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The Role of Audit Quality in Moderating the Relationship Between Corporate Governance, Ownership Structure, and Earnings Management

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Abstract—This study aims to examine the role of audit quality in moderating the relationship between Good Corporate Governance (GCG), ownership structure, and earnings management in banking sector companies listed on the Indonesia Stock Exchange during the period 2019-2023. The method used in this study is quantitative, with data analysis using SPSS 25. The sample used in this study consisted of banking sector companies listed on the Indonesia Stock Exchange, with data obtained from the company's annual report. The results of the study indicate that GCG has a significant effect on earnings management, indicating that good GCG implementation can increase transparency in earnings management. Ownership structure does not have a significant effect on earnings management, indicating that direct control by the owner is not strong enough to influence earnings management in the Indonesian banking sector. Audit quality is proven to moderate the effect of GCG on earnings management, meaning that high audit quality strengthens the relationship between GCG and more transparent earnings management. Audit quality moderates the effect of that good external monitoring can increase the effectiveness of monitoring carried out by owners.

Keywords—Audit Quality, Corporate Governance, Ownership Structure, Earnings Management.

I. INTRODUCTION

The banking sector plays a crucial role in the economy of a country as it functions as an intermediary institution that connects surplus funds with financing needs (Mollah et al., 2021). Banks serve to link those with excess funds to those in need of funds, thus promoting investment and consumption activities (Diamond & Dybvig, 1983). In Indonesia, the banking sector is one of the main pillars of the financial system, contributing significantly to business financing and monetary stability (OJK, 2022). The operational complexity and high risks in the banking industry demand good corporate governance to ensure sustainability and public trust (Adams & Mehran, 2012).

Banking companies listed on the Indonesia Stock Exchange (IDX) are entities that play a strategic role in the national financial system. Banks are obligated to comply with regulations set by the Financial Services Authority (OJK) and Bank Indonesia to ensure financial stability and transparency of financial reports. As financial intermediary institutions, banks must maintain public trust by providing accurate and reliable financial reports. However, despite stringent regulations, earnings management practices are still found in banks listed on the capital markets, especially in efforts to meet financial performance targets or satisfy investor expectations (Suryani, 2021).

Effective corporate governance is expected to minimize conflicts of interest between management and shareholders, as well as enhance the transparency of financial reports. Research by Setiawan and Januarti (2020) shows that corporate governance mechanisms, such as the presence of an independent audit committee, can reduce earnings management practices in Indonesian companies. However, the implementation of optimal corporate governance still faces challenges, particularly in companies with concentrated ownership structures, which can trigger opportunistic earnings management practices.

Transparent and accountable financial management has become a necessity for banking companies, especially regarding earnings management practices that can affect investors' perceptions of the quality of financial information (Healy & Wahlen, 1999). Earnings management is often associated with efforts by companies to adjust reported earnings to meet market expectations or fulfill certain managerial interests (Scott, 2022). Simply put, earnings management can be defined as actions taken by management to influence reported earnings in financial statements with a specific purpose (Schipper, 1989).

Corporate governance is one of the key elements in the business world, especially in ensuring transparency and accountability in financial reporting. The implementation of good corporate governance is believed to minimize earnings management practices that may harm stakeholders. The ownership structure of a company, whether managerial or institutional ownership, also influences the accounting policies adopted by management. Whether ownership is concentrated or dispersed has different implications for management's tendency to manipulate earnings (Rahmawati, 2022). This study focuses on banking companies listed on the Indonesia Stock Exchange (IDX) to understand how corporate governance and ownership structure affect earnings management in the context of the Indonesian capital market.

Corporate governance refers to the system and mechanisms used to direct and control companies, including banks. The principles of corporate governance include transparency, accountability, responsibility, independence, and fairness. In the banking sector, the application of corporate governance is critical because it can enhance investor confidence and ensure that banks operate according to applicable regulatory standards (Setiawan, 2020). Factors commonly used to measure corporate governance include the presence of independent commissioners, board size, and audit committees.

Ownership structure refers to the distribution of shares in a company. In the banking sector, ownership can be divided into managerial ownership, institutional ownership, and public ownership. High managerial ownership tends to influence managers to be more cautious in engaging in earnings management practices because they have a direct interest in the company's performance. Meanwhile, high institutional ownership can act as a monitoring mechanism over management (Susanto, 2021).

Audit quality plays a crucial role as a monitoring mechanism against earnings management practices. High-quality audits can enhance the credibility of financial reports by ensuring that the reports are free from material errors and do not contain deliberate distortions. Auditors with a good reputation, such as those from Big Four Public Accounting Firms, tend to be stricter in conducting audits and maintain high ethical standards (Hidayat & Putri, 2020). In the context of banking, independent auditors play an important role in ensuring that banks comply with applicable accounting standards and avoid practices that could harm stakeholders.

Previous research has extensively discussed the relationship between corporate governance and earnings management, as well as the role of ownership structure in influencing managerial behavior regarding financial reporting. For example, research by (Wijaya 2018) found that strong corporate governance can reduce earnings management tendencies, while research by (Pratama & Rahayu 2022) showed that institutional ownership structure plays a role in overseeing management to prevent earnings manipulation practices. However, studies specifically highlighting the role of audit quality as a moderating variable in these relationships are still limited.

The research gap in this study lies in the lack of studies examining how audit quality can strengthen or weaken the relationship between corporate governance, ownership structure, and earnings management in the banking sector in Indonesia. Most previous studies focused on the manufacturing sector or other industries with different characteristics in terms of regulations and financial report transparency. Therefore, this study aims to fill this gap by investigating banking companies that have strict regulations and high compliance with accounting standards.

The importance of this research lies in its contribution to academic understanding and business practice regarding corporate governance mechanisms in preventing earnings management practices. By understanding how audit quality can strengthen the influence of corporate governance and ownership structure on financial transparency, this research is expected to provide recommendations for regulators, investors, and management in enhancing trust in financial reports of banks in Indonesia. Additionally, the results of this research can serve as a foundation for developing more effective policies in overseeing financial reporting practices in the banking sector.

II. Literature Review

A. *Agency Theory*

Agency theory explains the existence of an agency relationship formed through a contract in which the principal delegates tasks and authority to an agent to manage the company's resources (Jensen & Meckling, 1976). In the context of a company, the agent refers to the management entrusted by the principal, which includes shareholders and other stakeholders, to run the company with the goal of maximizing its value. As compensation for their services, the agent receives remuneration in the form of salary, incentives, or other forms of compensation (Jensen & Meckling, 1976).

In practice, the uneven distribution of information between management and shareholders creates an information asymmetry, where management has broader access to financial and operational information compared to the principal. This information imbalance can lead to opportunistic behavior by the agent, who prioritizes personal interests over the interests of the company as a whole (Scott, 2015). In agency structures, the separation of ownership and control in decision-making often creates conflicts of interest between shareholders and managers, which can result in decisions that benefit the managers but harm the shareholders (Eisenhardt, 1989).

This phenomenon is known as moral hazard, where managers tend to act for personal gain without considering the impact on shareholders and the company's sustainability (Siallagan, 2020). Therefore, effective monitoring mechanisms are necessary, such as good corporate governance and quality audits, to minimize the risk of agency conflicts and enhance transparency in financial reporting (Ghozali & Chariri, 2021).

B. Earnings Management

Earnings management refers to actions taken by company management to influence financial reports for specific purposes, such as increasing stock value, meeting profit targets, or reducing tax liabilities (Dechow et al., 2010). According to Scott (2021), earnings management occurs when management strategically chooses accounting methods or makes operational decisions that affect financial reports to reflect more favorable conditions.

Schipper (1989) defines earnings management as an intentional intervention in the financial reporting process to gain personal advantage. This practice can be carried out by altering accounting estimates, selecting specific methods, or adjusting the timing of revenue and expense recognition. Healy and Wahlen (2021) add that this practice often aims to meet investor expectations or contractual requirements.

Corporate Governance According to The Indonesian Institute for Corporate Governance (IIGC), corporate governance is defined as a set of processes and structures applied in company management to enhance shareholder value in the long term, while also considering the interests of other stakeholders. In addition to focusing on shareholder interests, the application of corporate governance also aims to ensure the sustainability of the company.

Muh. Arief Effendi (2016) defines corporate governance as a system designed to manage companies professionally based on the principles of transparency, accountability, responsibility, independence, as well as fairness and equality. Meanwhile, Hamdani (2016) in his book Corporate Governance (An Ethical Review of Business Practices) describes corporate governance as a system that directs and controls companies.

C. Ownership Structure

According to Sugiarto (2009), ownership structure refers to the distribution of shares within a company, which is divided into two categories: internal ownership and external ownership. Internal ownership includes shares held by parties within the company, such as managers, directors, and the board of commissioners, often referred to as managerial ownership. External ownership includes shares held by parties outside the company, either individuals or institutions. Ownership by individuals is known as public ownership, while ownership by companies or institutions is referred to as institutional ownership.

The ownership structure functions as a separation between the owners of the company and the managers who run its operations. Managers are appointed by the owners to manage the company and make decisions with the expectation that they will act in the interests of the shareholders. However, in practice, managers sometimes tend to make decisions that benefit themselves rather than the company's owners. Therefore, this study will focus only on two types of ownership: managerial ownership and institutional ownership.

D. Audit Quality

Audit is the process of examination aimed at ensuring the reliability of financial information presented in accordance with generally accepted accounting principles or established standards. In its implementation, financial audit involves a series of systematic steps to gather and evaluate evidence objectively related to activities and economic events. This process aims to assess how well the information presented aligns with the specified criteria and to report the findings to the relevant parties (Sunarsih et al., 2021).

The main goal of financial audits is to provide a basis for auditors to express an accurate opinion on whether the financial statements have been prepared in accordance with the established reporting framework. Generally, this framework refers to generally accepted accounting principles (GAAP), such as US GAAP or equivalent standards in other countries (Sirait, 2022).

E. Research Hypotheses Effect of Corporate Governance on Earnings Management

Corporate governance is a system designed to ensure that companies are managed well, thereby reducing the chances of earnings management practices. According to Ghozali and Chariri (2020), corporate governance aims to improve transparency and accountability in financial reporting.

Research by Dewi and Wirama (2019) found that strong corporate governance can reduce earnings management practices in companies in Indonesia. Additionally, research by Regina Anastasia (2024) showed that corporate governance affects earnings management.

H_1: Corporate governance influences earnings management.

F. Effect of Ownership Structure on Earnings Management

Ownership structure can affect a company's capital management strategy. According to Siregar and Utama (2019), managerial ownership tends to reduce conflicts of interest between management and shareholders, making earnings management decisions more oriented towards long-term interests. Meanwhile, institutional ownership plays a role in overseeing capital policies for more efficiency.

Research by Lestari & Murtanto (2017) shows that ownership structure affects earnings management.

H_2: Ownership structure influences earnings management.

G. Effect of Corporate Governance on Earnings Management with Audit Quality as a Moderating Variable

Audit quality plays a role in strengthening the relationship between corporate governance and earnings management. According to Setyaningrum (2021), high-quality audits can provide assurance that financial reports are more reliable and reduce the likelihood of earnings manipulation.

H_3: Audit quality moderates the effect of corporate governance on earnings.

H. Effect of Ownership Structure on Capital Management with Audit Quality as a Moderating Variable

Audit quality can strengthen the effect of ownership structure on capital management decisions. A study by Wibowo and Susanto (2020) shows that companies with high institutional ownership and audited by quality auditors are more likely to have optimal capital structures and less reliant on external debt.

H_4: Audit quality moderates the effect of ownership structure on capital management.

III. METHODS

This study uses a quantitative approach with a causal associative method to analyze the relationships between the research variables. The data used in this study is secondary data obtained from the financial statements of banking companies listed on the Indonesia Stock Exchange (IDX) during the period of 2019-2023. The data analysis technique used is multiple linear regression with a moderation test to examine the effect of financial transparency as a moderating variable in the relationship between corporate governance, ownership structure, and earnings management.

A. Dependent Variable

In this study, earnings management is measured using two proxies, namely Discretionary Accrual (DA). Discretionary Accrual (DA) refers to a part of accruals that arise due to manipulation or engineering carried out by the company's management (Nuraini & Zain, 2007). The DA is calculated using the Modified Jones Model, as this model is considered superior compared to other models in measuring earnings management (Nuryaman, 2008).

B. Independent Variables

According to Wiratna Sujarweni (2022), independent variables are those that influence or cause changes in the dependent variable. In this study, the independent variables used are Corporate Governance (X1) and Ownership Structure (X2).

C. Corporate Governance (X1)

In this study, corporate governance is represented by the Good Corporate Governance (GCG) Score, obtained from the publication of the Corporate Governance Perception Index (CGPI), as used in the study by Gustiandika (2014). The GCG Score is used to assess the extent to which corporate governance principles are effectively implemented.

D. Ownership Structure (X2)

The ownership structure of a company, also known as the share ownership structure, refers to the ratio between the number of shares owned by internal parties or company management (insider ownership) and the number of shares owned by external parties (outsider ownership) (Vivien & Nur, 2017).

The formula for Ownership Structure is as follows: Ownership Structure = (Number of shares owned by company management) / (Number of shares owned by external parties) × 100%.

E. Moderating Variable

In this study, the moderating variable used is Audit Quality (Z). Audit quality refers to the extent to which an audit can detect and report errors or deviations in financial statements, thus enhancing the transparency and reliability of the company's financial information. One of the indicators often used to measure audit quality is the size of the Public Accounting Firm (KAP), which is categorized into Big Four and Non-Big Four.

F. Analysis Method

The analysis method used in this study aims to examine the relationships and effects of Corporate Governance (X1) and Ownership Structure (X2) on earnings management in banks listed on the Indonesia Stock Exchange. In analyzing the data, the researcher will use multiple linear regression analysis to test the hypotheses that have been set. The tests in this study are as follows: Descriptive Statistical Test, Classical Assumption Test, Normality Test, Multicollinearity Test, Heteroscedasticity Test, Multiple Linear Regression Analysis, t-Test, Coefficient of Determination, and Moderated Regression Analysis.

IV. RESULTS AND DISCUSSION

A. Description of Research Object

The population in this study consists of banking companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023. The number of banking companies listed on the IDX during this period is 45 banks. Based on the sampling criteria conducted through purposive sampling using the predetermined sample criteria, a final sample size of 144 samples was obtained.

B. Descriptive Statistical Test

Descriptive statistical analysis provides an overview or description of the data based on the minimum, maximum, mean, and standard deviation values for each research variable. The results of the descriptive analysis using SPSS Version 25 for the variables in this study are as follows:

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Table 1. Descriptive Statistics Test Results

N	Minimum	Maximum	Mean	Std. Deviation
GCG	144	0.4200	2.5400	1.593125
Ownership Structure	144	-1.8800	0.7100	-0.396944
Audit Quality	144	-1.9800	0.6400	-0.149167
Earnings Management	144	-1.9958	-0.3394	-1.027517
Valid N (listwise)	144			

Table 1 shows the calculation of the GCG (X1) variable in this study, which is obtained using the calculation of the board size. The descriptive statistical analysis of the earnings management variable shows the lowest value of 0.4200, while the highest value is 2.5400. The average earnings management value is 1.593125, with a standard deviation of 0.4140867.

The calculation of the Ownership Structure (X2) variable in this study uses the results of the calculation of the number of shares owned by management divided by the number of outstanding shares. The descriptive statistical analysis of the GCG variable shows the lowest value of -1.8800, while the highest value is 0.7100. The average GCG value is -0.396944 with a standard deviation of 0.5950698.

The calculation of the Audit Quality (Z) variable in this study uses the results from the Public Accounting Firm (KAP) used. The descriptive statistical analysis of the Ownership Structure variable shows the lowest value of -1.9800, while the highest value is 0.6400. The average Ownership Structure value is -0.149167 with a standard deviation of 0.5017612.

The calculation of the Earnings Management (Y) variable in this study uses the results of discretionary accruals. The descriptive statistical analysis of the Audit Quality variable shows the lowest value of -1.9958, while the highest value is -0.3394. The average Audit Quality value is -1.027517 with a standard deviation of 0.3529942.

C. Classical Assumption Test Results

Before performing hypothesis testing, the researcher conducted tests for classical deviation symptoms, including normality test, multicollinearity test, and heteroscedasticity test.

D. Normality Test Results

The purpose of the normality test is to determine whether the data used is normally distributed. The t-test and f-test assume that the residual values follow a normal distribution. If this assumption is violated, the statistical test becomes invalid for small sample sizes (Ghozali, 2016).

One method used to test normality is the Kolmogorov-Smirnov (K-S) test. When analyzed in a graph, if the data spreads around the diagonal line and follows both directions of the diagonal line, the regression model meets the normality assumption. The decision-making basis for the Kolmogorov-Smirnov test is as follows:

If the Asymp. Sig > significance level of 0.05, then the data is normally distributed.

If the Asymp. Sig < significance level of 0.05, then the data is not normally distributed.

Table 2. Normality Test Statistics
One Sample Kolmogorov-Smirnov Tes

		Unstandardized Residual
N		144
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.25452886
Most Extreme Differences	Absolute	.047
	Positive	.047
	Negative	-.040
Test Statistic		.047
Asymp. Sig. (2-tailed)		.200[c,d]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.

Based on the results from SPSS in Table 2, it can be seen that the Asymp. Sig (2-tailed) has a value of 0.200, which shows that the significance level is above 0.05 (0.200 > 0.050). This means that the data used in this study is normally distributed.

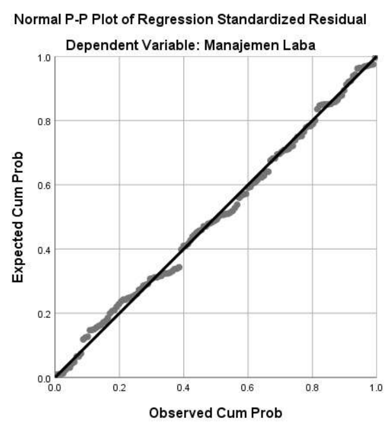

Figure 1. Normality Test Graph

Based on Figure 1, the results show that the normality test using the p-plot method indicates that the normality assumption is met. The data spreads around the diagonal line and still follows the diagonal line. This indicates that the data used by the researcher in this study is normally distributed, so the assumption of data normality is satisfied.

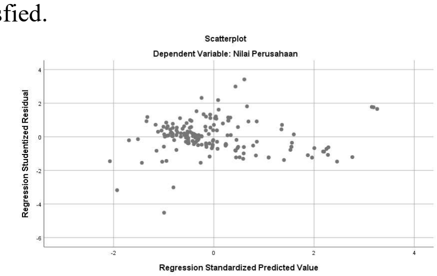

Figure 2. Histogram Graph of Normality Test Results

The histogram graph shown in Figure 2 follows a bell-shaped curve. Based on the results of the normality test, it can be concluded that the data is normally distributed.

E. *Multicollinearity Test Results*

The multicollinearity test aims to examine whether there is a correlation between the independent variables in the regression model. A good regression model should have no correlation between the independent variables (Ghozali, 2016). The results of the multicollinearity test can be determined by the Variance Inflation Factor (VIF) and tolerance value of each independent variable. If the VIF value is less than 10 and the tolerance value is greater than 0.1, the regression model is considered free from multicollinearity (Ghozali, 2016).

Table 3. Multicollinearity Test Results

	Collinearity Statistics	
	Tolerance	VIF
Earnings Management	1,021	,895
GCG	1,125	,899
Ownership Structure	1,020	,910
Penyaluran Kredit	1,210	,900
Audit Quality	1,011	,915

Based on Table 3, the test results show that all tolerance values are greater than 1 and all VIF values are less than 10, so it can be concluded that there is no correlation between the independent variables, and there is no multicollinearity in the study.

F. *Heteroscedasticity Test Results*

The heteroscedasticity test aims to determine whether there are differences in the variance of residuals from one observation to another in the regression model. A good regression model is homoscedastic (no heteroscedasticity) (Ghozali, 2016).

To check for heteroscedasticity in this study, a p-plot graph is examined between the dependent variable ZPRED and its residuals SPRESID. If there is a regular pattern or clustering of points at certain spots, heteroscedasticity is present.

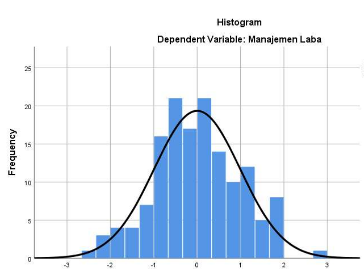

Figure 3. Histogram Graph of Normality Test Results

The histogram graph shown in Figure 3 follows a bell-shaped curve. Based on the results of the normality test, it can be concluded that the data is normally distributed.

G. *Multiple Linear Regression Analysis*

The multiple linear regression equation is used to determine whether the independent variables have an effect on the dependent variable, both partially and simultaneously. As known, the independent variables in this study are GCG, Ownership Structure, and Audit Quality (Z) as the moderating variable. The dependent variable is Earnings Management (Y).

Table 5. Multiple Linear Regression Analysis Results (Equation 1)

Model	Unstandardized Coefficients		Standardized Coefficients
	B	Std. Error	Beta
(Constant)	-.393	.090	
GCG	-.443	.053	-.519
Ownership Structure	-.070	.037	-.118
Audit Quality	-.289	.044	-.411

a. Dependent Variable: Earnings Management

Based on the output generated by SPSS in Table 5, it is known that the constant value in the Unstandardized coefficients B column is 7.035, the coefficient of the GCG (X1) variable is -0.008, the coefficient of the Ownership Structure (X2) is 0.015, and the coefficient of the Audit Quality (Z) variable is -0.074. Thus, the multiple linear regression equation (Equation 1) is as follows:

Earnings Management = α + β1 GCG + β2 SK + β3 KA + £ (I)

Earnings Management = -0.393 - 0.443 GCG - 0.070 SK - 0.289KA + £

H. *Moderated Regression Analysis (MRA)*

Moderated Regression Analysis (MRA) is a test used to see if the moderating variable moderates or does not moderate the correlation between the independent and dependent variables. The results of the moderation test are as follows:

Table 6. MRA Test Results (Equation II)

Model	**Unstandardized Coefficients**		**Std. Coefficients**
	B	Std. Error	Beta
(Constant)	-.263	.064	
GCG	-.523	.038	-.614
Ownership Structure	-.130	.029	-.220
Audit Quality	.643	.133	.913
GCG*Audit Quality	-.569	.073	-1.434
Ownership Structure *Audit Quality	-.219	.068	-.198

a. Dependent Variable: Earnings Management

Based on the output generated by SPSS in Table 6, it is known that the constant value in the Unstandardized coefficients B column is -0.263, the coefficient of the GCG (X1) variable is -0.523, the coefficient of the Ownership Structure (X2) variable is -0.130, the coefficient of the Audit Quality (Z) variable is 0.643, the coefficient of the interaction between GCG and Audit Quality is -0.569, and the coefficient of the interaction between Ownership Structure and Audit Quality is -0.219. Thus, the multiple linear regression equation is as follows:

$$\text{Earnings Management} = \alpha + \beta 1\ \text{GCG} + \beta 2\ \text{SK} + \beta 3\ \text{KA} + \beta 4\ \text{GCGKA} + \beta 5\ \text{SKKA (II)}$$

$$\text{Earnings Management} = -0.263 - 0.523\ \text{GCG} - 0.130\ \text{SK} + 0.643\ \text{KA} - 0.569\ \text{GCGKA} - 0.219\ \text{SKKA (II)}$$

I. *Hypothesis Testing T-Test Results*

This test is used to determine the effect of an independent variable individually in explaining the variation in the dependent variable, or in other words, to determine the partial effect of the independent variable using the t-test. If the significance value is < 0.05 or t-hitung > t-table, then Ha is accepted, and it is concluded that the independent variable has an effect on the dependent variable. Conversely, if the significance value is > 0.05 or t-hitung < t-table, then Ha is rejected, indicating that the independent variable does not significantly affect the dependent variable.

Table 7. T-Test Results (Partial)

Model	t	Sig.
(Constant)	-4.350	.000
GCG	-8.379	.000
Ownership Structure	-1.879	.062
Audit Quality	-6.615	.000

a. Dependent Variable: Earnings Management

Based on Table 7, the following conclusions can be drawn:

a. H1: Good Corporate Governance (GCG) affects Earnings Management

The t-test results show that Good Corporate Governance (GCG) has a significant effect on earnings management, with a t-hitung value of -8.379 and a significance of 0.000, which is less than 0.05. This indicates that H1 is accepted, meaning there is a strong relationship between the implementation of good GCG and company earnings management. The application of better GCG principles, such as transparency, accountability, and effective governance, can enhance more honest and transparent earnings management. Strong GCG plays a crucial role in encouraging companies to manage earnings according to applicable standards, reducing the likelihood of earnings manipulation that does not comply with regulations. Therefore, H1 stating that Good Corporate Governance (GCG) significantly affects earnings management can be accepted.

b. H2: Ownership Structure affects Earnings Management

Based on the t-test results in the table, ownership structure does not significantly affect earnings management. The t-hitung value for ownership structure is -1.879, with a significance value of 0.062, which is greater than 0.05. This shows that H0 is accepted and H1 is rejected, meaning that ownership structure does not significantly affect earnings management at the 5% significance level.

J. *Moderated Regression Analysis (MRA)*

This moderation test is conducted using the interaction test (MRA), where the moderating variable is multiplied by the independent variable to form an interaction variable. The regression results obtained are as follows in Table 8.

Table 8. MRA Test Results

Model	t	Sig.
(Constant)	-4.082	.000
GCG	-13.779	.000
Ownership Structure	-4.460	.000
Audit Quality	4.818	.000
GCG*Audit Quality	-7.808	.000
Ownership Structure *Audit Quality	-3.251	.001

a. Dependent Variable: Earnings Management

K. *Audit Quality moderates the effect of GCG on Earnings Management*

The MRA test results show that the interaction between GCG and Audit Quality has a t-hitung value of -7.808 and a significance value of 0.000. The significance value, which is much smaller than 0.05, indicates that Audit Quality significantly moderates the effect of Good Corporate Governance (GCG) on earnings management. This shows that the significance of the GCG (X1) variable with Audit Quality (Z) is significant at the 5% level, so this research accepts H3. It can be concluded that, partially or individually, the Audit Quality (Z) variable is able to moderate the effect of GCG (X1) on Earnings Management, meaning that hypothesis H3, which states "Audit Quality moderates the effect of GCG on Earnings Management," is accepted.

L. *Audit Quality moderates the effect of Ownership Structure on Earnings Management*

The MRA test results for the interaction between Ownership Structure and Audit Quality (Ownership Structure * Audit Quality variable) show a t-hitung value of -3.251 and a significance value of 0.001, which is also smaller than 0.05. This indicates that Audit Quality significantly moderates the effect of Ownership Structure on earnings management. This means that audit quality can influence how much ownership structure plays a role in managing company earnings. Therefore, it can be concluded that, partially or individually, the Audit Quality (Z) variable is able to moderate the effect of Ownership Structure (X2) on Earnings Management, meaning that hypothesis H4, which states "Audit Quality moderates the effect of Ownership Structure on Earnings Management," is accepted.

M. *Coefficient of Determination (R2) Test Results*

The Coefficient of Determination (R2) aims to determine how well the model explains the variation in the dependent variable. The value of the Coefficient of Determination ranges between zero and one. A small R2 value indicates that the independent variables have very limited ability to explain the dependent variable.

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Table 9. Coefficient of Determination (R2) Test Results

Model Summary[b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	0.872[a]	0.760	0.751	0.1759962

a. Predictors: (Constant), Ownership Structure *Audit Quality, GCG, GCG*Audit Quality, Ownership Structure , Audit Quality
b. Dependent Variable: Earnings Management

Based on Table 9, it can be seen that the R Square value is 0.760. This means that the variables GCG, Ownership Structure, Credit Distribution, and Audit Quality explain approximately 76% of the variation in Earnings Management.

N. Discussion GCG affects Earnings Management

Agency theory suggests that Good Corporate Governance (GCG) is an important mechanism to reduce conflicts of interest between owners and managers. In the context of earnings management, good GCG ensures that managers act in the interests of the owners and manage the company's earnings in a transparent and accountable way. GCG serves as an internal oversight tool that encourages managers to avoid earnings manipulation or decision-making that could harm the company's owners (Jensen & Meckling, 1976).

The results of the first hypothesis test show that GCG significantly affects earnings management. This result aligns with agency theory, which posits that the implementation of good GCG will improve internal oversight and reduce potential agency problems, such as earnings management that does not align with the interests of the owners. The application of GCG principles, such as transparency, accountability, and oversight, helps ensure that the company's earnings are managed in accordance with applicable standards, reducing the risk of earnings manipulation (La Porta et al., 2000).

Research by Kusumastuti & Dhewanto (2021) shows that good GCG can increase transparency and accountability in earnings management, thereby reducing potential earnings manipulation. Kusnadi & Leong (2021) also found that the implementation of good GCG plays a vital role in reducing non-transparent earnings management and improving the quality of the company's financial reports.

However, some studies, such as by Fathollahzadeh (2020), state that while GCG can help reduce agency problems, its influence is stronger in large companies with more stringent oversight systems. In smaller companies, the effect of GCG on earnings management may be more limited.

O. Ownership Structure does not affect Earnings Management

Agency theory suggests that ownership structure can influence earnings management, as owners who have greater control over the company can more easily oversee the actions of managers. A concentrated ownership structure gives owners more control over managerial decisions, including those related to earnings management (Jensen & Meckling, 1976). On the other hand, a more dispersed ownership structure can reduce oversight of managers, thereby increasing the potential for conflicts of interest.

However, the results of the second hypothesis test show that ownership structure does not significantly affect earnings management. This suggests that although agency theory suggests that ownership structure can influence earnings management, in this study, other factors such as GCG and audit quality are more dominant in ensuring transparent earnings management. Therefore, while ownership structure is important, oversight through other mechanisms may be more effective in managing earnings fairly and transparently.

Research by Kusnadi & Leong (2021) shows that concentrated ownership structure can enhance oversight of managers and affect earnings management. Additionally, Agustina & Nugroho (2020) found that a more concentrated ownership structure is related to more controlled decisions and a reduction in non-transparent earnings management practices.

However, Cruz et al. (2019) argue that while ownership structure can give owners more control, in many cases, a more dispersed ownership structure can actually improve transparency and earnings management because more parties are involved in decision-making. This study suggests that a more distributed ownership structure can enhance external oversight and reduce the potential for earnings manipulation by managers.

P. Audit Quality moderates the effect of GCG on Earnings Management

Audit quality acts as an external oversight mechanism that can strengthen the implementation of GCG in managing earnings. In agency theory, external oversight, especially through independent auditors, helps ensure that the company's financial statements reflect the true condition and are not manipulated for the personal benefit of managers. Competent and independent auditors can provide assurance to owners that earnings management is conducted transparently and in accordance with applicable standards (DeAngelo, 1981).

The results of the third hypothesis test show that audit quality moderates the effect of GCG on earnings management. This indicates that high audit quality strengthens the relationship between GCG and more transparent earnings management. In other words, independent and highly competent auditors can ensure that the GCG implemented in the company is reflected in fair earnings management, thereby reducing the potential for earnings manipulation by managers.

Research by Bédard et al. (2020) and Krishnan (2021) shows that high audit quality strengthens the influence of GCG on earnings management because independent auditors can provide better oversight of financial reports and managerial decisions related to earnings. DeAngelo (1981) also emphasizes the importance of audit quality in maintaining transparency in financial reporting and improving the effectiveness of oversight in earnings management.

However, Dyer & Phelan (2020) found that while audit quality is important, in countries with weaker regulations, the effect of audit quality on earnings management can be limited. This suggests that external factors, such as the strength of regulations and the level of trust in the legal system in the country, also play a role in determining the effectiveness of audit oversight.

Q. Audit Quality moderates the effect of Ownership Structure on Earnings Management

While ownership structure can give owners more control, external oversight still plays an important role in ensuring that managerial decisions are made transparently and in accordance with applicable accounting principles. Audit quality plays a role in improving earnings management influenced by ownership structure. A high-quality auditor can moderate the effect of ownership structure on earnings management decisions, ensuring that earnings management remains in the owners' interests, regardless of who owns the company.

The results of the fourth hypothesis test show that audit quality moderates the effect of ownership structure on earnings management. This means that although ownership structure can affect earnings management, high audit quality strengthens transparency and accountability in that earnings management. With strong external oversight, decisions made by owners or managers related to earnings management are more accountable, reducing the potential for non-transparent earnings management.

Simunic (1980) and Firth (2021) found that higher audit quality can strengthen oversight of managerial decisions and earnings management, especially when the company has a complex ownership structure. Fama & Jensen (2020) also show that audit quality can moderate the relationship between ownership and managerial decisions, ensuring transparency in earnings management.

However, Chen et al. (2022) argue that in companies with a concentrated ownership structure, internal oversight by owners is more important than external oversight through audit quality. This suggests that in companies with strong owner control, external oversight may not be as influential in moderating earnings management.

V. CONCLUSION

This study concludes that Good Corporate Governance (GCG) has a significant impact on earnings management by enhancing transparency, accountability, and oversight within companies. The application of key GCG principles helps align earnings management practices with the interests of shareholders. Furthermore, audit quality plays a critical moderating role, strengthening the relationship between GCG and transparent earnings management. Independent and competent auditors ensure that financial reporting adheres to established standards, reducing the risk of manipulation.

In contrast, ownership structure does not show a significant direct influence on earnings management. However, audit quality can enhance the impact of ownership structure, indicating that external oversight remains essential even in firms with concentrated ownership.

Based on these findings, it is recommended that companies focus on improving the implementation of GCG through ongoing education and training for both management and shareholders. Additionally, companies should prioritize selecting highly qualified and independent auditors to ensure credible financial reporting. Although ownership structure alone may not be a strong determinant, companies must still enforce effective internal controls. Regulatory authorities should also continue to monitor and strengthen policies related to GCG and audit quality. These efforts are crucial to fostering transparency, reducing agency conflicts, and enhancing stakeholder trust in financial reporting practices.

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