries to make various efforts in order to hide the facts about the condition of financial difficulties facing the company. By utilizing the weakness of accounting principles, management will report earnings more aggressively (Habib et al., 2013). Company management that is under pressure due to *financial distress* will act opportunistically to practice earnings management. This is in line with the results of research (Chairunnisa et al., 2021; Li et al., 2020) which states that *financial distress has a* positive and significant effect on corporate earnings management practices. The more unhealthy a company is, the more likely management is to use accrual earnings management practices in managing profits.

H3: Financial Distress has a positive and significant effect on earnings management in companies listed on the Jakarta Islamic Index (JII)

3. Methodology

This research uses quantitative methods with regression analysis to explore the correlation between variables This study applies a quantitative descriptive approach where the data source is secondary data, namely in the form of financial reports on companies included in the Jakarta Islamic Index (JII) list whose consistent financial reports are published on for the period 2017-2021. This research also uses a literature study approach, namely by observing, reviewing and quoting directly from journal articles and books that are relevant to the research will be used as a theoretical basis. The total sample in this research is 12 companies listed on the Jakarta Islamic Index (JII) by applying *purposive sampling* method.

There are 2 variables in this study, namely the independent variable and the dependent variable.

a) *Independent* Variable
   The *independent* variables in this research are the Audit Committee (X_1), Audit Quality (X_2) and *Financial Distress* (X_3).
b) *Dependent* Variable
   The dependent variable is Earnings Management (Y).

After all data is obtained, it is then analyzed using EViews 10 using the classical assumption test, model feasibility analysis, panel regression analysis and coefficient of determination test

4. Empirical Findings/Result

Descriptive Statistical Analysis
In this study, descriptive statistics show the maximum and minimum values, *mean* and standard deviation.

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Earnings Management	60	29.00000	91.00000	62.55000	16.66258
Audit Committee	60	3.000000	6.000000	3.316667	0.624138
Audit Quality	60	0.000000	1.000000	0.421714	0.193709
Financial Distress	60	0.710000	12.57000	5.099167	3.450545
Valid N (listwise)	60				

Source: EViews 10 Data Processing (2023)

Referring to table 1, earnings management in companies listed on the Jakarta Islamic Index (JII) has a standard deviation of 16.6% with a *mean* value of 62.5%, so the average value is greater than the standard deviation, so it is concluded that the results are quite good. The minimum value of earnings management is 29%, which means that the level of deviation in the company is moderate. The Audit Committee (KA) with a standard deviation of 0.62% and an average of 3.31%, so that the average value is greater than the standard deviation, it can be interpreted that the results are quite good. This means that manufacturing companies in this research have at least 3 audit committee members and a maximum of 6 people. Audit quality has a standard deviation of 0.19% and an average of 0.42% so that the average value is greater than the standard deviation, which means that the results are good enough to have a low level of deviation. *Financial distress* has a standard deviation of 3.45% and an average value of 5.09%, so this shows that financial *distress* in companies listed on the Jakarta Islamic Index (JII) in this research is low.

Normality Test
If the acquisition of α < probability, the data is said to be well distributed (normal). Conversely, when α> probability indicates that the data is not normally distributed. With an α score of 0.05.

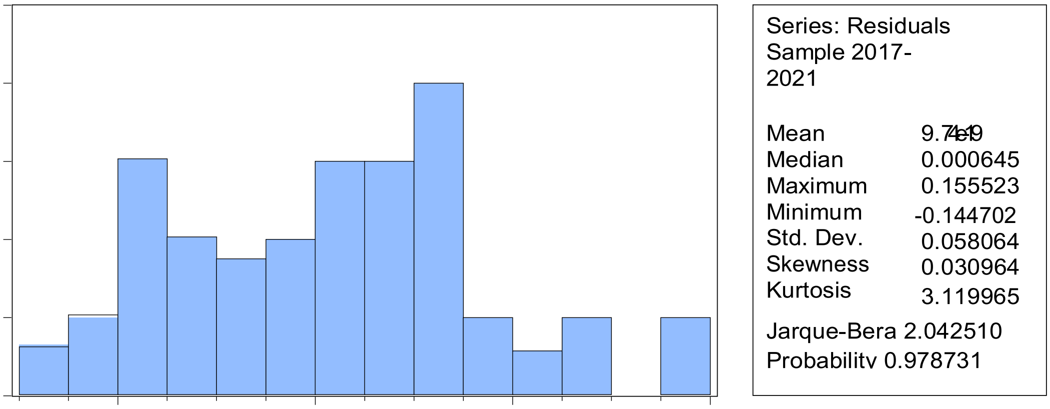

Figure 1. Normality Test
Source: EViews 10 Data Processing (2023)

Based on Figure 1, the Probability Jarque-Bera (JB) value is 0.978731 where the JB value > alpha, which is 0.05 (0.978731 > 0.05). So, it is concluded that the data is normally distributed and considered feasible to conduct panel regression tests.

Multicollinearity Test

The independent variables are declared free of multicollinearity if the VIF score measurement limit with a Tolerance of 10 and 0.10. In the regression equation, multicollinearity problems are not found if VIF < 10 and Tolerance > 10.

Table 2. Multicollinearity Test Results

Variables	**Coefficient Variance**	**Uncentered VIF**	**Centered VIF**
Audit Committee	-0.339689	2.451018	2.327471
Audit Quality	-0.035062	2.502883	2.442358
Financial Distress C	1.000000	2.241920	2.678973
	0.188231	5.031700	NA

Source: EViews 10 Data Processing (2023)

Based on table 2, the Audit Committee produces VIF 2.327471 < 10.00 and VIF for Audit Quality 2.442358 < 10.00, while for *Financial Distress* has a VIF value of 2.678973 < 10.00, then, in this research multicollinearity is not found.

Heteroscedasticity Test

The goodness of the regression model is seen from the presence or absence of heteroscedasticity. This study uses the *Glejser* test, where the significance score is less than 5% (0.05), so heteroscedasticity is not found.

Table 3. Heteroscedasticity Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	229.3603	119.4881	1.919515	0.0617
Audit Committee	-1.548152	2.106230	-1.758520	0.0866
Audit Quality	-6.222661	3.850052	-1.875990	0.4561
Financial Distress	1.058990	0.602206	0.735035	0.0627

Source: EViews 10 Data Processing (2023)

Based on table 3, the probability is higher than α (0.05), namely the Audit Committee (X_1) 0.0866 > 0.05, Audit Quality (X_2) 0.4561 > 0.05 and *Financial Distress* (X_3) 0.0627 > 0.05. Based on these results, it is concluded that heteroscedasticity problems do not exist in this data.

Autocorrelation Test

In this study, the authors used the LM Test and Durbin-Watson in order to test for autocorrelation. When the F-count > 0.05, it indicates that no autocorrelation is formed. It is said that there is no autocorrelation when D-W < (4-dU) and > (dU).

Table 4. Autocorrelation Test Results

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	1.031349	Prob. F(2,19)	0.4217
Obs*R-squared	7.319681	Prob. Chi-Square(2)	0.5713

R-squared	0.251168	Mean dependent var	-0.023041
Adjusted R-squared	0.144192	S.D. dependent var	0.065922
S.E. of regression	0.061039	Akaike info criterion	-2.625419
Sum squared resid	0.182562	Schwarz criteri	-2.338393
Log likelihood	-20.93693	Hannan-Quinn criter.	-1.534054
F-statistic	2.342118	Durbin-Watson stat	1.932304
Prob(F-statistic)	1.031349		

Source: EViews 10 Data Processing (2023)

Based on table 4, the Durbin-Watson (DW) value is 1.932304 so that 1.785 < 2.032780 < 2.214, so it can be said that autocorrelation is not formed.

Model Feasibility Analysis Results

***Chow* Test**

The Chow Test is a panel data test in order to determine the best model to use. If the prob score is <0.05, the best estimation is *fixed effect* and if the prob score is >0.05, the best estimation is *common effect.*

Table 5. *Chow-Test* Results

Redundant Fixed Effects Tests

Effects Test	Statistic	d.f.	Prob.
Cross-section F	11.000234	(11,45)	0.4881
Cross-section Chi-square	78.320450	11	0.0485

Source: EViews 10 Data Processing (2023)

Based on table 5, the probability of 0.0485 < (α = 0.05) is obtained, so the conclusion is that in this model it is better to use *fixed effects* and continue with the Hausman test.

***Hausman Test* Results**

In determining the model to be used in panel data regression, this test aims to compare the *random effect* model with the *fixed effect.*

Table 6. *Hausman-Test* Results

Correlated Random Effects - Hausman Test			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	14.886578	3	0.0019

Source: EViews 10 Data Processing (2023)

Based on table 6, the probability value is 0.0019 and smaller than ($\alpha = 0.05$), indicating that a *fixed effect* model will be used, then the panel is analyzed.

Panel Regression Analysis

The purpose of this analysis is to determine the impact of the Audit Committee (X_1), Audit Quality (X_2) and *Financing Distress* (X_3) on Earnings Management (Y).

Table 7. *Fixed Effect* Panel Regression Test Results

Dependent Variable: Y_ Earnings Management

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-106.4496	59.80179	-1.780040	0.0805
Audit Committee	-1.409829	3.908761	-0.360684	0.7197
Audit Quality	-5.386069	2.630586	-2.630586	0.5548
Financing Distress	1.348658	0.647365	2.083303	0.0110

Source: EViews 10 Data Processing (2023)

The following regression equation is based on table 7:

$Y = \alpha + \beta 1.X1 + \beta 2.X2 + \beta 3.X3 + e$

PL = -106.4496 + -1.409829 KA + -5.386069 KA + 1.348658 FD + e

Based on the panel regression equation it is concluded:

a. Earnings management in companies listed on the Jakarta Islamic Index (JII) has a constant value of -106.4496, meaning that if the Audit Committee, Audit Quality and *Financial Distress* (X_1, X_2 and X_3) are zero, then earnings management has a value of -106.4496 (tends to reduce profits).
b. The Audit Committee (X_1) in companies listed on the Jakarta Islamic Index (JII) obtained a regression coefficient of -1.409829. This means that if the Audit Committee is increased by 1% based on the assumption that Audit Quality (X_2) and *Financial Distress* (X_3) are zero, then earnings management decreases by -1.409829.
c. Audit Quality (X_2) in companies listed on the Jakarta Islamic Index (JII) gets a regression coefficient of -5.386069. This means that if the Audit Quality (X_2) increases by 1% based on the assumption that the Audit Committee (X_1) and *Financial Distress* (X_3) are zero, then the old management will decrease by -5.386069 0.073878.
d. *Financial Distress* (X_3) in companies listed on the Jakarta Islamic Index (JII) has a positive regression coefficient, namely 1.348658. This means that every 1% increase in the *Financial Distress* aspect, the level of earnings management will increase by 1.348658.

F test

If the significance is <0.05, then Ho is rejected, meaning that the independent and dependent variables have a significant effect. If the significance value is> 0.05, then Ho is accepted, so it can be stated that the independent and dependent variables have no effect.

Table 8. F Test Results

F-statistic	32.000845
Prob(F-statistic)	0.037730

Source: EViews 10 Data Processing (2023)

Based on table 8, the F_{count} value is 32.000845 and probability 0.037730 <0.05. These results prove that the Audit Committee (X_1), Audit Quality (X_2) and Financial Distress (X_3) simultaneously affect earnings management in companies listed on the Jakarta Islamic Index (JII) (Y).

Test t

If the resulting probability <0.05, it is stated that there is a significant implication of the *independent variable* to the *dependent variable*. If the resulting probability > 0.05, it is said that it will not have a significant effect.

Table 9. T-test Results

Dependent Variable: Y_ Earnings Management

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-106.4496	59.80179	-1.780040	0.0805
Audit Committee	-1.409829	3.908761	-0.360684	0.7197
Audit Quality	-5.386069	2.630586	-2.630586	0.5548
Financing Distress	1.348658	0.647365	2.083303	0.0110

Based on table 9, the conclusions obtained are:

a. **The Effect of the Audit Committee on Earnings Management in Companies listed on the Jakarta Islamic Index (JII)**
   The Audit Committee obtained a probability value of 0.7197> 0.05. Partially, it can be said that the Audit Committee has no significant effect on earnings management in companies listed on the Jakarta Islamic Index (JII). Signaling Ho is accepted but H_1 is rejected.

b. **The Effect of Audit Quality on Earnings Management in Companies listed on the Jakarta Islamic Index (JII)**
   Audit quality gets a probability value of 0.5548> 0.05. Partially, Audit Quality does not have a significant influence on company management in companies listed on the Jakarta Islamic Index (JII). Signaling Ho is approved but H_2 is rejected.

c. **The Effect of *Financing Distress* on Earnings Management in Companies listed on the Jakarta Islamic Index (JII)**
   Foreign ownership produces a probability of 0.0110 <0.05, earnings management in companies listed on the Jakarta Islamic Index (JII) has a significant positive effect from *Financing Distress,* indicating that Ho is not approved but H_3 is accepted.

Test Coefficient of Determination (R)^2

The coefficient of determination (R^2) is between 0-1. The independent variable is able to explain the dependent variable if the determinant score (R^2) obtained is small. Conversely, all information is given to predict the *dependent variable* by the *independent variable* when the determinant score (R^2) is obtained large and close to 1.

Table 10. Test Results of the Coefficient of Determination (R^2)

R-squared	0.551146
Adjusted R-squared	0.445192

Source: EViews 10 Data Processing (2023)

Based on table 10, the Adjusted *R-squared* score is 0.445192 or 44.5%. This indicates that the contribution of the Audit Committee (X_1), Audit Quality (X_2) and *Financing Distress* (X_3) to earnings management in companies listed on the Jakarta Islamic Index (JII) is 44.5% and the remaining 55.5% is determined by various other variables but not analyzed in this research.

The Effect of the Audit Committee on Corporate Earnings Management in Companies listed on the Jakarta Islamic Index (JII)

Based on the results of data analysis, the audit committee has a significant negative effect on earnings management in companies listed on the Jakarta Islamic Index (JII) as evidenced by its probability of 0.7197> 0.05. This means that the number of audit committee members does not affect work effectiveness. There is no significant implication of the number of audit members on the enactment of earnings management when the formation of the audit committee is only to fulfill regulations, as stated in the Financial Services Authority Regulation Number 55 / POJK.04 / 2015 requires every company that has *gone public to* have an audit committee to carry out supervisory duties. However, the presence of the audit committee has not been able to prevent earnings management because of its ineffective role in carrying out its duties to supervise management, because its formation from the start was only to comply with regulations. It is required that the audit committee understand basic accounting problems accompanied by providing solutions to these problems addressed to the Board of Commissioners (Harahap 2017). Based on research results (Damayanti & Krisnando, 2021; Santosa et al., 2022) shows that the audit committee has an influence on the board of commissioners. shows that the audit committee has a significant negative effect on earnings management.

The Effect of Audit Quality on Earnings Management in Companies listed on the Jakarta Islamic Index (JII)

Based on the results of data analysis, audit quality has a significant negative effect on earnings management in companies listed on the Jakarta Islamic Index (JII) as evidenced by the probability value, namely 0.5548> 0.05. All auditors are required to have independence and professionalism in carrying out their duties so that the best quality audit reports will be produced. But in fact, cooperation that occurs for a long time can result in a decrease in conservatism when presenting financial statements.

Auditors' experience in specialized industries can quickly find existing misinformation compared to auditors who do not handle specialized industries. Earnings management can be prevented more quickly when auditors have industry specialization, causing the high credibility of financial statements, so that users of financial statements will get real information without any engineering from managers who provide accounting policies based on their personal interests. In line with the research results (Arista et al., 12018; Fatimah, 2020) states that audit quality has a significant negative effect on earnings management.

The Effect of *Financing Distress* on Earnings Management in Companies listed on the Jakarta Islamic Index (JII)

Based on the results of data analysis, that *financing distress has a* positive and significant effect on earnings management in companies listed on the Jakarta Islamic Index (JII), it is evident from the probability which is 0.0110 <0.05. This means that if the company experiences *financial distress* and the company cannot pay its debts to creditors when due and results in company bankruptcy, it becomes an opportunity for the company to practice earnings management. By utilizing the weakness of accounting principles, management will report earnings in a more aggressive manner (Habib et al., 2013). Company management that is under pressure due to *financial distress* will act opportunistically to practice earnings management. This is in line with the results of research (Chairunnisa et al., 2021; Li et al., 2020) which states that *financial distress has a* positive and significant effect on corporate earnings management practices. The more unhealthy a company is, the more likely management is to use accrual earnings management practices in managing profits.

5. Conclusions

Based on the results of the analysis that the audit committee and audit quality have a significant negative effect on earnings management in companies listed on the Jakarta Islamic Index (JII), while *financial distress* has a positive and significant effect on earnings management in companies listed on the Jakarta Islamic Index (JII). Companies listed on the Jakarta Islamic Index (JII) with audit committees that have many or few members, do not affect the effectiveness of their work, ultimately not affecting the high earnings management that occurs. The company's goal of having an audit committee formation is solely to fulfill the regulations regarding the obligation to form an audit committee, causing their existence to be not maximized, especially the implementation of supervisory duties to run less effectively. When there is an increase in *financial distress* in companies listed on the Jakarta Islamic Index (JII), it will be accompanied by an increase in earnings management. This condition is due to the desire of investors who always want to see the financial stability of the company so that earnings management occurs with the aim that investors believe in companies that are included in the Jakarta Islamic Index (JII) list, which in turn companies get funds to overcome financial problems. Through this study, practical contributions can be made so that fraud in financial statements can be prevented, besides that the results of this study become a reference literature development for subsequent earnings management research.

References:

Alafiah, L. R., Fitrios, R., & Hanif, R. A. (2022). The Effect of Financial Distress, Audit Committee and Profitability on Tax Aggressiveness and its Impact on Firm Value. *Substance: Source of Vocational Accounting Auditing and Finance Articles*, *5*(2), 95-120. https://doi.org/10.35837/subs.v5i2.1747

Albersmann, B. T., & Hohenfels, D. (2017). Audit Committees and Earnings Management: Evidence from the German Two-Tier Board System. *Schmalenbach Business Review, 18*(2), 105-115.

Arista, S., Wahyudi, & Yusnaini. (2018). The Effect of Corporate Governance Structure and Audit Tenure on Financial Statement Integrity. *Journal of Accounting Research and Development*, *12*(2), 81-98.

Arista, S. P., & Serly, V. (2023). The Effect of Financial Distress, Audit Committee Characteristics and External Auditor Quality on Accrual Earnings Management. *JEA: Journal of Accounting Exploration*, *5*(3), 917-935.

Chairunnisa, Z., Rasmini, M., & Alexandri, M. B. (2021). The Effect of Financial Distress on Earnings Management of Telecommunication Sub-Sector Companies Listed on the IDX for the 2015-2019 Period. *Innovation, 17*(3), 387-394.

Christiani, I., & Nugrahanti, Y. W. (2014). The Effect of Audit Quality on Earnings Management. *Journal of Accounting and Finance, 16*(1), 52-62.

Damayanti, S., & Krisnando. (2021). The Effect of Financial Distress, Audit Committee and Company Size on Earnings Management (Empirical Study of Real Estate and Property Companies Listed on the Indonesia Stock Exchange 2017-2020). *Journal of STEI Ekonomi*, *30* (01), 101-113.

Dwikusumowati, M. Z., & Rahardjo, S. N. (2013). The Effect of Audit Committee Characteristics and Earnings Management. *Diponegoro Journal of Accounting*, *2*(4), 1-14.

Fatimah, S., Agustinawati, P., & Petro, S. (2020). The Effect of Corporate Governance Mechanisms, Audit Tenure, Company Size and Leverage on Financial Statement Integrity. *Journal of Economic Education, 5*(2), 1-13.

Gunanti, A. A. I. I. P., & Mahyuni, L. P. (2022). Millennial Generation Investment Interest in the Indonesia Stock Exchange. *Innovation: Journal of Economics, Finance and Management*, *18*(3), 425-437. https://doi.org/10.29264/jinv.v18i3.10344

Haalisa, S. N., & Inayati, N. I. (2021). The Effect of Company Size, Audit Tenure, Audit Quality, and Audit Report Lag on Going Concern Audit Opinions. *Review of Applied Accounting Research*, *1*(1), 29.

Hadi, F. I., & Tifani, S. (2020). The Effect of Audit Quality and Auditor Switching on Earnings Management. *Scientific Journal of Accounting and Finance, 9*(2), 117-129.

Hapsoro, D., & Annisa, A. A. (2017). The Effect of Audit Quality, Leverage, and Growth on Earnings Management Practices. *Journal of Accounting*, *5*(2), 99-110.

Indriasih, D. (2020). *Internal Auditor Competence and Audit Committee Character Against Fraudulent Financial Reporting.* Bandung: CV Cendekia Press.

Irfani, A.S. (2020) *Financial and Business Management: Theory and Application*. Jakarta: Gramedia Pustaka Utama.

Lailatul, U., & Yanthi, M. D. (2021). The Effect of Audit Fees, Audit Committee, Audit Rotation on Audit Quality. *AKUNESA: Unesa Accounting Journal*, *10*(1), 35-45.

https://doi.org/10.26740/akunesa.v10n1.p35-45

Lidiawati, N., & Asyik, N. F. (2016). The Effect of Audit Quality, Audit Committee, Institutional Ownership, Company Size on Earnings Management. *Journal of Accounting Science and Research, 5*(5), 1-19.

Lubis, E. F., & Sipahutar, T. T. U. (2022). Factors Affecting Going Concern Audit Opinions in Manufacturing Companies Listed on the Indonesia Stock Exchange. *MSEJ: Management Studies and Entrepreneurship Journal*, *3*(5), 2866-2878.

Muthmainnah, D. R. (2020). The Effect of Audit Quality and Audit Committee Effectiveness on Earnings Management. *Business and Economics Conference in Utilization of Modern Technology, 15*(2), 65-80.

Oktaviani, & Challen, A. E. (2020). The Effect of Auditor Quality, Audit Tenure and Debt Default on Going Concern Audit Opinion Acceptance. *Journal of Accounting and Finance, 8*(2), 83.

Ratmojoyo, Y. S., Supriyanto, T., & Nugraheni, S. (2021). Factors Affecting Interest in Investing in Sharia Shares. *Etihad: Journal of Islamic Banking and Finance*, *1*(2), 115-131.

Sanjaya, F. B. (2017). The Effect of Auditor Industry Specialization, KAP Size, Audit Tenure, Family Ownership, and Earnings Quality on Cost of Equity. *Journal of Business Accounting, 15*(2), 263-289.

Santosa, C., Amiruddin, & Rashid, S. (2022). The Effect of Information Asymmetry, Financial Distress and Audit Committee on Earnings Management. *Accruals: Journal of Contemporary Business and Accounting*, *15*(1), 12-22.

Siagian, A. O., Manurung, A. H., & Machdar, N. M. (2023). Analysis of Corporate Governance on Financial Distress through Moderating Variable Mechanisms with Earnings Management. *Journal of Management Research and Innovation*, *1*(2), 151-165.

Supriyadi, Y. W., Ginting, Y. L., & Irwansyah. (2019). Characteristics of the Audit Committee in Influencing Earnings Management Actions (Empirical Study of Manufacturing Companies Listed on the IDX). *Accounting Studies*, *20*(2), 178-190. https://doi.org/10.29313/ka.v20i2.4822

Ulina, R., Mulyadi, R., & Tjahjono, M. E. S. (2018). The Effect of Audit Quality and Audit Committee on Earnings Management in Manufacturing Companies Listed on the Indonesia Stock Exchange. *Tirtayasa Ekonomika, 13*(1), 1-26.

Wulandari, S., Ermaya, H. N. L., & Mashuri, A. A. S. (2021). The Effect of Corporate Governance Mechanisms, Financial Distress and Audit Tenure on Financial Statement Integrity. *Jurnal Akunida, 7*(1), 85-98.