

Earnings Management: Company Growth, PSAK 71, and Audit Quality with Good Corporate Governance as Moderation

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ABSTRACT

This research was conducted to determine the effect of company growth, PSAK 71 regarding allowance for impairment losses (CKPN), and audit quality on profit management with good corporate governance as moderating variables. This quantitative research uses secondary data from financial reports of banking companies listed on the IDX. The sample used was 40 companies obtained using the purposive sampling technique. The results of this research conclude that Company Growth and PSAK 71 do not significantly affect Profit Management. Meanwhile, Audit Quality has a significant negative effect on Profit Management. GCG cannot moderate the influence of Company Growth on Profit Management. GCG cannot moderate the influence of PSAK 71 on Earnings Management. GCG can moderate the influence of Audit Quality on Profit Management. Suggestions for future researchers include additional independent variables, especially other internal factors that may have a significant impact on earnings management practices.

Penelitian ini dilakukan untuk mengetahui pengaruh Pertumbuhan Perusahaan, PSAK 71 mengenai Cadangan Kerugian Penurunan Nilai (CKPN), dan *Audit Quality* Terhadap Manajemen Laba dengan Good Corporate Governance sebagai variabel moderasi. Penelitian ini merupakan penelitian kuantitatif yang menggunakan data sekunder berupa laporan keuangan perusahaan perbankan yang terdaftar di BEI. Sampel yang digunakan sebanyak 40 perusahaan yang diperoleh dengan teknik *purposive sampling*. Hasil penelitian ini menyimpulkan bahwa secara parsial Pertumbuhan Perusahaan dan PSAK 71 tidak berpengaruh signifikan terhadap Manajemen Laba. Sedangkan *Audit Quality* berpengaruh negative signifikan terhadap Manajemen Laba. GCG tidak dapat memoderasi pengaruh Pertumbuhan Perusahaan terhadap Manajemen Laba. GCG tidak dapat memoderasi pengaruh PSAK 71 terhadap Manajemen Laba. GCG dapat memoderasi pengaruh *Audit Quality* terhadap Manajemen Laba. Saran untuk peneliti selanjutnya yakni memasukkan variabel bebas tambahan, khususnya faktor-faktor internal lainnya yang mungkin memiliki dampak signifikan pada praktik manajemen laba.

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INTRODUCTION

Earnings management, in general, is an action taken by company managers to influence the information in the financial statements to manage stakeholders' perceptions of the company's performance and condition. (Angreni, 2021). Investors and other parties will use earnings information in the company's financial statements to make decisions assess management performance, and predict profits and profitability that will be obtained in the future. (Syahputri & Nawirah, 2023). It is known from the importance of earnings information that most users of financial statements only look at the number of numbers and know the origin of the numbers obtained. As a result, there is a gap that managers utilize to take opportunistic actions when presenting financial statements (Anjarningsih et al., 2022) Agency theory describes that earnings management occurs because managers and company owners have different economic interests as agents and principals (Denovis, 2019).

The first variable that the author examines is company growth. According to research by Fathihani & Nasution (2021), companies that experience high company growth may need to be more motivated to take earnings manipulation actions to report higher profits. Conversely, if the company experiences slow growth, the company will likely be more likely to practice earnings management. However, companies that experience high growth can also be incentivized to manage earnings in certain situations. According to Sulistyanto (2008), earnings management is intended to fulfill managers' interests by changing the level of profit reported to stakeholders to improve their welfare. This results in a knowledge gap between managers and stakeholders.

The next variable is PSAK 71 regarding CKPN. PSAK 71 regarding CKPN is the implementation of International Financial Reporting Standards (IFRS) 9, which replaces PSAK 55 in Indonesia. (Firmansyah & Nizar Arifullah, 2021). Changes in the recognition of financial instruments, Allowance for Impairment Losses (CKPN), may impact the financial performance of banking companies due to the implementation of PSAK 71. PSAK 71 requires banking companies to make allowances for impairment losses / CKPN on their financial assets, especially receivables, at the beginning of the period. (Dendy, 2019). CKPN, initially recorded after objective evidence, is now recognized at the beginning, which is forward-looking.

The third variable in this study is audit quality. Audit quality is closely related to the quality of financial reporting presentation. High audit quality is considered to limit opportunistic earnings management behavior by managers. Yispa (2022) said that high-quality auditing can prevent earnings management. This makes management's reputation suitable. The company's value will decrease if management's reputation is not good. Lupita & Meiranto (2018) also argue that a quality audit can detect earnings management actions taken by clients.

This study adds one moderating variable, namely Good Corporate Governance. Earnings management actions that are currently occurring can be reduced through the implementation of Good Corporate Governance as a mechanism. One of the objectives of implementing Good Corporate Governance is to reduce earnings management practices usually carried out by company managers and improve company performance. (Maryati et al., 2022). This study uses agency theory. Good Corporate Governance (GCG) is closely related to agency theory, because it explains the relationship between management and company owners. . Agency theory encourages the emergence of the concept of GCG in managing the company's business, where GCG is expected to minimize these matters through supervision of the performance of agents.

This research was conducted on banking companies listed on the Indonesia Stock Exchange for 2020-2022 because the changes in PSAK 55 related to CKPN are closely related to financial instruments / financial assets. One sector that has a high enough financial instrument is banking. (Dendy, 2019). The novelty of this study is the addition of moderating variables, namely Good Corporate Governance (Managerial Ownership), about the dependent and independent variables and the measurement of several different variables.

Company Growth on Earnings Management

Slow company growth can incentivize managers to manage earnings to maximize share value or avoid shareholder pressure. Internal and external parties highly desire company growth because it can positively impact them. When a company has significant growth in total assets, it will be more attractive to creditors and investors. (Sheila & Achyarsyah, 2018). This is due to the perception that the company can generate greater profits, increasing its corporate value. The description above is by the research results Paramitha & Firnanti (2018); Hanisa & Rahmi (2021); Prajitno & Vionita (2020) with the results of company growth affecting earnings management. However, this contradicts research Febriyanti, (2020); Hasibuan & Dwiarti (2019), which explains that company size has no significant effect on earnings management. From the description above, the following hypothesis can be formulated.

H_1 : Company growth has a significant effect on earnings management.

PSAK 71 on Earnings Management

Firmansyah et al. (2023) stated that the Statement of Financial Accounting Standards No. 71 caused the banking sector to have a larger Capital Conservation Buffer (CKPN) than before. Heningtyas & Widagdo (2019) stated that the value of Cadangan Impairment Losses (CKPN) formed by banking companies often provides flexibility to bank management in determining provision reserves. Although CKPN should be formed to anticipate the risk of loss, management can still take advantage of it if there are gaps in the account that can be used for earnings management

practices. Before the change in PSAK 55 to PSAK 71 research Angreni (2021) explained that PSAK 55 has a significant negative effect on earnings management practices. The description above contradicts the research Rizky et al., (2022) explained that the change in method to expected credit loss did not encourage changes in manager discretion in earnings management before and after the implementation of PSAK 71 in Indonesia. From the description above, the following hypothesis can be formulated.

H_2 : PSAK 71 has a significant effect on earnings management

Audit Quality on Earnings Management

Examination of financial statements by auditors is one essential aspect that a company must carry out. Good audit quality can help minimize this conflict by correcting or identifying questionable earnings management practices in the financial statements. Research conducted by Khairunnisa et al., (2020); Lupita & Meiranto (2018); Yispa (2022) state that audit quality has a significant impact on earnings management simultaneously. While research Felicya & Sutrisno (2020); Gunarto & Riswandari (2019); Meiryani et al., (2022) explains that audit quality has no significant effect on earnings management simultaneously explains that audit quality has no significant effect on earnings management. From the description above, the following hypothesis can be formulated.

H_3 : Audit Quality has a significant effect on earnings management

Good Corporate Governance Moderates the Effect of Company Growth on Earnings Management

Company growth is the phase in which a company successfully gains a larger market share, increases sales and begins to diversify products. The company's profit also increased compared to the previous year. The company's main focus is to increase the market share that they have mastered, as explained in (Hasibuan & Dwiarti, 2019). Aggressive earnings management practices can damage the company's reputation and cause long-term problems, harming managerial share ownership. Good corporate governance is important in reducing this conflict as it creates a structure that leads to transparency, accountability and protection of shareholders' interests.

Thus, managerial ownership can moderate the relationship between firm growth and earnings management because executive managers have different incentives and responsibilities than non-managerial shareholders. They are more likely to prioritize long-term growth and maintain the company's reputation, which may reduce aggressive earnings management practices in high-growth situations. This is an essential aspect of corporate theory and corporate governance relating to earnings management practices. From the description above, the following hypothesis can be formulated.

H₄ : Managerial ownership can moderate the relationship between company growth and earnings management.

Good Corporate Governance Moderates the Effect of PSAK 71 on Earnings Management

Good Corporate Governance, as measured by managerial ownership, can moderate the relationship between PSAK 71 (2020) and earnings management practices because of its role in controlling and making decisions in the company. Managerial share ownership provides executive managers with different incentives compared to non-managerial shareholders. (Mardianto, 2020). Thus, managerial share ownership can moderate the relationship between PSAK 71 (2020) and earnings management practices because executive managers with share ownership usually have a greater incentive to comply with applicable accounting standards and maintain the integrity of the company's financial statements. (Maryati et al., 2022). This can reduce the possibility of earnings management practices that are different from these standards in the context of implementing PSAK 71. From the description above, the following hypothesis can be formulated.

H₅ : Managerial ownership can moderate the relationship between PSAK 71 and earnings management.

Good Corporate Governance Moderates the Effect of Audit Quality on Earnings Management

Managers may be incentivized to perform earnings management to meet performance targets or maximize their compensation. Good audit quality has the potential to reduce this conflict, as independent and objective auditors will be more likely to identify questionable earnings management practices. Good corporate governance can moderate this conflict by monitoring and ensuring that managers act in the interests of shareholders.

Thus, managerial share ownership may moderate the relationship between audit quality and earnings management practices because executive managers with share ownership have different incentives, control, and involvement in the audit process. They tend to focus more on the integrity of financial statements and audit quality, which can reduce the opportunity to carry out earnings management practices that are different from strict audit standards. (Khasanah & Komalasari, 2022). From the description above, the following hypothesis can be formulated.

H₆ : Managerial ownership can moderate the relationship between audit quality and earnings management.

RESEARCH METHODS

This research uses a quantitative approach with the data used, namely secondary data. The research population is banking companies listed on the Indonesia Stock Exchange for 2020-2022.

The total population in this study was 46 companies. This study uses a purposive sampling method to determine the sample. This study's sample consisted of 120 banking companies selected based on predetermined criteria. The sampling method in a population is based on specific considerations or criteria.

The criteria that researchers apply in sampling companies include: Banking companies listed on the IDX 2020-2022; Banking companies that do not consistently report financial statements in 2020-2023; Banking companies that do not apply PSAK 71 starting January 2020; Companies that do not publish audited financial statements by independent auditors in full 2020-2022; Companies that do not use rupiah currency. The data collection technique used in this study is documentation, namely in the form of banking financial reports originating from the IDX website www.idx.co.id.

This method aims to obtain research results that are by the research objectives. Data analysis is a method that can solve problems in a study. This study uses a data analysis method in the form of panel data regression analysis using the Eviews 12 application. Model selection tests need to be carried out before the classical assumption test and hypothesis testing.

Variable operationalization and measurement

Independent Variable (X)

- a. Company Growth (X_1), the following formula is as follows (Hasibuan & Dwiarti, 2019)

$$\text{Company Growth} = \frac{\text{Total Assets}_t - \text{Total Assets}_{t-1}}{\text{Total Assets}_{t-1}} \dots\dots\dots(1)$$

- b. PSAK 71 (X_2), The PSAK 71 formula regarding CKPN is as follows (Damayanti & Suprayogi, 2019) in (Firmansyah et al., 2023)

$$\text{VAT} = \frac{\text{CKPN Financial Assets}}{\text{Total Assets}} \dots\dots\dots(2)$$

- c. Audit Quality (X_3), the following formula is as follows (Yispa, 2022)

1 = if the company is audited by a KAP that has an affiliation with KAP Big Four
0 = if other.

Dependent Variable (Y)

Earnings Management, the following formula is as follows (Syahputri & Nawirah, 2023)

$$\text{Earnings Management} = \frac{TA_t}{A_{t-1}} - NDA_t \dots\dots\dots(3)$$

Moderating Variable (Z)

Good Corporate Governance, The GCG formula as measured by managerial ownership is as follows (Syahputri & Nawirah, 2023)

$$\text{Managerial Ownership} = \frac{\text{Share ownership by managers,directors,commissioners}}{\text{Total shares outstanding}} \dots\dots\dots(4)$$

RESULTS AND DISCUSSION

Descriptive Statistics

Table 1. Descriptive Statistics Test Results

	Y	X₁	X₂	X₃	Z
Mean	-0.461394	0.176098	0.028705	0.516667	0.006450
Median	-0.051480	0.093764	0.022600	1.000000	0.000000
Maximum	4.374064	4.648229	0.174300	1.000000	0.320751
Minimum	-36.35197	-0.397957	8.13E-06	0.000000	0.000000
Std. Dev	3.608367	0.473173	0.025271	0.501817	0.035288
Skewness	-8.796113	7.205493	2.271474	-0.066704	7.441082
Kurtosis	84.96366	67.89577	11.99944	1.004449	61.35320

Based on table 1 above, the results of descriptive statistical analysis on each variable used as research are as follows:

1. The earnings management variable (Y) has a minimum value of -36.35197 and a maximum value of 4.374064. The average value of earnings management in the banking sector for the 2020-2022 period was -0.461394, with a standard deviation value of 3.608367. This value is greater than the mean value, meaning the data distribution is classified as poor (data gap) because the data varies too much.
2. The company growth variable (X₁) has a minimum value of -0.397957 and a maximum value of 4.648229. The average value of earnings management in the banking sector for 2020-2022 is 0.176098 with a standard deviation of 0.473173. This value is greater than the mean value, meaning the data distribution is classified as poor (data gap) because the data varies too much.
3. The PSAK 71 variable regarding CKPN (X₂) has a minimum value of 8.13E-06 and a maximum value of 0.174300. The average value of earnings management in the banking sector for 2020-2022 is 0.028705, with a standard deviation of 0.025271. This value is smaller than the mean value, meaning the data distribution is classified as good.
4. *The Audit Quality* (X₃) variable has a minimum value of 0.000000 and a maximum value of 1.000000. The average value of earnings management in the banking sector for the 2020-2022 period is 0.516667 with a standard deviation of 0.501817. This value is smaller than the mean value, meaning the data distribution is classified as good.
5. The managerial ownership variable (X₃) has a minimum value of 0.000000 and a maximum value of 0.320751. The average value of earnings management in the banking sector for 2020-2022 is 0.006450, with a standard deviation of 0.035288. This value is greater than the mean value, meaning the data distribution is classified as poor (data gap) because the data varies too much.

Regression Model Selection Test

Regression model estimation must be done if the research uses panel data regression analysis. Three models can be used, namely the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). Only the best regression model will be selected as the main analysis tool of these three options. The process of selecting the best model involves the Chow test, Hausman test, and Lagrange Multiplier test.

Chow Test

The Chow test is conducted to choose the best between the Common Effect Model and the Fixed Effect Model. If the p value > 0.05, then the selected model is the Common Effect Model. However, if $p < 0.05$, then the model chosen is the Fixed Effect Model.

Table 2. Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	3.261609	(39,76)	0.0000
Cross-section Chi-square	118.016500	39	0.0000

Based on table 2, it shows that the prob value is $0.0000 < 0.05$, so the selected model has Fixed Effect.

Hausman Test

The Hausman test was conducted to determine the best model between the Fixed Effect Model and the Random Effect Model. If the p value > 0.05, then the model chosen is the Random Effect Model. However, if the p value < 0.05, the Fixed Effect Model is chosen.

Table 3. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	15.835772	4	0.0032

Based on table 3, shows that the prob value is $0.0032 < 0.05$, so the selected model is Fixed Effect.

Classical Assumption Test

After the selection test, the model chosen is Fixed Effect. Therefore the classical assumption test must be carried out. The classic assumption tests used are multicollinearity and heteroscedastistas. (Basuki & Yuliadi, 2014) (Napitupulu et al., 2021).

Multicollinearity Test

Table 4. Multicoloniertality Test Results

	X_1	X_2	X_3
X_1	1.000000	-0.233850	0.034148
X_2	-0.233850	1.000000	0.234853
X_3	0.034148	0.234853	1.000000

The correlation coefficient between X_1 and X_2 is $-0.233850 < 0.85$, X_1 and X_3 is $0.034148 < 0.85$, and X_2 and X_3 is $0.234853 < 0.85$. Then, these variables are free of multicollinearity or pass the multicollinearity test.

Heteroscedasticity Test

Table 5. Heteroscedasticity Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.123693	0.433437	-0.285377	0.7761
X_1	0.098957	0.286398	0.345522	0.7306
X_2	12.24215	8.504868	1.439428	0.1541
X_3	1.012963	0.630989	1.605357	0.1125

The data processing results show that the probability of variable X_1 is $0.7306 > 0.05$, the probability of X_2 is $0.1541 > 0.05$, and the probability of X_3 is $0.1125 > 0.05$. Then, these variables do not have heteroscedasticity problems.

Panel Data Regression

Table 5. Panel Data Regression Test Results with Fixed Effect

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.903335	1.151480	3.389841	0.0011
X_1	-1.007280	0.760854	-1.323882	0.1895
X_2	-33.43428	22.59428	-1.479768	0.1430
X_3	-6.247032	1.676303	-3.726672	0.0004

From the calculation using the E-views 12 for Windows application, the regression equation is obtained as below:

$$Y = 3.90333482263 - 1.00728036495 * X_1 - 33.4342809439 * X_2 - 6.24703228814 * X_3$$

Hypothesis Test

Adjusted Coefficient of Determination Test (Adjusted R²)

Table 6. R-squared Test Results

R-squared	0.627860
Adjusted R-squared	0.424874

Based on the table, the Adjusted R-squared value is 0.424874. This means that the dependent variable, Earnings Management can be explained by the independent variables, namely company growth, PSAK 71, and managerial ownership by 42.487%. Then, the remaining 57.513% is explained by other factors.

T-test

The Effect of Company Growth on Earnings Management

Table 5 shows that the coefficient value is -1.007280 and has a sig value of 0.1895, which is greater than 0.05. So, it is concluded that company growth has no significant effect on earnings management. If based on agency theory, companies that experience company growth are considered minimal to carry out earnings management because they have achieved an increase in profits. Besides, companies that do not experience company growth tend to manage earnings. The results of this study are in line with the research. This research is in line with research by Febriyanti (2020); Hasibuan & Dwiarti, (2019) which explains that company size has no significant effect on earnings management. which explains that company size has no significant effect on earnings management. However, this contradicts the research of Hanisa & Rahmi (2021); Paramitha & Firnanti (2018); Prajitno & Vionita (2020) with the results of company growth affecting earnings management. With the results of company growth affecting earnings management.

The Effect of PSAK 71 on Earnings Management

Table 5 shows that the coefficient value is -33.43428 and has a sig value of 0.1430, which is greater than 0.05. So, it is concluded that PSAK 71 regarding CKPN has no significant effect on earnings management. If based on agency theory, CKPN on earnings management can be explained as a conflict of interest between managers (agents) and shareholders (principals). This research is in line with the results Rizky et al., (2022) explained that the change in method to expected credit loss did not encourage changes in manager discretion in earnings management before and after the implementation of PSAK 71 in Indonesia. This study shows that the implementation of PSAK 71, which began in 2020 in Indonesia, did not result in managers in banking sub-sector companies using their discretion to influence the numbers in financial reporting.

The Effect of Audit Quality on Earnings Management

Table 5 shows that the coefficient value is -6.247032 with a sig value of 0.0004, which is smaller than 0.05. So, it is concluded that audit quality significantly negatively affects earnings management. Based on agency theory, audit quality influences earnings management. This can be explained through agency conflicts between management and company owners, where independent and competent auditors can reduce earnings management practices carried out by company management. In addition, audit quality can also affect the quality of the company's financial statements and increase users' trust in financial statements. This research is in line with research Lupita & Meiranto (2018); Yispa (2022) with the results of audit quality having a significant adverse effect on earnings management. However, this contradicts the research of Felicya & Sutrisno (2020);

Gunarto & Riswandari (2019); Meiryani et al., (2022), who explain that audit quality has no significant effect on earnings management explained that audit quality has no significant effect on earnings management.

Moderated Regression Analysis (MRA) Test

Table 6. Moderated Regression Analysis (MRA) Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.360217	1.455965	2.307896	0.0238
X₁	-2.762496	1.236940	-2.233330	0.0286
X₂	-49.23382	23.79005	-2.069513	0.0420
X₃	-8.132740	1.893178	-4.295814	0.0001
Z	-206.0073	111.0269	-1.855472	0.0676
X₁Z	719.5604	372.1904	1.933313	0.0571
X₂Z	8669.928	5377.287	1.612324	0.1112
X₃Z	1478.985	717.0657	2.062552	0.0427

Good Corporate Governance Moderates Company Growth in Earnings Management

Table 6 shows the probability value of the interaction variable (X₁Z) of 0.0571. This value is greater than the sig value of 0.05, so good corporate governance, as measured by managerial ownership, cannot significantly moderate the effect of company growth on earnings management. In agency theory, company growth can be a potential source of conflict, especially when management has significant share ownership. Managerial ownership may need more significant to provide substantial control over the company's strategic decisions. In this situation, management may have limitations in influencing growth policy and may be more affected by external pressures.

Good Corporate Governance Moderates PSAK 71 on Earnings Management

Table 6 shows the interaction variable (X₂Z) probability value of 0.1112. This value is more significant than sig 0.05 so that good corporate governance as measured by managerial ownership cannot significantly moderate the effect of PSAK 71 regarding impairment loss reserves on earnings management. Based on agency theory, management may be incentivized to achieve positive performance results in the short term to meet market expectations and earn additional incentives. The recognition of impairment loss allowances generally affects earnings negatively and may sometimes align with short-term performance objectives.

Good Corporate Governance Moderates Audit Quality on Earnings Management

Table 6 shows the interaction variable (X₃Z) probability value of 0.0427. This value is smaller than sig 0.05, so good corporate governance, as measured by managerial ownership, can significantly moderate the effect of audit quality on earnings management. These results support the agency theory that managerial ownership creates a common interest between management and shareholders. By

owning company shares, management is incentivized to ensure that financial statements reflect actual performance and that earnings management practices that harm shareholders are minimized.

CONCLUSIONS

Based on the results of hypothesis testing and discussion in this study, conclusions can be drawn: Company growth has no significant effect on earnings management in banking companies 2020-2022. PSAK 71 regarding CKPN has no significant effect on earnings management in banking companies from 2020 to 2022. Audit quality will significantly negatively affect earnings management in banking companies from 2020 to 2022. Good corporate governance cannot moderate the effect of company growth on earnings management. Good corporate governance cannot moderate the effect of PSAK 71 on earnings management. Good corporate governance can moderate the effect of audit quality on earnings management. The aspect that needs attention for future researchers in exploring similar research themes is the limited independent variables in this study. Therefore, it is hoped that future researchers consider including additional independent variables, especially other internal factors that may significantly impact earnings management practices. Such as accounting conservatism, company size, and profitability.

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