
DETERMINATION OF EARNINGS MANAGEMENT: REVIEWED FROM THE PERSPECTIVE OF AUDIT QUALITY, AUDIT COMMITTEE, AND FINANCIAL PERFORMANCE



Tegar Apriansyah Wismajaya Putra¹
Universitas Swadaya Gunung Jati, Cirebon, Indonesia
tegar.122040132@ugj.ac.id

Moh. Yudi Mahadianto²
Universitas Swadaya Gunung Jati, Cirebon, Indonesia

Abstract

The purpose of this study is to evaluate earnings management factors in transportation and logistics companies listed on the Indonesia Stock Exchange (IDX) from 2023 to 2024 from the perspectives of audit quality, audit committee size, and financial performance. This study uses a quantitative approach based on secondary data obtained from the companies' annual reports. Using the modified Jones Model, discretionary ratios are used to calculate earnings management. Public accounting firm affiliation (Big Four and Non-Big Four) determines audit quality, audit committee size is measured by the number of members, and financial performance is proxied by Return on Assets (ROA). The results show that audit quality has a negative and significant impact on earnings management; therefore, high-quality auditors can suppress earnings management practices. There is no evidence that audit committees have a significant impact on earnings management, suggesting that their existence may be ineffective if not accompanied by optimal quality and oversight. Meanwhile, financial performance has a positive and significant impact on earnings management, indicating that companies with high profitability are more likely to engage in earnings adjustments. Simultaneously, audit quality, audit committee size, and financial performance have a significant influence on earnings management.

Keywords: Earnings Management, Audit Quality, Audit Committee, Financial Performance, Transportation and Logistics

INTRODUCTION

Financial reports are crucial for building a positive reputation for the company in the investors perspective. Financial reporting is created to provide stakeholders with relevant and reliable decision-making information. However, there is a possibility of a conflict of interest between management (agent) and owners (principal) in agency theory. According to (Ardyanti, 2023), the principal trusts management, which acts as an agent to manage the business and report the results (Ardyanti, 2023). Management may be motivated to implement Earnings Management practices due to a lack of information and pressure to meet financial targets.

Because it has proven to be the basis for several major accounting scandals, including the US Enron and WorldCom scandals, EM remains very important globally (Cornett et al., 2008). Phenomena in various countries show that this mechanism does not always function well. One of the most seemingly profitable companies in the pharmaceutical industry, Vien Dong Pharmaceutical Joint Stock Company (DVD), in Vietnam, suddenly went bankrupt in 2011. This happened despite the company's profit growth rate being reported at 325 percent in 2009, when DVD ranked first in the industry (Nguyen et al., 2024). And the scandal in Indonesia, the controversy over the 2018 annual financial report of PT. Garuda Indonesia (Persero) Tbk. (GIAA), which initially showed a net profit of Rp. 11.33 billion, despite previously being in a state of loss. The financial report sparked controversy because two commissioners refused to sign it (www.cnbcindonesia.com). This shows that EM practices are still being carried out even to the company has been audited and has an audit committee. This indicates that there is a research gap and inconsistent results.

Earnings management (EM) is the action of managers to intervene in the financial reporting process with the aim of providing misleading information about the company's performance to stakeholders (Nguyen et al., 2024). This practice can reduce earnings quality, lower shareholder trust, and produce dishonest financial statements (Alsaadi, 2025). This study uses agency theory to explain how pressure to achieve financial targets can motivate management to implement Earnings Management practices in financial statements (Nurfadilah & Mahadiano, 2025).

On the audit quality variable, several studies such as (Becker et al., 1998) found that audit quality plays a significant role in suppressing earnings management practices because high-quality auditors are better at detecting financial statement manipulation. However, another study by (Siregar & Utama, 2008) actually shows that audit quality does not significantly affect earnings management, especially in companies with high management pressure or weak governance structures. This inconsistency indicates that the impact of audit quality on earnings management has not yet provided a definitive conclusion, thus requiring further testing in different contexts of sectors, periods, and company characteristics.

Similarly, (Klein, 2002) found that the independence and size of the Audit Committee (X2) are negatively correlated with the level of earnings management. The Audit Committee (X2) is an internal oversight mechanism that has an important task in ensuring the financial reporting process remains clean. The effectiveness of the audit committee depends on its primary qualities, especially independence and financial expertise. Research also shows that the size and frequency of committee members are very important for understanding and addressing issues in making complex managerial accounting decisions. However, in the study (Boediono, 2005), it was found that the presence of an audit committee does not always

have a significant impact on reducing earnings management practices, especially when the audit committee is merely formal or does not optimally perform its oversight function. This condition indicates an empirical gap regarding the effectiveness of the audit committee in controlling earnings management practices.

Financial factors and oversight functions have been the focus of previous research. Nevertheless, research conducted in Indonesia that comprehensively evaluates the determinants of EM is still very limited. There is still disagreement about the effectiveness of audits and audit committees in emerging markets, as well as about the role of financial performance (X3) in whether poor performance triggers EM (to cover losses) or good performance actually provides room for EM (to reduce profits). Positive accounting theory can explain the relationship between financial performance (X3) and earnings management (Watts & Zimmerman, n.d.). On the contrary, businesses with poor financial performance (for example, low profits or close to losses) are highly motivated to engage in earnings management. Often, this motivation stems from the desire to anticipate a breach of debt covenants (debt covenant hypothesis). On the other hand, companies with very good financial performance, which generate high profits, may also be motivated to smooth earnings to reduce political visibility or to set aside "reserves" of profits for the future (Watts & Zimmerman, n.d.). In previous research focusing on financial factors, this multifaceted relationship was studied (Prasetyo & Suhendah, 2023). The inconsistency in the relationship between financial performance and earnings management highlights an important research gap that needs to be reexamined.

This research focuses on transportation sector companies listed on the Indonesia Stock Exchange in 2023 - 2024 to re-evaluate earnings management factors. Compared to the manufacturing sector, which has been the focus of EM research, this study simultaneously examines the combination of governance variables (Audit Quality, Audit Committee) and performance variables (Financial Performance) in the transportation and logistics sector as the novelty of this research.

REVIEW OF LITERATURE

Agency Theory

According to agency theory (Jensen & Meckling, 1976), agency is a contractual agreement in which the agent (management) is assigned to manage and oversee the economic assets of the investor (principal). In a company, an independent audit committee is usually considered beneficial because it can assist the committee in evaluating financial reports objectively and impartially, as well as reduce the likelihood of earnings management practices (Saleh & Mansour, 2024). Due to the difference in objectives between management (agent) and shareholders (principal), this agency theory emerged as a response to the potential conflict of interest between the two. To ensure that the company's financial statements always appear profitable to shareholders, management employs earnings management practices (Nurfadilah & Mahadiano, 2025). This theory explains why oversight mechanisms such as the Audit Quality Committee and the Audit Committee are necessary to prevent disagreements.

Audit quality is "the joint probability that an auditor will (a) discover violations in a client's accounting system, and (b) report them" (DeAngelo, 1981). It is projected that high audit quality, often associated with the size of the audit firm (Big 4 versus Non-Big 4) or

industry specialization, will enable more efficient identification and prevention of earnings management practices.

Discretionary accruals of Big 4 auditor clients are much lower than those of Non-Big 4 auditor clients (Becker et al., 1998). This finding supports the theory that high-quality auditors (who possess greater reputation, expertise, and autonomy) serve as an effective barrier against earnings management. Thus, this theory is used to explain how Audit Quality (Variable X1) as an external monitoring tool can influence (reduce) Earnings Management practices (Variable Y).

According to agency theory, an effective audit committee, especially one that is independent and knowledgeable in finance, can help the principal oversee the agent (management). The audit committee is generally considered beneficial because it can help evaluate financial statements objectively and without bias (Saleh & Mansour, 2024). An important study (Klein, 2002) found that the level of the audit committee is negatively correlated with the level of earnings management. This study also resulted in effectively limiting earnings management practices, namely by having audit committee members with expertise in finance. And this is supported by another study, namely (Nurfadilah & Mahadianto, 2025), which states that the audit committee influences financial statement fraud or earnings management.

Thus, this theory is used to explain how the effectiveness of the Audit Committee (Variable X2), measured thru its characteristics (such as independence or expertise), can influence (reduce) Earnings Management practices (Variable Y).

Positive Accounting Theory

This theory was popularized by (Watts & Zimmerman, n.d.) and focuses on efforts to define and predict unstructured accounting practices that occur in companies. According to this theory, managers will choose accounting policies that maximize their profits. Three main hypotheses, the bonus plan hypothesis, the debt covenant hypothesis, and the political cost hypothesis, indicate that this theory is relevant for explaining financial performance variables.

Positive Accounting Theory is the basis of this variable (Watts & Zimmerman, n.d.). This theory states that managers are motivated to use certain accounting policies to maximize their benefits. Incentives are directly provided by the company's financial performance. The Bonus Plan Theory received its first empirical evidence from a study published in the *Journal of Accounting and Economics* (Healy & Wahlen, 1998). Performance (related to targets) and earnings management are closely related; the results show that managers regularly manipulate accounting accruals to increase their bonuses. Therefore, this concept is used to explain how Financial Performance (Variable X3) provides incentives or motivation to managers to engage in Earnings Management (Variable Y).

Framework and Hypothesis

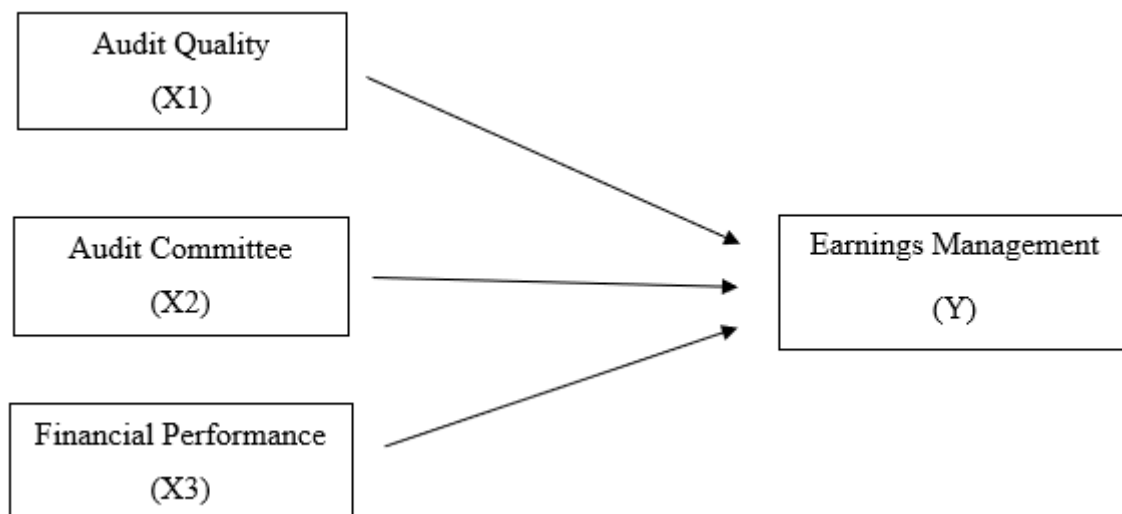


Figure 1. Framework Of Thought

The quality of the audit is estimated to influence the level of earnings management. Auditors with high competence, extensive experience, and strong independence, especially those from the Big Four audit firms, are more capable of detecting deviations or manipulations in financial statements. Thus, companies audited by high-quality auditors tend to have a lower likelihood of engaging in earnings management. This leads to the assumption that audit quality has a negative relationship with earnings management practices.

H1 : Audit Quality Affects Earnings Management.

The audit committee is predicted to play a role in reducing earnings management. The audit committee, as an internal supervisory body, functions to ensure that the financial reporting process runs transparently, accurately, and in accordance with standards. An audit committee with independent members, an adequate number of members, and a high frequency of meetings can enhance the effectiveness of supervision, thereby reducing earnings manipulation practices. Therefore, the audit committee is suspected of also influencing the level of earnings management in the company.

H2 : Audit Committee Affects Earnings Management.

Financial performance is also expected to have a relationship with earnings management practices. Companies with poor performance generally face pressure to show good performance in the eyes of shareholders and the market. This condition can encourage management to take opportunistic actions in the form of earnings management. Conversely, companies with good performance do not have strong incentives to manipulate. This indicates that financial performance has the potential to significantly influence earnings management.

H3 : Financial Performance Affects Earnings Management.

RESEARCH METHOD

This research uses a quantitative method with a causal associative approach, which focuses on the analysis of cause-and-effect relationships. This approach was chosen to empirically test the hypothesis regarding how non-financial variables (Audit Quality and

Audit Committee) and financial variables (Financial Performance) can influence Earnings Management practices (Mahadianto, 2017).

Population and Sample

The population of this study consists of transportation and logistics sector companies listed on the Indonesia Stock Exchange (IDX) for the years 2023 - 2024. To determine the sample, this study uses the Purposive Sampling technique, which is the selection of samples based on specific criteria relevant to the research objectives. The established criteria must ensure the availability of complete and consistent data for all measured variables, thereby providing the latest and valid empirical evidence. (1) Listed Companies on the IDX: The company must be listed as a transportation and logistics sector company on the Indonesia Stock Exchange (IDX) consecutively during the research period, namely 2023 - 2024. (2) Availability of Annual Financial Statements: The company must publish the Annual Financial Statements (audited) in Rupiah currency and as of December 31 in full during the 2023 - 2024 period. (3) Availability of Variable Data: The company must have complete and adequate data for all research variables, which include: Information regarding the Public Accounting Firm (KAP) conducting the audit (for the Audit Quality proxy), information regarding the composition of the Audit Committee (for the Audit Committee proxy), Data Net Income and Total Assets (for the proxy of Financial Performance/ROA), and Data needed for the calculation of Discretionary Accruals (DAC) (for the proxy of Earnings Management). Based on the sample selection thru those criteria, there are 66 sample data that were studied.

Data Collection Techniques

This research uses secondary data. Secondary data is data obtained indirectly by the researcher, but rather obtained from existing reports, publications, or archives. This research uses documentation techniques in data collection. This technique is carried out by collecting secondary data obtained from annual reports published on the official website of the Indonesia Stock Exchange (www.idx.co.id) and the official websites of each company.

Measurement

Audit quality (X1) is determined based on the size of the Public Accounting Firm (Big Four or non-Big Four). The Big Four accounting firms are used as a proxy.

$$Audit\ Quality = \begin{cases} 1, & \text{if the company is audited by a Big Four} \\ 0, & \text{if the company is audited by a Non Big Four} \end{cases}$$

Audit committee (X2), measured based on the number of members and the proportion of audit committee members.

Financial performance (X3), measured using financial ratios such as Return on Assets (ROA).

$$ROA = \frac{Net\ Income}{Total\ Asset} \times 100\%$$

Earnings management (Y), calculated using the discretionary accrual approach Modified Jones Model (Dechow et al., 1995).

Total Accruals (TACC)

$$TACC_{it} = Net\ Income_{it} - Cash\ Flow\ from\ Operations_{it}$$

Regression model for Non-Discretionary Accruals (NDA)

$$\frac{TACC_{it}}{A_{i,t-1}} = \alpha_1 \frac{1}{A_{i,t-1}} + \alpha_2 \frac{\Delta REV_{it} - \Delta REC_{it}}{A_{i,t-1}} + \alpha_3 \frac{PPE_{it}}{A_{i,t-1}} + \varepsilon_{it}$$

Symbol decription :

A_{it-1} = total assets of the company at the beginning of the year (t-1)

ΔREV_{it} = revenue from t-1 to t

ΔREC_{it} = receivables from t-1 to t

PPE_{it} = value gross property, plant, equipment

α₁, α₂, α₃ = estimated regression coefficient

ε_{it} = error term

Non-Discretionary Accruals (NDA)

$$NDA_{it} = \hat{\alpha}_1 \frac{1}{A_{i,t-1}} + \hat{\alpha}_2 \frac{\Delta REV_{it} - \Delta REC_{it}}{A_{i,t-1}} + \hat{\alpha}_3 \frac{PPE_{it}}{A_{i,t-1}}$$

Description :

NDA_{it} = non-discretionary accrual of company i in year t

α̂ (alpha-hat) = the regression coefficient obtained from the previous stage

Discretionary Accruals (DA) – Variable Y

$$DA_{it} = \frac{TACC_{it}}{A_{i,t-1}} - NDA_{it}$$

Description :

DA_{it} = discretionary accruals

Positive value → earnings management increases profits

Negative value → earnings management reduces earnings

Data Analysis Techniques

The data analysis technique in this study uses the Statistical Package for the Social Sciences (SPSS) adjusted to the use of secondary data in the form of the company's annual financial report, so the analysis is focused on calculating the research variables and hypothesis testing using inferential statistical methods. The stages of data analysis include: (1) Descriptive Analysis (2) Classical Assumption Test (3) Multiple Linear Regression Analysis Test (4) T-test (5) Model Feasibility Test

RESULTS AND DISCUSSION

Table 1.
Descriptive Analysis

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
KAP	66	.00	1.00	.2879	.45624
AC	66	3.00	6.00	3.1061	.46835
ROA	66	-.267	.903	.07379	.170151
Manajemen_Laba	66	-.590	13.890	.97803	1.736032
Valid N (listwise)	66				

Source : Data processed by researchers (2026)

Based on the results of descriptive statistical tests on 66 observation data, the characteristics of each research variable are as follows.

The Audit Quality variable with the KAP proxy has a minimum value of 0.00 and a maximum of 1.00, with a median value of 0.2879 and a standard deviation of 0.45624. This value indicates that most of the sample has not yet used a Public Accounting Firm (KAP) and there is a considerable variation in their use of KAP among the sample companies.

The Audit Committee variable has a minimum value of 3.00 and a maximum of 6.00, with an average value of 3.1061 and a standard deviation of 0.46835. This indicates that, in general, the number of audit committee members in the sample companies is around three people, in accordance with the minimum requirement, and has a relatively low level of variation.

The Financial Performance variable with the ROA (Return on Assets) proxy shows a minimum value of -0.267 and a maximum value of 0.903, with an average of 0.07379 and a standard deviation of 0.170151. These results indicate that the company's ability to generate profit from its assets is still relatively low, and there are significant differences in financial performance among the sample companies.

Their Earnings Management variable has a minimum value of -0.590 and a maximum of 13.890, with an average value of 0.97803 and a standard deviation of 1.736032. Their standard deviation value, which is greater than their average value, indicates a significant variation in earnings management practices among their sample companies, as well as a significant difference in their levels of earnings management being conducted.

Classical Assumption Test

Table 2.
Normality Test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		66
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	1.33854054
Most Extreme Differences	Absolute	.204
	Positive	.204
	Negative	-.179
Test Statistic		.204
Asymp. Sig. (2-tailed)		.177 ^c

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

Source : Data Processed by researchers (2026)

As shown in Table 2, the significant value of 0.177 indicates that the data is normally distributed, with an asymp sig that the test residual values are normal, namely 0.177 greater than 0.05.

Table 3.
Multicollinearity Test
Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	1.070	1.172		.913	.365		

KAP	-.817	.389	-.215	-2.101	.040	.917	1.090
AC	-.098	.380	-.026	-.258	.797	.914	1.095
ROA	6.070	1.001	.595	6.062	.000	.995	1.005

a. Dependent Variable: Manajemen_Laba

Source : Data processed by researchers (2026)

In Table 3, the tolerance values for each variable are shown, with the audit quality variable (X1) having a tolerance of 0.917 and a VIF of 1.090. The audit committee variable (X2) has a tolerance of 0.914 and a VIF of 1.095. The financial performance variable (X3) has a tolerance of 0.995 and a VIF of 1.005. Guidelines for the multicollinearity test indicate that a tolerance value > 0.1 and a VIF value < 10 show that there is no correlation in this regression model.

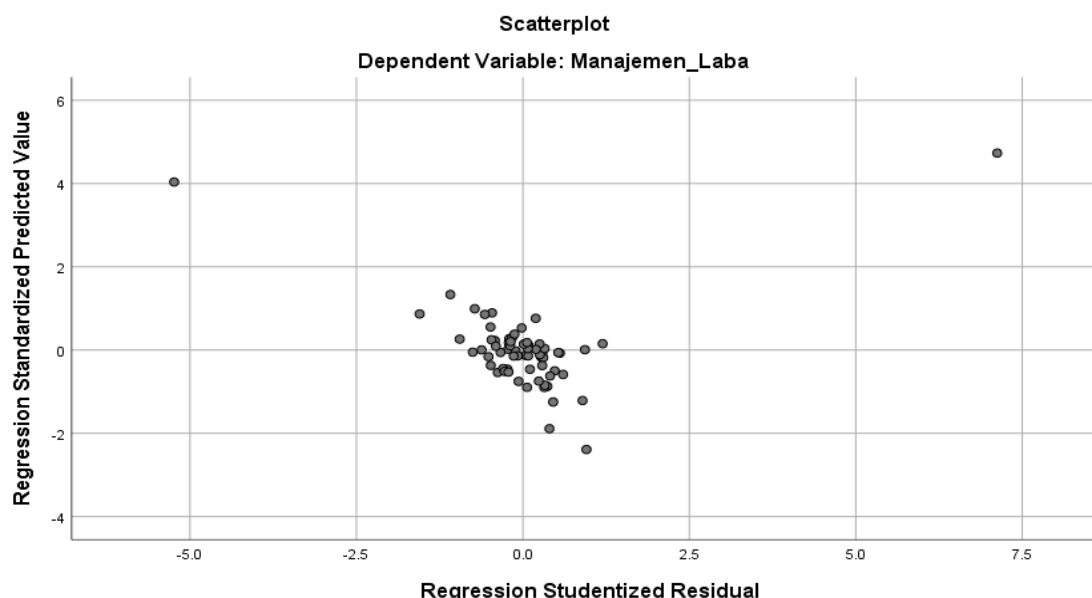


Figure 2. Heteroscedasticity Test

Source :Data processed by researchers (2026)

No regular patterns such as wavy, widening, etc., are shown in Figure 2 above. In this study, there is no heteroscedasticity or homoscedasticity, in accordance with the heteroscedasticity test guidelines. This is evidenced by the plot graph above, which does not show a consistent pattern. Therefore, this research is suitable for further testing.

Table 4.
Autocorrelation Test

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.637 ^a	.406	.377	1.370542	2.182
a. Predictors: (Constant), ROA, KAP, AC					
b. Dependent Variable: Manajemen_Laba					

Source : Data processed by researchers (2026)

The autocorrelation test in this study was conducted using the Durbin–Watson (DW) statistic to determine whether there is a correlation between the residuals of one observation and the residuals of another observation in the regression model. The regression model used has the dependent variable Earnings Management, with independent variables ROA, KAP, and AC, and a total of 66 observations. Based on the analysis results, a Durbin–Watson value of 2.182 was obtained. A Durbin–Watson value around 2 indicates that there is no autocorrelation in the regression model. Thus, it can be concluded that the residuals in this regression model are independent and not correlated with each other.

Multiple Linear Regression Analysis Test

Table 5.
Multiple Linear Regression Test
Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.070	1.172		.913	.365
	KAP	-.817	.389	-.215	-2.101	.040
	AC	-.098	.380	-.026	-.258	.797
	ROA	6.070	1.001	.595	6.062	.000

a. Dependent Variable: Manajemen_Laba

Source : Data processed by researchers (2026)

X1 : Audit Quality (KAP)

The t-test results show that the KAP variable has a significance value of 0.040, which is less than 0.05. This indicates that KAP (Public Accountant Office) has a significant influence on Earnings Management. The negative regression coefficient of -0.817 indicates that the higher the quality or influence of KAP, the lower the Earnings Management practices carried out by the company. In other words, the role of the KAP tends to suppress earnings manipulation practices. It can be concluded that the first hypothesis (H1) is accepted, Audit Quality has a negative and significant effect on Earnings Management.

X2 : Audit Committee (AC)

The AC variable has a significance value of 0.797, which is greater than 0.05. This indicates that the presence or characteristics of the audit committee do not have a significant impact on Earnings Management in this study. In other words, variations in the quality or function of the audit committee do not sufficiently influence the company's behavior in earnings management practices within the sampled data. It can be concluded that the second hypothesis (H2) is rejected, the Audit Committee does not have an effect on Earnings Management.

X3 : Finance Performance (ROA)

The t-test results show that the ROA variable has a significance value of 0.000, which is much smaller than 0.05. This indicates that ROA (Return on Assets) has a significant influence on Earnings Management. The positive regression coefficient of 6.070 indicates that the higher the company's profitability level, the greater the Earnings Management practices undertaken. In other words, companies with high ROA tend to be more active in adjusting profits for specific purposes. It can be concluded that the third hypothesis (H3) is accepted, Financial Performance has a positive and significant effect on Earnings Management.

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This part should describe informative results of empirical research which are written systematically and critically. Tables and figures can be presented in this part to support the discussion, for example, a table of statistics-test results, figures of model test results and etc. In general, journal papers will contain three-seven figures and tables. The same data cannot be presented in the form of tables and figures.

Model Feasibility Test

Table 6.
F Test
ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	79.438	3	26.479	14.097	.000 ^b
	Residual	116.460	62	1.878		
	Total	195.897	65			

a. Dependent Variable: Manajemen_Laba

b. Predictors: (Constant), ROA, KAP, AC

Source : Data Processed by researchers (2026)

The results of the F-test show that the F value is 14.097 with a significance value (Sig.) = 0.000, which is less than 0.05. This indicates that simultaneously or collectively, the variables of Audit Quality, Audit Committee, and Financial Performance have a significant impact on Earnings Management. This means that the regression model used is valid and can be used to predict Earnings Management because the independent variables as a whole provide a significant contribution to the dependent variable.

Table 7.
Coefficient of Determination Test (R²)
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.637 ^a	.406	.377	1.37054

a. Predictors: (Constant), ROA, KAP, AC

Source : Data processed by researchers (2026)

The R Square value of 0.406 means that approximately 40.6% of the variation in Earnings Management can be explained by the variables KAP, AC, and ROA simultaneously. Meanwhile, the remaining 59.4% is influenced by other factors not included in this research model.

CONCLUSION

This study analyzes the influence of audit quality, audit committee, and financial performance on earnings management in transportation and logistics sector companies listed on the IDX in 2023 – 2024. Based on the research results, it can be concluded that audit quality, proxied by the Big Four Public Accounting Firms (KAP), has a negative and significant impact on earnings management. This indicates that companies audited by high-quality KAP can suppress earnings management practices. These findings support the agency theory, which states that high-quality external auditors serve as an effective form of oversight in curbing opportunistic management behavior.

And similar results were found for the financial performance variable with the ROA (Return on Assets) proxy. Financial performance has a positive and significant effect on earnings management. This indicates that companies with high profitability are more likely to engage in earnings management practices. These findings are in line with Positive Accounting Theory, particularly the political cost hypothesis and the bonus plan hypothesis, which state that companies with high performance have incentives to adjust earnings to achieve certain goals.

Meanwhile, their findings for their audit committee variable, proxied by the number of audit committee members in the company, do not have an impact on earnings management. This finding indicates that the presence of an audit committee does not significantly influence the suppression of earnings management practices unless it is balanced with optimal oversight effectiveness, independence, and the competence of the audit committee members themselves. Simultaneously, this model is suitable for predicting and suppressing earnings management practices, even to the independent variables can only explain 40.6% of the variation, with the remaining 59.4% influenced by factors outside the scope of this research model.

Subsequent research is recommended to extend the observation period to provide a more comprehensive picture of earnings management practices. Additionally, future researchers could incorporate other corporate governance variables, such as board independence, managerial ownership, institutional ownership, or audit committee quality in greater depth.

For companies, the results of this research are expected to serve as evaluation material in improving transparency and the quality of financial reporting, particularly thru the selection of quality auditors and the enhancement of the effectiveness of the audit committee function. For auditors and regulators, this research can provide input in strengthening the roles of external and internal supervision to minimize earnings management practices in the transportation and logistics sector.

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