THE INFLUENCE OF INDEPENDENT COMMISSIONERS, AUDIT QUALITY, AND FINANCIAL DISTRESS ON EARNINGS MANAGEMENT

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Abstract

Earnings management is a series of actions taken by company management to increase reported earnings in a certain accounting period, without corresponding growth in the company’s long-term earnings. This is done by managers to satisfy personal interests or boost the market value of the company so that it will look profitable for users of financial information. This study aims to empirically examine the effect partially and simultaneously between the independent variables of independent commissioners, audit quality, and financial distress with the dependent variable of earnings management. The population of this study are manufacturing companies listed on the Indonesia Stock Exchange for the period 2021-2022. The sampling technique used is simple random sampling method with the final sample being 100 sample companies with a total of 200 observational data. The data analysis technique in this study used multiple linear regression analysis and the data was processed with the help of the SPSS Version 25 program. The results of this study indicate that independent commissioners partially had a significant negative effect on earnings management, audit quality partially had no effect on earnings management, and financial distress partially had a significant positive effect on earnings management. The results of research by independent commissioners, audit quality, and financial distress simultaneously have an influence on earnings management.

Keywords: Audit Quality, Earnings Management, Financial Distress, Independent Commissioners

1. INTRODUCTION

The Covid-19 pandemic that occurred in Indonesia since the first quarter of 2020 resulted in a decrease in Indonesia’s economic growth compared to the previous year. This is evident from the numerous companies that incurred losses during the first year of Covid-19 in Indonesia. According to the Central Statistics Agency, Indonesia's economic growth in 2020 showed a decline to 2.07% compared to the 5.02% growth in 2019; this is an impact of the policies of implementing Large-Scale Social Restrictions (PSBB) and Work-From-Home (WFH) by the government to curb the spread of Covid-19. As a consequence of these governmental policies to break the virus transmission chain, there emerged an existential threat to companies, leading to reduced demand and flight suspensions, consequently resulting in decreased revenue. This revenue decline motivated management to undertake earnings management due to the financial difficulties experienced by companies during the pandemic. Managers would manipulate company earnings, either by increasing profits or reducing losses, as a policy to weather the pandemic.

Consequently, the policies implemented would impact the quality of financial reporting during the Covid-19 pandemic. The accuracy of financial reports can show how much profit is generated from the company's business activities. Investors utilize financial reports while considering the profits generated by the company to make the best decisions.
for their future engagements with the company. Earnings management refers to a series of actions taken by company management to increase current reported earnings without a corresponding growth in the company’s long-term earnings.

Reported by CNBC Indonesia, a case of earnings manipulation that occurred in Indonesia was executed by PT Tiga Pilar Sejahtera Food Tbk, which was revealed in 2019 due to a fact-based investigation presented in the form of an investigative report by one of the accounting service companies included in The Big Four. This serves as an example of real-world earnings management practices and occurred in a manufacturing sector company in Indonesia. The new management of PT AISA eventually hired Ernst & Young Indonesia as a public accounting service to audit their finances on March 12, 2019, to investigate the company’s financial reports. According to the findings of the examination conducted by Ernst & Young Indonesia, it was discovered that audit procedures on the financial data of the year 2017 were overstated in some data. This was done to make their assets appear more impressive to the public; the company had a tendency to overstate their assets, known as overstatement.

Several cases of earnings management involve deviations made by managers in preparing financial reports solely with the aim of presenting the managed company favorably to creditors and investors. To achieve the targeted company financial reporting standards, earnings management is intentionally or knowingly carried out using discretionary policies that remain within reasonable bounds as per accounting rules. The existence of agency problems between shareholders and management results in asymmetric knowledge between them. However, earnings management does not contradict the regulations established in financial accounting standards.

There are many variables previously used to test earnings management practices are categorized into several factors in this study that can be used to evaluate earnings management practices. The first is company characteristics, a factor that can help identify managerial actions taken to manipulate earnings. Earnings management actions cannot be visibly observed, but information within company characteristics can be used to identify and control company earnings. The following variables are included in company characteristics that have been previously used to test earnings management: profitability, leverage, company size, sales growth rate, company age, and free cash flow. The second is factors related to corporate governance, used to monitor management performance, ownership structure, and the composition of the board of commissioners, making these three components critical components of corporate governance used to oversee management performance in the company. Variables included in corporate governance previously used in research include audit committees, independent commissioners, institutional ownership, and managerial ownership. The third factor consists of additional variables such as tax planning, deferred tax expenses, audit quality, and financial distress. Independent commissioners, audit quality, and financial distress become variables used to determine whether a company engages in earnings management or not.

Among these factors, independent commissioners, audit quality, and financial distress are pivotal variables in discerning whether a company engages in earnings management. Through an investigation of these factors, this study aims to provide a nuanced comprehension of the interplay among independent commissioners, audit quality, financial distress, and earnings management within the unique backdrop of the Covid-19 pandemic.
2. LITERATURE REVIEW

2.1. Agency Theory

Jensen and Meckling (1976) in their work titled "Theory of the firm: Managerial behavior, agency costs, and ownership structure" popularized agency theory, which is one of the fundamental financial theories used in the business world to explain the agency relationship between company owners (principals) and managers (agents) as the business administrators. This theory also addresses the primary issue faced by managers due to the separation of ownership and control of a company. According to Eisenhardt (1989), three underlying principles of agency theory are that humans are inherently self-interested, have limited capacity to predict the future (bounded rationality), and tend to avoid risks (risk averse). Thus, based on these three fundamental human nature principles, managers have a tendency to prioritize their own interests (opportunistic).

The consequences of self-serving managerial actions, such as manipulating company earnings due to not meeting the target, can have repercussions for the company's future. This, in turn, leads to the company incurring agency costs. The presence of independent commissioners as internal controls and audit quality from reputable audit firms like the Big Four as external controls can help mitigate these agency costs. Jensen and Meckling (1976) state that audits are a form of monitoring used by companies to reduce agency costs with creditors and shareholders. Users of financial statements, especially shareholders, base decisions on audited reports. Audit quality is determined by the size of the audit firm, either from the Big Four or non-Big Four firms. Hence, this theory is deemed capable of representing the influence of the variables of independent commissioners and audit quality in this research concerning earnings management.

2.2. Signaling Theory

Spence (1973) introduced a theory called signaling theory, which posits that company owners, as senders of signals, will convey information that is useful and beneficial for investors, the signal recipients, to understand the company's condition. These signals encompass information required by investors, such as corporate governance factors like independent commissioners, the quality of company audits performed by external auditing services, the company's ability to meet obligations (liabilities) including instances of financial distress, and the company's business risk. This information serves as essential signals for investors and business actors in making investment decisions. Investors must first determine whether the acquired information represents positive or negative signals.

According to Lo (2012), signaling theory depicts how the management's perspective on the company's future growth will influence and attract potential investors. Management will make efforts to allure prospective investors, including adopting earnings management accounting policies to inflate the company's value before stakeholders.

2.3. Earnings Management

Earnings management entails manipulative actions by managers with the motivation to achieve personal gains by altering the company's accounting techniques, aiming to present a misleading depiction of the company's performance (Healy & Wahlen, 1999). In this study, earnings management is measured using the Modified Jones Model proxy (Dechow et al., 1995), which is calculated using the following formula:

a. Find the company's total accruals
TACit = NIit – CFOit

Description:
- TACit = Total Accruals of company i in year t
- NIit = Net income of company i in year t
- CFOit = Cash flow from operating activities of company i in year t

b. Determining the value of total accruals with a simple linear equation (Ordinary Least Square)

\[
\frac{TACit}{Ait - 1} = \beta_1 \left( \frac{1}{Ait - 1} \right) + \beta_2 \left( \frac{\Delta REVit}{Ait - 1} \right) + \beta_3 \left( \frac{PPEit}{Ait - 1} \right) + eit
\]

Description:
- TACit = Total company accruals in year t
- Ait-1 = Total assets of the company in period t-1
- ∆REVit = Change in profit of company i in year t
- ∆RECit = Change in receivables of company i in year t
- PPEit = Property, Plant, Equipment of company i in year t
- β1, β2, β3 = Regression coefficient
- eit = Error item of company i in year t

c. Calculating the Non-discretionary Accrual Model (NDAC)

\[
NDACit = \beta_1 \left( \frac{1}{Ait - 1} \right) + \beta_2 \left( \frac{\Delta REVit - \Delta RECit}{Ait - 1} \right) + \beta_3 \left( \frac{PPEit}{Ait - 1} \right)
\]

Description:
- NDACit = Non-discretionary Accruals company i in year t

d. Calculating the Discretionary Accrual

\[
DACit = \frac{TACit}{Ait - 1} - NDACit
\]

Description:
- DACit = Discretionary accruals company in year t.

2.4. Independent Commissioner

Independent commissioners are members of the board of commissioners who have no affiliation with management, other commissioners, or controlling shareholders. They are also free from any business ties or other affiliations that might affect the way they make decisions and think independently (Setiyawati et al., 2018).

The formula for independent commissioners according to the Financial Services Authority Regulation (OJK) article 19 paragraph 2 (2017) which explains that independent commissioners are at least 30% as follows:

\[
PDKI = \frac{Total \ Independent \ commissioners}{Total \ Board \ of \ Commissioners}
\]
2.5. Audit Quality

According to De Angelo (1981), audit quality is the possibility (joint probability) that an auditor will find and report violations that exist in his client's accounting system. The audit quality variable measured in this study uses a dummy variable. If the company's financial statements are audited by a Public Accounting Firm affiliated with the Big Four, it will get a number 1, and vice versa if the company's financial statements are audited by a Public Accounting Firm outside the Big Four, it will get a number 0 (De Angelo, 1981).

2.6. Financial Distress

Financial distress is defined as a long-lasting negative situation in which the company experiences poor financial conditions such as low liquidity, inability to pay debt, restrictions on dividend distribution policies, increased cost of capital, reduced access to external funding sources, and weaker credit ratings (Agostini, 2018).

In this study, financial distress is measured using the Modified Altman Model calculation. According to Ramadhani and Luvkiarman (2009), the Modified Altman Model formula is as follows:

\[
Z = 6.56X_1 + 3.26X_2 + 6.72X_3 + 1.05X_4
\]

\[Z'' = Z\text{-Score Index}\]

\[X_1 = \frac{\text{Working Capital}}{\text{Total Assets}}\]

\[X_2 = \frac{\text{Retained Earning}}{\text{Total Assets}}\]

\[X_3 = \frac{\text{Earning Before Interest and Taxes}}{\text{Total Assets}}\]

\[X_4 = \frac{\text{Book Value of Equity}}{\text{Book Value of Total Debt}}\]

Z-Score is divided into three categories based on the Modified Altman Model, which are as follows:

a. The company is considered healthy if the \(Z'' > 2.6\)

b. The company falls into the "gray area" category if the value is \(1.1 < Z'' < 2.6\).

  (It cannot be determined whether the business is developing in a healthy or unhealthy manner).

c. The company is included in the "unhealthy" category if the \(Z'' < 1.1\).

Figure 1. Theoretical Framework
3. RESEARCH METHODS
In this study, the unit of analysis consists of manufacturing companies listed on the Indonesia Stock Exchange (BEI) during the years 2021-2022. The population for this research comprises manufacturing companies listed on the BEI within the years 2021-2022, encompassing sectors such as basic and chemical industries, various industries, and consumer goods industries. The total population of the study consists of 239 manufacturing companies listed on the BEI in 2022. The sampling method employed in this research is the simple random sampling method, which provides an equal chance for each element of the population to be selected as a sample member. However, due to limitations in available data on selected variables, the accessible population is determined based on certain criteria.

Data collection for this study involves the utilization of secondary data through a documentation approach, which includes the collection of annual financial reports of companies operating in the consumer goods industry sector. These reports are gathered from the Indonesia Stock Exchange (BEI) website or the respective company websites. The research data draws from information in the annual financial reports of companies, with the research variables encompassing independent commissioners, audit quality, and financial distress. These variables are used to understand the influence of earnings management practices within companies. The research period spans two years, from 2021 to 2022.

4. RESULTS AND DISCUSSION
4.1. Result
4.1.1. Descriptive Statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>DAC</td>
<td>200</td>
<td>-0.28</td>
<td>0.13</td>
<td>-0.0400</td>
<td>0.0706</td>
</tr>
<tr>
<td>PDKI</td>
<td>200</td>
<td>0.22</td>
<td>1.00</td>
<td>0.4292</td>
<td>0.1223</td>
</tr>
<tr>
<td>KA</td>
<td>200</td>
<td>0</td>
<td>1</td>
<td>0.3200</td>
<td>0.4680</td>
</tr>
<tr>
<td>FD</td>
<td>200</td>
<td>-5.89</td>
<td>14.59</td>
<td>4.0686</td>
<td>3.9705</td>
</tr>
</tbody>
</table>

Based on the table above, the variable Y, which represents Earnings Management, shows a minimum value of -0.28 and a maximum value of 0.13, with a mean of -0.0400 and a standard deviation of 0.0706. Variable X1, Independent Commissioners, displays a minimum value of 0.22 and a maximum value of 1.00, with a mean of 0.4292 and a standard deviation of 0.1223. Variable X2, Audit Quality, indicates a minimum value of 0 and a maximum value of 1, with a mean of 0.3200 and a standard deviation of 0.4680. Variable X3, Financial Distress, demonstrates a minimum value of -5.89 and a maximum value of 14.59, with a mean of 4.0686 and a standard deviation of 3.9705.
4.1.2. Classical Assumption Test
a. Normality Test

Table 2. Results of Normality Test

<table>
<thead>
<tr>
<th>Normality</th>
<th>N</th>
<th>Unstandardized Residual</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asymp. Sig. (2-tailed)</td>
<td>200</td>
<td>0.063</td>
<td>Normally Distributed Data</td>
</tr>
</tbody>
</table>

Based on Table 2, it can be seen that the Asymp. Sig. after the normality test is 0.063, where this value is > 0.05. So, it can be concluded that the data used in this study is normally distributed.

b. Multicollinearity Test

Table 3. Multicollinearity Test Results

<table>
<thead>
<tr>
<th>Variable</th>
<th>Tolerance</th>
<th>VIF</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>PDKI</td>
<td>0.994</td>
<td>1.006</td>
<td>No Multicollinearity Occurs</td>
</tr>
<tr>
<td>KA</td>
<td>0.945</td>
<td>1.059</td>
<td>No Multicollinearity Occurs</td>
</tr>
<tr>
<td>FD</td>
<td>0.940</td>
<td>1.064</td>
<td>No Multicollinearity Occurs</td>
</tr>
</tbody>
</table>

Based on Table 3, it can be observed that the Tolerance values for each independent variable are 0.994 for Independent Commissioners, 0.945 for Audit Quality, and 0.940 for Financial Distress. Meanwhile, the VIF values for each independent variable are 1.006 for Independent Commissioners, 1.059 for Audit Quality, and 1.064 for Financial Distress. The Tolerance and VIF values for all these variables are both >0.10 for Tolerance and <10 for VIF. Therefore, it can be concluded that there is no issue of multicollinearity among the independent variables in this study.

c. Autocorrelation Test

Table 4. Autocorrelation Test Results

<table>
<thead>
<tr>
<th>Model</th>
<th>Durbin-Watson Value (n = 200 dan k = 3)</th>
<th>4 - dU</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1.955</td>
<td>1.799</td>
<td>2.201</td>
</tr>
</tbody>
</table>

In Table 4, it can be seen that the Durbin-Watson value is 1.955. Furthermore, based on the Durbin-Watson table with α = 5%, k = 3, and n = 200, the upper bound (dU) and lower bound (dL) numbers are dU = 1.7990 and dL = 2.2010, respectively. These three values indicate that dU < d < 4 - dU or 1.7990 < 1.955 < 2.2010. It means that there is no autocorrelation problem in this research data.
d. Heteroscedasticity Test

<table>
<thead>
<tr>
<th>Variable</th>
<th>Sig.</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>PDKI</td>
<td>0.861</td>
<td>No Heteroscedasticity Occurs</td>
</tr>
<tr>
<td>KA</td>
<td>0.316</td>
<td>No Heteroscedasticity Occurs</td>
</tr>
<tr>
<td>FD</td>
<td>0.270</td>
<td>No Heteroscedasticity Occurs</td>
</tr>
</tbody>
</table>

Based on Table 5, it can be observed that the Sig. values obtained for each independent variable are 0.861 for Independent Commissioners, 0.316 for Audit Quality, and 0.270 for Financial Distress. Thus, it can be concluded that there is no occurrence or presence of heteroskedasticity issue among the independent variables in this study.

e. Multiple Linear Regression Analysis

The multiple linear regression equation is obtained from the unstandardized coefficients B in the SPSS test results.

\[
DAC = -0.032 + 0.081 \text{ (IC)} + 0.019 \text{ (AQ)} + 0.008 \text{ (FD)} + e
\]

The explanation of the above multiple linear regression equation is as follows:

- The constant value in the regression equation is -0.032, meaning that if the values of Independent Commissioners, Audit Quality, and Financial Distress are zero or constant, the value of earnings management will be -0.032.
- The coefficient value of Independent Commissioners (IC) is 0.081. This means that for every one percent increase in Independent Commissioners, earnings management will decrease by 0.081, assuming that other independent variables remain constant or zero. A negative coefficient indicates a negative relationship between the Independent Commissioners variable and earnings management.
- The coefficient value of Audit Quality is 0.019. This signifies that if Audit Quality increases by one percent, earnings management will decrease by 0.019, assuming that other independent variables remain constant or zero. A negative coefficient indicates a negative relationship between the Audit Quality variable and earnings management.
- The coefficient value of the Financial Distress variable is 0.008, which means that if the Financial Distress variable increases by one percent, earnings management will also decrease by 0.008, assuming that other variables are considered constant or zero. A positive coefficient indicates a positive relationship between Financial Distress and earnings management.
f. Coefficient of Determination Test (R² Test)

The results of the coefficient of determination (R2 test) are presented in Table 6 below.

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.468</td>
<td>0.219</td>
<td>0.207</td>
<td>0.06291</td>
</tr>
</tbody>
</table>

The table above indicates that the Adjusted R Square value of the regression model in this study is 0.207 or 20%. This figure is far from one, which means that the independent variables consisting of Independent Commissioners, Audit Quality, and Financial Distress can only provide a small amount of information to predict the dependent variable or earnings management. The remaining 80% is explained by other independent variables not used in this research model.

g. Model Adequacy Test (F-Test)

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>3</td>
<td>0.072</td>
<td>18.304</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>196</td>
<td>0.004</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>199</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Based on Table 7 above, it can be observed that the significance value (Sig.) obtained in the F-test (F-value) is 0.000, where this value is < 0.05. Therefore, it can be concluded that the regression model used in this study is suitable for use.

h. Partial Significance Test (T-Test)

<table>
<thead>
<tr>
<th>Model</th>
<th>Coefficients B</th>
<th>t</th>
<th>Sig.</th>
<th>Hypothesis Direction</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>-0.032</td>
<td>-1.824</td>
<td>0.070</td>
<td>Negative</td>
<td>H1 Accepted</td>
</tr>
<tr>
<td>PDKI</td>
<td>-0.081</td>
<td>-2.213</td>
<td>0.028</td>
<td>Negative</td>
<td>H1 Accepted</td>
</tr>
<tr>
<td>KA</td>
<td>-0.019</td>
<td>-1.941</td>
<td>0.054</td>
<td>Negative</td>
<td>H2 Rejected</td>
</tr>
<tr>
<td>FD</td>
<td>0.008</td>
<td>6.873</td>
<td>0.000</td>
<td>Positive</td>
<td>H3 Accepted</td>
</tr>
</tbody>
</table>
4.2. Discussion

4.2.1. The Influence of Independent Commissioners on Earnings Management

Based on the results of the conducted tests, it can be stated that the proportion of independent commissioners has a negative influence on earnings management. This implies that as the number of independent commissioners increases, it can reduce managerial actions in engaging in earnings management practices. Conversely, if the proportion of independent commissioners is low, it might elevate earnings management activities. The presence of independent commissioners enhances the supervisory function within the company, monitoring management policies, and providing advice to management in line with their tasks and functions. Thus, a higher proportion of independent commissioners in a company contributes to good corporate governance, which minimizes earnings management actions. These findings align with the study by Arifin et al. (2022), asserting a negative influence of the proportion of independent commissioners on earnings management. Independent commissioners also provide recommendations if there is a discrepancy in the company's business operations to aid the board of commissioners as a balancing component in decision-making (Hadinata & Oktorina, 2023). Other studies by Fionita and Fitra (2021), Anabella and Wijaya (2022), and Yispa (2022) also claim that independent commissioners have an impact on earnings management. This is due to their responsibility to oversee the accuracy of financial statement information.

4.2.2. The Influence of Audit Quality on Earnings Management

Studies conducted by Helmi (2023) and Felicya and Sutrisno (2022) confirm that audit quality negatively affects earnings management. According to these findings, as audit quality increases, the level of earnings management in the company decreases, as effective audits enhance public perception and trust in the company's financial statements. However, contrasting with the test results in this study, it indicates that audit quality does not significantly affect earnings management. This implies that there is not a substantial difference in audit outcomes between Big Four and Non-Big Four audit firms. Both external auditors, whether from Big Four or Non-Big Four firms, conduct audits based on the same auditing standards, as reflected in the Independent Audit Report section of the company's financial statements. Therefore, as long as public accountants adhere to professional ethical codes, it will result in good audit quality and limit companies from engaging in earnings management. Nonetheless, these results correspond with Asyati and Farida's (2020) study, stating that audit quality does not impact earnings management.

4.2.3. The Influence of Financial Distress on Earnings Management

Studies by Damayanti and Nugrahati (2022), Mellenia and Khomsiyah (2023), and Mustika et al. (2020) demonstrate that financial distress has a positive impact on earnings management. Consistently, the test results show that financial distress has a positive influence on earnings management. This suggests that during financial difficulties, managers tend to engage in earnings management practices to maintain the company's performance and appear favorable to investors. Moreover, earnings management is also carried out to protect managers' personal interests in safeguarding their positions and status, as any perceived decline in company performance is often attributed to poor managerial performance. These results align with Mellenia & Khomsiyah's (Mellennia &
Khomsiyah, 2023) study, confirming a positive impact of financial distress on earnings management.

4.2.4. The Simultaneous Influence of Independent Commissioners, Audit Quality, and Financial Distress on Earnings Management

Based on the data analysis results, it is evident that independent commissioners, audit quality, and financial distress simultaneously influence earnings management. This is evident from the F-test results with a significance level of 0.000, which is smaller than 0.05. Implementing a higher proportion of independent commissioners offers effective protection for information received by company stakeholders, particularly investors and creditors. While audit quality does not influence the tendency of management to engage in earnings management, this indicates that both Big Four and Non-Big Four audit firms cannot significantly reduce earnings management actions. Lastly, the higher the level of financial distress in a company, the greater its inclination to engage in earnings management. This is done to secure funding required by the company to maintain a favorable performance and retain investors. Furthermore, earnings management is also conducted to safeguard managers’ personal interests in protecting their positions and status, as perceived poor company performance is typically attributed to inadequate managerial performance.

5. CONCLUSION

A comprehensive analysis of the influence of independent commissioners, audit quality, and financial distress on earnings management provides valuable insights into contemporary corporate practices. The negative effect of independent commissioners on earnings management highlights their important role in ensuring transparent governance and ethical behavior. Their presence strengthens oversight, reducing the likelihood of earnings management practices. Although audit quality does not have a significant impact, enforcing consistent and rigorous standards remains essential to maintaining public trust. The positive correlation between financial distress and earnings management underscores the urgency of transparent strategies during challenging periods. Companies should prioritize transparent reporting and strategic approaches, improving operational performance and financial restructuring to deal with such situations.

These findings collectively emphasize the importance of strong corporate governance, steadfast audit practices, and transparent reporting in navigating the complicated earnings management landscape. Incorporating these insights into business strategies can promote sustainable growth, strengthen stakeholder trust, and uphold the integrity of financial reporting. Efforts to improve operational performance and financial restructuring will prove more fruitful than relying on temporary earnings management practices.

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