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Do Audit Quality and Corporate Governance Deter Earnings Management? A Moderated Model with Leverage in Indonesia's Infrastructure Sector

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ABSTRACT

This research intends to explore how the quality of external audits and effective corporate governance influence earnings management, with leverage acting as a moderating factor. The investigation focused on companies in the infrastructure sector that are listed on the Indonesia Stock Exchange from 2020 to 2023. The analytical method utilized in this study is SmartPLS 4 to evaluate the suggested hypotheses. The sample population for this research includes infrastructure companies listed on the Indonesia Stock Exchange within the timeframe of 2020 to 2023. The non-probability sampling technique, specifically purposive sampling, resulted in a final sample of 58 firms. Findings from the study reveal that the quality of external audits and effective corporate governance do not impact earnings management, either directly or when leverage is considered as a moderate factor. Moreover, the results indicate that leverage does not diminish the influence of external audit quality and corporate governance on earnings management.

ABSTRAK

Penelitian ini bertujuan untuk mengeksplorasi bagaimana kualitas audit eksternal dan tata kelola korporasi yang efektif mempengaruhi manajemen laba, dengan leverage bertindak sebagai faktor moderasi. Penyelidikan ini berfokus pada perusahaan di sektor infrastruktur yang terdaftar di Bursa Efek Indonesia (BEI) dari tahun 2020 hingga 2023. Metode analitis yang digunakan dalam penelitian ini adalah SmartPLS 4 untuk mengevaluasi hipotesis yang diajukan. Populasi sampel dalam penelitian ini meliputi perusahaan infrastruktur yang terdaftar di Bursa Efek Indonesia dalam periode 2020 hingga 2023. Teknik sampling non-probabilitas, khususnya sampling purposif, menghasilkan sampel akhir sebanyak 58 perusahaan. Temuan penelitian menunjukkan bahwa kualitas audit eksternal dan tata kelola korporasi yang efektif tidak mempengaruhi manajemen laba, baik secara langsung maupun ketika leverage dipertimbangkan sebagai faktor moderator. Selain itu, hasil penelitian menunjukkan bahwa leverage tidak mengurangi pengaruh kualitas audit eksternal dan tata kelola korporasi terhadap manajemen laba.

Kata Kunci:
Good Corporate Governance, Kualitas Audit Eksternal, *Leverage* dan Manajemen Laba.

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INTRODUCTION

The infrastructure sector significantly impacts the Indonesian economy by providing essential services that facilitate the seamless operation of economic operations. This industry is vital for Indonesia as it generates a ripple effect, meaning that an uptick in national expenditures leads to higher income and consumption levels. This, in turn, boosts economic advancement by generating job opportunities, establishing new economic hubs, and enhancing the logistics system that links different production facilities.

Investors typically rely on financial statements, particularly earnings data, as an important guide when deciding where to invest their money. It is crucial to maintain clarity in creating financial documents to truthfully reflect the company's status and to make sure that the data shared by the management is not deceptive. Consequently, businesses carry a significant obligation to present both financial and non-financial details with integrity. As noted by Suwardjono (2021), financial reports serve as a channel for conveying company operations to stakeholders, as well as a metric for assessing management effectiveness and the financial health of the organization.

Several instances of earnings manipulation have taken place in Indonesian infrastructure firms, notably involving PT Waskita Karya Tbk and PT Wijaya Karya Tbk (WIKA) in 2022, which drew significant public interest due to suspected earnings management activities. According to the combined financial reports for 2022, PT Waskita Karya Tbk announced a 25. 20% rise in operating profit to Rp15. 30 trillion, yet it still faced a loss of Rp1. 67 trillion. Conversely, PT Wijaya Karya Tbk reported a 20. 67% growth in its consolidated net income to Rp21. 48 trillion, while actually incurring a net loss of Rp59. 6 billion (Muwarni and Ayuningtyas, 2023).

This scenario prompts inquiries regarding the integrity of financial reports and claims of earnings manipulation within both firms, suggesting a possible effort to alter reports to enhance their appearance or to align with specific expectations. Such actions can create an imbalance of information that may harm those who rely on financial statements.

Earnings management can be shaped by many elements, one of which is the standard of external audits (Karina, 2021). In studies by Le and Moore (2023) and Syarif M Helmi et al. (2023), it was discovered that the quality of audits negatively impacts earnings management. Conversely, research by Duong Thi (2023) indicated that there is no significant impact of audit quality on earnings management.

Companies also require effective Corporate Governance (GCG) because it guarantees that management prioritizes the company's interests and treats all stakeholders justly, which fosters trust among shareholders (Feviana and Supatmi, 2021). In a study, Hakim et al. (2022) discovered that GCG as represented by the audit committee and independent board members negatively and significantly impacts earnings management, whereas Dwi Asih and Minanari (2021) found that GCG indicated by the Independent Board of Commissioners, Management Ownership, and Board of Commissioners Meetings does not influence earnings management.

Another element that can influence the connection between the quality of external audits, GCG, and earnings management is leverage. Research by Mamatzakis et al. (2023) indicates that leverage negatively impacts earnings management significantly, whereas Gurunlu (2024) found that leverage positively affects earnings management meaningfully. Additionally, studies by Santoso (2023) and Zahra et al. (2023) revealed that leverage has no impact.

Considering the above observations and literature review, this study sets out to investigate how external audit quality and GCG affect earnings management in infrastructure firms listed on the IDX from 2020 to 2023, with leverage serving as a moderating variable. The findings of this research are anticipated to provide both theoretical insights and practical implications aimed at enhancing the quality of financial reporting and corporate governance in Indonesia, thereby helping to mitigate earnings management practices.

THEORETICAL REVIEW

Agency Theory

Agency theory outlines the contractual connection between those who grant authority (principal/owner/shareholder) and those who accept the responsibility (agent/management) (Jensen and Meckling, 1976). This contractual relationship pertains to the management of the company, where the principal (owner) assigns decision-making duties to the agent (management) to perform specific tasks as per the agreed-upon work contract.

Stakeholder Theory

Stakeholder theory was initially presented by Freeman in 1994 and serves as a theoretical model that acknowledges that a business engages not solely with its owners (shareholders) but also with different groups that have a vested interest (stakeholders) in its operations. In this regard, the quality of external audits and Good Corporate Governance (GCG) can be viewed as essential tools in overseeing interactions with stakeholders.

Earnings Management

As stated by Sulistyanto (2018: 44), earnings management refers to the efforts of corporate leaders to manipulate or sway the information presented in financial statements to mislead stakeholders interested in assessing the organization's performance and status. Below are three hypotheses proposed by Sulistyanto (2018: 41) that serve as motivations for engaging in earnings management: the Bonus Plan Hypothesis, the Debt-to-Equity Hypothesis (also known as the Debt Covenant Hypothesis), and the Political Cost Hypothesis. Investors can easily access working capital accrual information from the cash flow statement related to operating activities, enabling them to obtain this data without needing to perform complex calculations (Utami, 2005). The equation applied in this research is:

$$\textbf{Earnings Management (EM)} = \frac{\textbf{Accrual Working Capital t}}{\textbf{Periodic Sales t}}$$

$$\textbf{Akrual Modal Kerja} = \Delta \textbf{AL} - \Delta \textbf{HL} - \Delta \textbf{Cash}$$

External Audit Quality

External audit quality plays a crucial part in minimizing the gap in information between company managers and stakeholders, which is frequently a significant contributor to agency issues. It is anticipated that high-quality audits will resist attempts at opportunism or income manipulation and help to decrease other significant misstatements that may mislead investors (Karina, 2021). This research evaluates audit quality based on the size and standing of the Public Accounting Firm (KAP); specifically, if a company is reviewed by a Big Four KAP, it receives a score of 2, if audited by an internationally linked KAP other than the Big Four, it receives a score of 1, and if the audit is conducted by a KAP without international affiliation, a score of 0 is assigned.

Good Corporate Governance

Good corporate governance refers to a collection of systems, procedures, and relationships that dictate how a company is managed and operated. Establishing good corporate governance is crucial for addressing possible conflicts of interest among stakeholders, particularly between shareholders and management (Ghozali, 2020):94. A solid framework for corporate governance ensures that there is stricter oversight of management to help the company function efficiently. This oversight acts as a means to prevent or mitigate practices related to earnings manipulation, as it motivates management, acting as agents, to prioritize the interests of the owners (principals) and curtail inappropriate actions. In this research, good corporate governance is represented by factors such as an independent board of commissioners, board of directors, audit committee, and institutional ownership, assessed using the following calculation scale:

$$\textbf{Independent Board of Commissioners} = \frac{\text{Number of Independent Commissioners}}{\text{Number of Commissioners}}$$

$$\textbf{Board of Directors} = \text{Number of Board of Directors}$$

$$\textbf{Audit Committee} = \text{Number of Audit Committees}$$

$$\textbf{Institutional Ownership} = \frac{\text{Number of Shares Owned by Institutions}}{\text{Total Company Shares}}$$

Leverage

Leverage represents a source of external funding for the business that is derived from borrowing. Nevertheless, relying too heavily on debt can be risky for the organization, as it could lead to severe leveraging situations (high levels of debt). As the debt increases, the risks for the stakeholders also rise, prompting them to seek ways to boost profits to prevent the company from facing bankruptcy. Organizations can evaluate their level of leverage by applying the leverage ratio to assess the amount of debt utilized to fund their assets for operational purposes (Hery, 2016):142. The process of measuring leverage using the Debt-to-Asset Ratio (DAR) is detailed as follows (Hery, 2016):

$$\textbf{Debt to Asset Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

Framework and Hypothesis

The Effect of External Audit Quality on Earnings Management

Earlier studies by Nwoye and colleagues in 2021 indicate that higher audit quality correlates negatively with practices of earnings management. Consequently, this hypothesis suggests that as external audit quality improves, companies are less likely to partake in earnings management activities.

H1: External audit quality negatively affects earnings management.

The Effect of GCG on Earnings Management

Research conducted by Hakim et al. (2022) indicates that successful implementation of good corporate governance has a considerable adverse impact on earnings manipulation. As a result, it is thought that proper corporate governance practices can lessen the inclination of management to alter financial reports.

H2: Good Corporate Governance (GCG) has a negative effect on earnings management.

Leverage as a Moderating Variable between External Audit Quality and Earnings Management

According to the Debt Covenant Hypothesis, firms that are highly leveraged are more likely to participate in earnings management activities. Thus, this theory suggests that leverage may influence the connection between the quality of external audits and earnings management.

H3: Leverage weakens the relationship between external audit quality and earnings management.

Leverage as a Moderating Variable between Good Corporate Governance and Earnings Management

Leverage may serve as a variable that influences the connection between Good Corporate Governance (GCG) and earnings management. As a result, leverage is viewed as a factor that affects how GCG impacts earnings management; effective GCG practices can lessen the inclination toward earnings management, even in firms with significant leverage. Consequently, firms that properly apply GCG can still prevent financial statement manipulation, despite facing higher risk due to elevated leverage.

H4: Leverage weakens the relationship between GCG and earnings management.

Thinking Framework

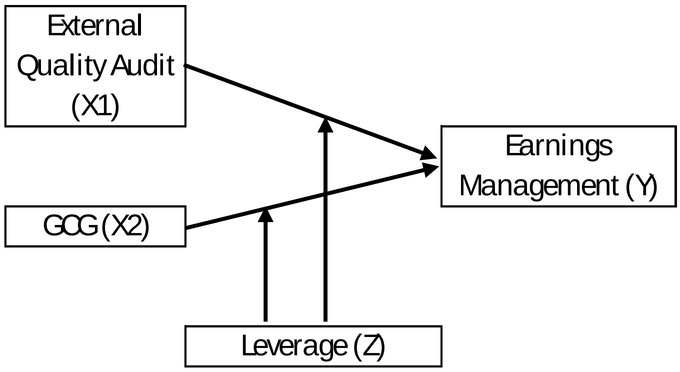

Figure 1. Conceptual Framework
Source: Self processed

METHODS

Research Methods

The approach taken in this research is causal. The aim of this causal model investigation is to identify the cause-and-effect relationship and propose the impact of the independent variable as the factor that affects the dependent variable, which is the one being influenced. The data utilized is secondary data gathered, documented, and analyzed concerning financial statements. The information comprises the financial statements of infrastructure firms from 2020 to 2023. The data is sourced from the official site of the Indonesia Stock Exchange www.idx.co.id and the individual websites of the respective companies.

Population and Sample

The subjects of this research are infrastructure firms that are listed on the Indonesia Stock Exchange (IDX) during the years 2020 to 2023. The selection of companies for this research was carried out using a purposive sampling technique, where samples are chosen based on specific established criteria. The criteria for the sample utilized in this research are outlined below:

1. The firm must be listed on the Indonesia Stock Exchange (IDX) and belong to the infrastructure sector.
2. It must have consistently published annual reports and financial statements that have been audited by independent auditors for the years 2020 to 2023.
3. The company must provide comprehensive data that aligns with the variables being examined, which include external audit quality, governance, leverage, and earnings management throughout the research period of 2020 to 2023.

Data Collection Technique

This method of gathering information involves examining existing literature and conducting a documentation review. The literature review entails gathering and analyzing journals, articles, earlier studies, online resources, and pertinent research questions. Following this, a documentation review takes place, where the researcher compiles secondary data. Secondary data refers to numerical information sourced from the yearly reports of infrastructure firms spanning from 2016 to 2021, which were downloaded from the Indonesia Stock Exchange (IDX) website at www.idx.co.id and the respective company's site.

Data Analysis Technique

The method for analyzing data in this study is multiple linear regression. This will be executed with the Smart PLS 4 program. The study employs Partial Least Square (PLS) Analysis. Partial Least Square (PLS) analysis is a type of SEM statistical approach designed to address certain challenges in multiple regression, including issues like absent data, limited sample sizes, and multicollinearity (Hamid and Suhardi, 2019).

RESULTS

Description of Research Sample

This research examines a group of companies in the infrastructure sector that are traded on the Indonesia Stock Exchange (IDX) between 2020 and 2023. The sample was chosen through purposive sampling, which focused on specific standards, including the presence of financial statements reviewed by external auditors and the regular publication of annual reports. According to these standards, 58 companies qualified, yielding a total of 232 data observations. The criteria for selecting the sample in this research are outlined below:

Table 1. Sampling with Purposive Sampling

Description	Total
Number of manufacturing sector companies listed on the IDX during 2020 - 2023	67

Number of companies that did not include consecutive financial reports during the study period 2020 - 2023	(8)
The number of companies that present complete data in accordance with the variables studied, namely external audit quality, GCG, leverage and earnings management during the 2020-2023 research period.	(1)
Number of companies used	58
Total research data observations (58 x 4 years)	232

Source: Data processed by researchers, 2024

Descriptive Statistics

Table 2. Descriptive Statistical Test Results

Variable	Indicator	N	Minimum	Maximum	Mean	Standard Deviation
EAQ	KAP	232	0.000	2.000	1.190	0.472
GCG	DIRECTOR	232	2.000	9.000	4.302	1.695
	AUD-COM	232	3.000	5.000	3.185	0.552
LEV	DAR	232	0.003	3461.978	17.867	227.707
EM	EM	232	-15.072	793.168	3.526	51.994

Source: SmartPLS 4 output, 2024

Based on the findings from the descriptive statistical analysis discussed earlier, the average value for the External Audit Quality (EAQ) variable is 1. 190, suggesting that most of the companies in the study are typically audited by non-Big Four firms with international connections. The standard deviation of 0. 472 is relatively low, which means that the differences in the choice of audit firms among the companies sampled are not significant. Regarding the Good Corporate Governance (GCG) variable, there are two indicators: the Director indicator has an average of 4. 302 and a standard deviation of 1. 695, reflecting considerable variation in the number of directors across companies. The Audit Committee (AUD-COM) indicator, on the other hand, has an average of 3. 185 and a standard deviation of 0. 552, indicating that the sizes of the audit committees are largely similar across different companies.

The leverage variable (DAR) displays a substantial range from 0. 003 to 3,461. 978, with a mean of 17. 867. The extremely high maximum value suggests that some companies have extraordinarily high levels of leverage, where their debts significantly surpass their assets. A very high standard deviation of -227,707 shows considerable disparity in leverage levels among the companies in the sample. As for the earnings management (EM) variable, it ranges from -15,072 to 793,168, with an average of 3,526. The presence of negative values indicates that certain firms engage in negative earnings management (reducing earnings), whereas the peak value indicates that some companies practice substantial earnings management. The high standard deviation of -51. 994 reveals significant differences in earnings management strategies between the firms in the sample. This indicates that certain companies are quite aggressive in their earnings management approaches, while others are more conservative.

Measurement Model Analysis (Outer Model)

Convergent Validity

Table 3. Convergent Validity Evaluation Results

Variable	Indicator	Outer Loading	Description
EAQ	Big4	1.000	Valid
GCG	AUD-COM	0.841	Valid
	DIRECTOR	0.954	Valid
LEV	DAR	1.000	Valid
EM	EM	1.000	Valid

Source: SmartPLS 4 output, 2024

According to the table provided, the findings on convergent validity reveal that each indicator possesses an outer loading value greater than 0. 70. This indicates that all indicators are confirmed to be valid for assessing each variable.

Table 4. Average Variance Extracted Analysis Results

Variable	Average Variance Extracted (AVE)	Description
GCG	0.809	Valid

Source: SmartPLS 4 output, 2024

Another factor that can help assess validity is the average variance extracted, commonly known as AVE. The AVE should be greater than 0. 50. The preceding table indicates that the GCG variable's value exceeds 0. 50. Given that the EAQ, LEV, and EM variables are formative constructs or consist of a single observation (single item), the AVE is not applicable (Hair et al., 1998).

Composite reliability

Table 5. Composite Reliablity Coefficients Analysis Results

Variable	Cronbach'alpha	Composite Reliability	Description
GCG	0.780	0.978	Reliable

Source: SmartPLS 4 output, 2024

As seen in Table 5, the GCG variable exhibits a composite reliability figure and a Cronbach's Alpha greater than 0. 70. This indicates that composite reliability has satisfied the set benchmarks. In simpler terms, it has been demonstrated to be dependable. Because the EAQ, LEV, and EM variables are considered formative constructs or single observation variables (single item), the Composite reliability figure cannot be calculated.

Discriminate Validity

Table 6. AVE Root Value and Latent Variable Correlation

Indicator	EAQ	EM	GCG	LEV
AUD-COM	0.387	-0.0027	0.841	-0.038
KAP	1.000	-0.025	0.423	-0.030
DAR	-0.030	0.994	-0.050	1.000
DIRECTOR	0.386	-0.049	0.954	-0.055
EM	-0.025	1.000	-0.045	0.994
LEV x EAQ	-0.155	-0.978	-0.030	-0.983
LEV x GCG	-0.017	-0.990	-0.060	-0.993

Source: Smart Pls 4 output, 2024

According to the table presented, the square root of the AVE and the correlation of latent variables indicate that every variable is deemed valid, as the square root of the AVE surpasses the correlation among the latent variables.

Structural Model Evaluation (Inner Model)

Table 7. R Square Value

Variable (exogenous)	R-square	R-square adjusted
EM	0.992	0.992

Source: SmartPLS 4 output, 2024

According to Table 7, the Coefficient of Determination (R^2) reflects the degree to which external factors can clarify the strengths or weaknesses of a research framework. The table reveals that the R-square value for the earnings management variable stands at 0. 992, or 99. 2%, indicating that external elements in the model, such as external audit quality (EAQ), Good Corporate Governance (GCG), and leverage (LEV), account for the earnings management variable, while the other 0. 8% is influenced by factors not covered in this research.

Table 8. Model Fit

	Estimated Model
SRMR	0.043
NFI	0.954

Source: SmartPLS 4 output, 2024

Based on Table 8, the SRMR esteem appears to have a esteem of 0.043 and this implies that the PLS demonstrate is announced to have met the demonstrate test criteria, to be specific the SRMR esteem of 0.043 (underneath 0.08) and the NFI esteem of 0.954 (near to 1).

Hypothesis Testing Results

Table 9 T Values and P Value

Variable	T Statistic	T Table	P values	Conclusion
EAQ -> EM	0.160	1.671	0.436	No Effect
GCG -> EM	0.628	1.671	0.265	No Effect
LEV x EAQ ->EM	0.808	1.671	0.210	No Effect
LEV x GCG ->EM	0.177	1.671	0.430	No Effect

Source: Smart Pls 4 output, 2024

Based on Table 9, several things can be concluded regarding the relationship between the variables studied as follows:

1. Relationship Between EAQ and EM

The investigation shows that the measurable T esteem for the relationship between EAQ and EM is 0.160, littler than the T table esteem of 1.671. In expansion, the P-value is 0.436, which is more prominent than 0.05. Hence, the invalid theory (Ho) is acknowledged, the relationship between EAQ and EM is announced inconsequential. This implies that in this think about, EAQ does not have a critical negative impact on EM.

2. GCG to EM Relationship

The relationship between GCG and EM appears a T measurement esteem of 0.628, which is moreover littler than the T table esteem of 1.671, with a P-value of 0.265 (more noteworthy than 0.05). Hence, the invalid theory (Ho) is acknowledged, showing that the relationship between GCG and EM is moreover immaterial. In other words, GCG does not have a noteworthy negative impact on EM in the setting of this study.

3. LEV x EAQ Interaction on EM

The interaction between LEV and EAQ on EM appears to have a T measurement esteem of 0.808, which is littler than the T table esteem of 1.671, with a P-value of 0.210 (littler than 0.05). In this manner, the invalid speculation (Ho) is acknowledged. Hence, the interaction between LEV and EAQ on EM is critical. This result demonstrates that LEV cannot direct or debilitate the relationship of EAQ to EM significantly.

4. LEV x GCG Interaction on EM

The interaction between LEV and GCG on EM has a factual T esteem of 0.177, littler than the T table esteem of 1.671, with a P-value of 0.430 (more prominent than 0.05). This shows that the interaction between LEV and GCG on EM is inconsequential. These comes about demonstrate that LEV cannot direct or debilitate the relationship between GCG and EM significantly.

DISCUSSION

External Audit Quality Has No Negative Effect on Earnings Management

The examination comes about appear that the relationship between the outside review quality variable and profit administration has a way coefficient of 0.123 with a P-value of 0.436, which is more prominent than the centrality level set at 0.05. This implies that measurably, the relationship is not critical. Subsequently, the invalid theory (H0) is acknowledged, which states that outside review quality has no negative impact on profit administration. The comes about of this think about are in line with inquire about conducted by (Auliana et al., 2023), which appears that review quality, although imperactive, is not continuously compelling in lessening profit administration practices.

Good Corporate Governance Has No Negative Effect on Earnings Management

The comes about of the examination appear that the relationship between the Great Corporate Administration (GCG) variable and profit administration has a way coefficient of 0.285 with a P- esteem of 0.265, which is more prominent than the importance level set at 0.05. This implies that factually, the relationship is not noteworthy. In this manner, the invalid speculation (H0) is acknowledged, which states that GCG has no negative impact on profit administration. The comes about of this consideration are in line with inquire about conducted by Dwi Asih & Minanari (2021), which appears that GCG pointers, such as the free board of commissioners, administration proprietorship, and recurrence of board of chiefs gatherings, have no critical impact on profit administration.

Leverage Does Not Weaken the Relationship between Good Corporate Governance and Earnings Management

The investigation comes about appear that the interaction of use with Great Corporate Administration (GCG) has a way coefficient of 0.808 with a P-value of 0.430, which is more noteworthy than the centrality level set at 0.05. This implies that factually, use does not direct or debilitate the relationship between GCG and profit administration. Hence, the invalid speculation (H0) is acknowledged, which states that use has no debilitating impact on the relationship between GCG and profit administration. This think about bolsters comes about of investigate by Santoso (2023), who found that use has no impact on profit administration.

Leverage Does Not Weaken the Relationship between External Audit Quality and Earnings Management

The comes about of the examination appear that the interaction of use with outside review quality has a way coefficient of 0.177 with a P-value of 0.430, which is littler than the 0.05 noteworthiness level. This implies that factually, use cannot direct or debilitate the relationship between outside review quality and profit administration altogether. Hence, the invalid theory (H0) is acknowledged, which states that use does not direct or debilitate the relationship between outside review quality and profit administration. This result is in line with investigate by Zahra et al (2023) which appears that use has no noteworthy negative impact on profit administration. This shows that in spite of the fact that outside review quality has an imperative part, its effect on profit administration cannot be fortified by use as a directing variable.

CONCLUSION AND SUGGESTION

Conclusion

External Audit Quality Has No Negative Effect on Earnings Management The conclusion drawn from this research is that the level of external audit quality does not exert a noteworthy influence on how earnings are managed. The implication is that even with a competent auditor overseeing a company's financial records, there is still a possibility of earnings management techniques being employed. The findings imply that elements beyond audit quality, for instance, the intensity of financial constraints or the approaches employed by management, might exert a more substantial effect on the ultimate choices regarding the manipulation of earnings.

Good Corporate Governance Has No Negative Effect on Earnings Management The results from the study demonstrate that impactful corporate governance does not produce a noticeable change regarding how earnings are managed. This indicates that the presence of corporate governance frameworks, including a board of commissioners operating independently along with a review panel, has been unsuccessful in properly limiting actions by management to skew or alter financial results. It is highly probable that the employment of effective corporate governance within the company is merely procedural without substantial oversight to maximize its impact.

Leverage Does Not Weaken the Relationship Between Good Corporate Governance and Earnings Management

The findings from the data analysis suggest that the degree of leverage does not contribute to diminishing the connection between the quality of external audits and the handling of earnings. To put it differently, the extent of a company's leverage does not have an impact on how well auditors can regulate practices related to earnings management. This suggests that the independence and skill of the auditor are more significant when it comes to regulating manipulation in financial statements compared to the financial strains faced by the company.

Leverage Does Not Weaken the Relationship Between External Audit Quality and Earnings Management

The findings additionally point out that the connection between corporate governance and manipulating reported profits remains unaffected by leverage. What this implies is that regardless of how highly leveraged a firm may be, the existing corporate governance structure struggles to either decrease or increase the degree of earnings management. This hints that the power of corporate governance in preventing dishonest financial reporting is tied not to the company's capital structure, but instead to how well the governance system is executed.

Suggestion

1. To achieve a more comprehensive grasp of the elements influencing the connection between auditing practices, corporate governance, and the management of earnings, incorporate supplementary moderation variables like company size, earnings performance, or the intricacies of the business.
2. Create approaches to measure these variables by considering alternative metrics like the duration of the audit, the changing of auditors, or a measure of corporate governance quality.
3. To boost the reliability of the research outcomes, apply more sophisticated analysis approaches, for example regression analysis with panel data or intricate econometric methodologies.

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