INTERNAL FACTORS, EXTERNAL FACTORS AND EARNINGS MANAGEMENT: MODERATING EFFECTS OF AUDITOR INDUSTRY SPECIALIZATION

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ABSTRACT

Purpose - Earnings management is one of the agency problems in a company. Furthermore, it illustrates the opportunistic behavior of company managers and can be a bad signal for company stakeholders. This research was conducted with the aim of testing the auditor industry specialization as a moderator in the effect of financial distress, tax planning, ownership structure, and audit quality on earnings management.

Research Method - This research uses 288 data from 36 manufacturing companies listed on the Indonesia Stock Exchange from 2012 to 2019, using a purposive sampling method. The model used in this research was analyzed using multiple linear regression and moderation test (sub-group analysis and ANOVA test).

Findings - According to the findings, managerial ownership and audit quality have a negative effect on earnings management. On the other hand, financial distress, tax planning, and institutional ownership are not significant to earnings management. Meanwhile, by taking into account firm size, profitability, and leverage, auditor industry specialization can be found to moderate the relationship between financial distress, tax planning, managerial ownership, and institutional ownership with earnings management. However, specialization in the audit industry has no effect on the on the effect of audit quality on earnings management.

Implication - The presence of managerial ownership and external auditors can serve as a de-confliction mechanism. Companies can consider giving managers the opportunity to own company shares and use the Big Four KAP auditors in order to create better oversight. In addition, companies can consider using auditors from KAPs who have a lot of experience in certain industries.

Keywords: Earnings Management, Internal Factors, External Factors, Auditor Industry Specialization

JEL code: M41, M42

INTRODUCTION

The increasingly fierce competition in the business and investment world necessitates companies implementing a variety of innovations in order to improve performance. Companies require additional new funds to carry out their business's innovation process. Going public is one of the efforts that companies can make to obtain new funding. Companies can use capital market funds to finance company growth, meet obligations, and make investments or acquisitions (Bursa Efek Indonesia, 2016). Furthermore, going public provides companies with additional benefits such as increased community recognition of the company's name and
products, increased company value, ease of promotion that can improve company image, increasingly open business and cooperation opportunities, maintaining business continuity, and tax incentives.

According to Law Number 8 of 1995, the Chairman of Bapepam-Decree LK's Number Kep-346/BL/2011, and Financial Services Authority Regulation Number 29/POJK.04/2016, public companies are obliged to report financial statements and the Financial Services Authority's annual report periodically and announced to the public (Kementerian Keuangan Republik Indonesia, 2011; Otoritas Jasa Keuangan Republik Indonesia, 2016; Republik Indonesia, 1995). As a result, after going public, the company is required to openly report financial information to stakeholders. Financial reports are a type of corporate responsibility in which financial performance is reported to internal and external stakeholders (Kamran & Shah, 2014). Profit is an important piece of information in the financial statements as a parameter of a company's success. Profit information is taken into account by stakeholders when making various company-related decisions (Negara & Suputra, 2017).

Managers, as one of the company's stakeholders, use earnings data to forecast the company's success in a given period. Managers have access to more information about the company's future prospects than owners do (Ujiyantho & Pramuka, 2007). Companies with a high level of information asymmetry limit company owners' access to information in monitoring managers' actions, which can lead to earnings management practices (Richardson, 1998). One form of earnings management practices is to provide consistent company performance information over a specific time period in order to attract investors to invest. Earnings management can provide information to stakeholders that is not consistent with the company's underlying economic performance (Healy & Wahlen, 1998).

Accounting reporting scandal cases all over the world have been sparked by earnings management actions. The manipulation of the company's financial statements in the cases of Enron and WorldCom shocked the business world. Furthermore, the Toshiba companies in Japan were involved in a case of accounting irregularities. Then, accounting reporting cases occur in Indonesian companies, such as the earnings management of PT Garuda Indonesia Tbk and TPS Food Tbk in 2019. Because of agency conflicts, some of these accounting reporting cases involve earning management. As a result, the issue of earnings management in a company remains critical because it can affect the quality of financial statement information. These issues can be influenced by both internal and external company factors.

Several previous studies have looked into the factors that influence earnings management. According to Utari and Sari (2016) research, information asymmetry and leverage are an impact on improving earnings management, while managerial and institutional ownership decrease earnings management. Then, according to the findings of Pramesti and Budiasih (2017), they also find the same thing, earnings management is significantly and positively affected by information asymmetry and leverage, while earnings management can be reduced by the presence of managerial ownership. Following that, Astari and Suryanawa (2017) explain in their research that higher managerial and institutional ownership results in reduced earnings management actions, whereas firm size, leverage, profitability, and sales growth have a positive relationship with earnings management. Meanwhile, research by Puspitasari et al. (2019) shows that earnings management increases with increasing board of commissioners, audit committees, institutional ownership, leverage and free cash flow, while managerial ownership has no impact on earnings management.

Muljono and Suk (2018) discuss financial distress in real and accrual earnings management in their research. According to the findings of this research, financial distress lead to increased real earnings management practices and reduced accrual earnings management. According to Christina and Alexander (2020), financial distress and corporate governance have no effect on earnings management. According to the findings of Anwar and Buvanendra (2019)
research on earnings management and ownership structure in Sri Lanka, managerial, and institutional ownership is able to limit the practice of manipulation of accruals but foreign ownership actually increases it. Meanwhile, ownership concentration is not related to earnings management.

Lopes (2018) discovered that KAP size could hinder earnings management practices in his research on audit quality and earnings management in Portugal. Then, in their research on tax planning and earnings management, Achyani and Lestari (2019) found that tax planning, deferred tax expense, deferred tax assets, and managerial ownership had no effect on earnings management, whereas free cash flow did. Furthermore, Hidayah and Nuzula (2019) discovered that the existence of transfer pricing and tax planning makes earnings management practices increase. According to previous research on the factors that influence earnings management, several variables, such as: information asymmetry, firm size, leverage, profitability, sales growth, and free cash flow, have a consistent influence. This is supported by the findings of Eny (2019) meta-analysis, which explains that company characteristics as predictors of earnings management, as well as operating cash flow and information asymmetry, have a strong impact on earnings management. Furthermore, there are still factors that produce different results, such as financial distress, tax planning, managerial and institutional ownership, and the size of KAP, so it must be revisited.

Financial distress are a bad sign for company stakeholders because it demonstrates management's inability to manage the company. Financial distress is defined as a company's condition during a difficult period when the debt contract does not function as expected (Zeni & Ameer, 2010). Company executives are concerned about losing their jobs during difficult financial times, so they work hard to improve financial conditions (Rogers & Stocken, 2003). Managers of companies in financial distress have an incentive to manage earnings and cash flows so that they can provide optimistic forecasts for recovery (Nagar & Sen, 2016). Financial distress have an impact on the company's workforce, suppliers, customers, and creditors. Companies in financial distress will engage in earnings manipulation practices (Rosner, 2003). Motivation to engage in earnings manipulation in times of financial difficulty in order to reduce or increase profits based on the company's economic conditions (Chairunesia et al., 2018)

Tax payments, in addition to financial distress, can influence managers to practice earnings management. Tax payments are part of the company's political costs, which are the source of agency conflicts between companies and the government. To reduce tax payments, the company tries to minimize taxes. According to Scott (2015), the motivation for company managers to practice earnings management is tax savings. Because corporate profits are one of the factors used by the government to calculate corporate taxes, managers engage in tax planning in order to reduce the amount of taxes that must be paid.

The separation of the company's ownership and control as a result of agency conflict necessitates external auditing (Gerayli et al., 2011). The presence of an external auditor can play a significant role in increasing company supervision and providing credible financial statement information. External auditing can also help to reduce management fraud, which has
a positive impact on corporate governance (Yunianto, 2013). An audit may be a critical component of a corporate governance and control mechanism that limits management's ability to perform earnings management (Nouri & Gilaninia, 2017). As users of financial statements, audit quality within the company can provide a positive signal to company stakeholders.

External auditors, in addition to providing audit services and increasing supervision within the company, also perform a monitoring function to create good corporate governance and align the objectives of shareholders and company executive. Auditor reputation can be built in an industry by gaining industry-specific expertise (Craswell et al., 1995). Specific knowledge of an industry broadens the auditor's experience and understanding of the industry's characteristics. Quality audits can be provided by industry specialists, resulting in a positive signal for investors (Challen & Siregar, 2012).

In the presence of industry specialist auditors, issues concerning earnings management practices, prediction errors, and current predictions can be found (Andreas, 2012). According to Mamu and Damayanthi (2018) research, auditor industry specialization is moderating the effect of leverage and institutional ownership on earnings management. On the other hand, the relationship between managerial ownership and earnings management is not a moderating. Furthermore, Sun and Liu (2013) discovered a interaction between auditor industry specialization and board governance which is positive on accounting quality. This explains why companies that use industry specialist audit have stronger and more qualified boards of commissioners and are more effective at limiting earnings management. As a result, in this research, auditors' industry specialization is used as a moderator.

In terms of earnings management, firm size has a high explanatory power (Eny, 2019). According to the political cost hypothesis, the larger the company, the higher its political costs are in order to determine accounting methods that reduce profits. Furthermore, larger companies, according to agency theory, have higher agency costs, allowing them to influence managers to manipulate earnings. The level of company profitability can then be used as a signal related to company performance, influencing earnings management practices. Meanwhile, according to the debt contract hypothesis, which states that company managers choose accounting methods to increase profits in order to avoid violating debt contract agreements, corporate leverage can be one of the motivations for managers to practice earnings management. As a result, control variables such as firm size, profitability, and leverage were employed.

This research focused on manufacturing firms listing on the Indonesia Stock Exchange. Manufacturing firms are businesses that contribute significantly to the Indonesian economy. By shifting the role of the commodity base to the manufacturing base, the manufacturing sector contributed to a 20.27 percent increase in the economy (Karawang New Industry City, 2019). This corporate sector also has accrual accounts that can be used by company managers for earnings manipulation practices.

Earnings management is one of a company's agency issues. Furthermore, it demonstrates the opportunistic attitude of company executives and can be a negative signal to parties with an interest in the company. In contrast to the previous research by Mamu and Damayanthi (2018), which used moderated regression analysis, this research used subgroup analysis and an ANOVA test based on Sugiono (2004) research. This research demonstrates that managerial ownership and audit quality can reduce earnings management, thereby reducing agency conflicts. Furthermore, the auditor's industry specialization can be an important factor to consider when dealing with agency conflicts.
LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory
One of the theories that underpins the practice of earnings management practiced by company managers is agency theory. Agency theory, according to Jensen and Meckling (1976), is related to the existence of a contract agreement involving the owner and manager as agents chosen by the owner to manage the company. The existence of a contractual relationship creates a number of situations, including a conflict of objectives between the owner and agent, results that are uncertain enough to cause risk, and unplanned work that is difficult to evaluate (Eisenhardt, 1989).

The contractual relationship holds each party accountable for their responsibilities. Manager’s responsibility to increase the profits of business owners. Managers, on the other hand, have more information than owners in carrying out their duties and responsibilities, resulting in information asymmetry between the two parties.

Positive Accounting Theory
Positive accounting theory as a theory that managers use to determine and predict appropriate accounting policies to deal with certain future conditions (Scott, 2015). This theory explains accounting phenomena that occur as a result of an event. This theory's prediction is the contractual relationship between managers and stakeholders (Watts & Zimmerman, 1990). Positive accounting theory is associated with personal motivation and opportunistic behavior of corporate executives seeking to enrich themselves. This theory explains company managers' opportunistic behavior through three hypotheses: the bonus plan hypothesis, the debt contract hypothesis, and the political cost hypothesis.

Signaling Theory
The existence of information asymmetry in the labor market is addressed by signaling theory (Spence, 1973). Conflict can arise as a result of differences in obtaining information between companies and stakeholders. Managers must send a message about the company's future prospects. Signals are pieces of information provided by company executives to stakeholders about the company's prospects (Brigham & Houston, 2001). Investors can use information about the company's prospects to decide whether or not to invest. Investors use the information provided by company executives as a tool for analysis in making investment decisions (Hartono, 2013).

Hypothosis Formulation
The Effect Financial Distress on Earnings Management
According to agency theory, agency issues between the company's owners and managers causes information asymmetry, which results in an imbalance of information obtained (Jensen & Meckling, 1976). Because of the existence of information asymmetry, company managers have greater flexibility in managing the company, one of which is managing profits. When a company is in financial trouble, managers can make policies by employing earnings management. According to the debt contract hypothesis, company managers try to avoid violating debt contract agreements that can result in large costs, one of which is inability to pay debts (Watts & Zimmerman, 1986). Then, according to Scott (2015), a form of motivation to manipulate earnings, one of which is the importance of providing information to investors in order to attract investors to invest. As a result, managers in financially troubled companies try to conceal their situation by engaging in earnings management. This is supported by Koch (2002) claim that earnings management behavior increases in companies in financial distress.
Several previous studies, including Putri and Rachmawati (2018), Chairunesia et al., (2018), Kurniawati and Panggabean (2020), show that financial distress improves earnings management. As a result, the greater a company's financial distress, the better its earnings management practices can be. Based on the arguments presented, the following hypothesis is proposed:

H1: Financial Distress Has a Positive Effect on Earnings Management

The Effect of Tax Planning on Earnings Management

Conflicts of interest can arise not only between the company's owners and managers, but also between the government and the company. The cause is a result of disparities in tax payment interests. Companies try to pay as little tax as possible because paying taxes reduces a company's economic capacity. The government, on the other hand, requires funds from tax payments to fund government spending. Furthermore, according to the political cost hypothesis in positive accounting theory, managers' motivation to practice earnings management in businesses is related to political costs (Watts & Zimmerman, 1986). One of the company's political costs is related to paying taxes to the government. Companies that are involved in political costs tend to practice profit reduction in order to reduce these costs (Scott, 2015).

Several previous studies, such as those by Mudijyanti (2018), Hidayah and Nuzula (2019), Fikriyah and Herliansyah (2019), resulted in findings that tax planning improves earnings management. As a result, tax planning can help to improve corporate earnings management practice. Based on the arguments presented, the following hypothesis is proposed:

H2: Tax Planning Has a Positive Effect on Earnings Management

The Effect of Managerial Ownership on Earnings Management

According to agency theory, in a company, there is a contractual relationship between the owner and the manager, which causes agency conflict. Separating ownership is one way to reduce agency conflict by allowing managers to participate in a stock option program known as stock-based compensation (Mahariana & Ramantha, 2014). Share ownership by company executives can align the interests of owners and executives to provide information that is relevant to the company's conditions (Jensen & Meckling, 1976). Managers' decision-making in a company will be will be by the shares owned because managers participate in the company's share ownership.

According to the findings of studies conducted by Pramesti and Budiasih (2017), Arthawan and Wirasedana (2018), and Anwar and Buvanendra (2019), managerial ownership can limit earnings management practices in a company. As a result, the presence of managerial ownership in a company can improve corporate governance. Based on the arguments presented, the following hypothesis is proposed:

H3: Managerial Ownership Has a Negative Effect on Earnings Management

The Effect of Institutional Ownership on Earnings Management

An agency conflict arises as a result of the contractual relationship between the company's owner and manager. This conflict may result in losses for one of the parties, namely the company's owner. Separating ownership and control from institutional ownership is one strategy for reducing agency conflict. Institutions with ownership in the company play an important role in reducing agency conflict (Jensen & Meckling, 1976). The presence of institutional ownership can increase oversight of company management. Institutional majority shareholders, according to Wiryadi and Sebrina (2013), are capable of carrying out reliable supervision. Furthermore, institutional investors are regarded as sophisticated investors who do not easily believe in the behavior of managers (Utari & Sari, 2016).
Several previous research findings, including Rad et al. (2016), Fitri et al. (2018), and Anwar and Buvanendra (2019), demonstrate that institutional ownership can have a negative impact on earnings manipulation practices. Thus, the higher the institution's share ownership in the company, the lower the practice of earnings management. Based on the arguments presented thus far, the following hypothesis is proposed:

H₄: Institutional Ownership Has a Negative Effect on Earnings Management

The Effect of Audit Quality on Earnings Management

According to agency theory, there is a contractual attachment within the company that causes the owner to appoint a executive to run the company (Jensen & Meckling, 1976). Delegating tasks to manager results in a number of conflicts, one of which is information asymmetry. External auditing is one solution for reducing information asymmetry. Auditors, according to Christiani and Nugrahanti (2014), can bridge the interests of executive and shareholders in financial management. The presence of an audit process conducted by an independent party within the company is a positive signal that can boost investor confidence and the credibility of financial statements while complicating acts of fraud in a company. Earnings management is reduced by the presence of KAP auditors affiliated with the Big Four KAPs, who are considered more qualified than non-Big Four KAPs (Gerayli et al., 2011).

According to the findings of Khalil and Ozkan (2016), Lopes (2018), and Natsir and Badera (2020), audit quality in businesses can reduce earnings management practices. As a result, companies that utilize the Big Four KAP audit services can provide a higher quality audit than companies that do not use Big Four KAP audit services, allowing company executive to reduce earnings management practices. Based on the arguments presented, the following hypothesis is proposed:

H₅: Audit Quality Has a Negative Effect on Earnings Management

The Effect of Auditor Industry Specialization as A Moderating Variable in The Relationship Between Financial Distress, Tax Planning, Managerial Ownership, Institutional Ownership, and Audit Quality on Earnings Management

Contractual relationships can lead to corporate executives engaging in opportunistic behavior in order to enrich themselves (Jensen & Meckling, 1976). A manager's opportunistic behavior is a type of agency conflict. As a result, in order to reduce conflict in a company, an independent party is required. An external auditor is one of the required independent parties. Industry specialist auditors who can provide quality audits can be a positive signal for investors (Challen & Siregar, 2012). The presence of industry specialist auditors is expected to detect actual economic conditions in a company so that the company's financial statement information can be improved. Specialist auditors, according to Krishnan (2003), have special skills that can limit opportunistic behavior in accrual reporting and thus improve earnings quality.

Several previous studies, including Gerayli et al. (2011), Challen and Siregar (2012), Amijaya and Prastiwi (2013), Christiani and Nugrahanti (2014), and Hakim and Sudarno (2019), support the impact of auditor industry specialization on earnings management practices within the company. Based on the arguments presented, the following hypothesis is proposed:

H₆: Auditor Industry Specialization Moderates the Effect of Financial Distress on Earnings Management

H₇: Auditor Industry Specialization Moderates the Effect of Tax Planning on Earnings Management

H₈: Auditor Industry Specialization Moderates the Effect of Managerial Ownership on Earnings Management

H₉: Auditor Industry Specialization Moderates the Effect of Institutional Ownership on Earnings Management
H0: Auditor Industry Specialization Moderates the Effect of Audit Quality on Earnings Management

**Research Model**

**Figure 1. Research Model**

![Research Model Diagram]

**RESEARCH METHODOLOGY**

Correlational research is a method in quantitative research that uses correlational analysis statistics to measure the relationship between two or more variables (Creswell, 2012). This research's population consists of 197 manufacturing companies listing on the Indonesia Stock Exchange from 2012 to 2019. Purposive sampling was used in this research, which meant that participants were chosen based on specific criteria.

Table 1 shows the research samples chosen based on specific criteria, namely manufacturing company that publishes financial and annual reports in rupiah currency, is not delisted from the Exchange, does not make industry changes during the period, and has variable data on managerial and institutional ownership.

**Table 1. Research Sample of Manufacturing Industry 2012-2019**

| Manufacturing Industry | Basic & Chemicals | Miscellaneous | Consumer Goods | Total |
|------------------------|-------------------|---------------|----------------|-------|
| Firms                  | 12                | 8             | 16             | 36    |
| Observations           | 96                | 64            | 128            | 288   |

Source: Secondary data processing results (2021)

**Research Variable**

The operationalization of the variables used in this research is shown in Table 2, which includes the dependent variable (earnings management), independent variable (financial distress, tax planning, managerial ownership, institutional ownership, and audit quality)
moderating variable (auditor industry specialization) and control variable (firm size, profitability, and leverage).

Table 2. Operationalization of Research Variables

| No | Variables               | Measurement                                                                 | Source                                      |
|----|-------------------------|-----------------------------------------------------------------------------|---------------------------------------------|
| 1  | Earnings Management     | Earnings management is measured by performance-matched modified Jones model ROAt | Kothari et al. (2005)                       |
| 2  | Financial Distress      | Financial distress is measured using the Altman Z-Score, namely $Z = 0.012X_1 + 0.014X_2 + 0.033X_3 + 0.006X_4 + 0.999X_5$ | Altman (1968)                               |
| 3  | Tax Planning            | Tax planning rate, which is net income divided by pretax income              | Wild et al. (2005)                          |
| 4  | Managerial Ownership    | Managerial ownership is measured by the number of managerial shares divided by the number of outstanding shares | Agustia (2013)                              |
| 5  | Institutional Ownership | Institutional ownership is measured by the number of institutional shares divided by the number of outstanding shares | Boediono (2005)                             |
| 6  | Audit Quality           | Audit quality is measured by a dummy, namely if the company is audited by KAP affiliates of the Big Four KAPs, it is given a value of 1 and if the company is audited by other KAPs, it is given a value of 0. | Gerayli et al. (2011)                        |
| 7  | Auditor Industry        | Auditor industry specialization is measured by a dummy, namely if the industry specialist auditor is given a value of 1 and if the non-industrial specialist auditor is given a value of 0, with a market share of at least 20% is said to be a specialist auditor. | Gerayli et al. (2011)                        |
| 8  | Firm Size               | Firm size is measured by the natural logarithm of total assets                | Eny (2019)                                  |
| 9  | Profitability           | Profitability is measured by Return on Assets (ROA)                          | Fahmi (2014)                                |
| 10 | Leverage                | Leverage is measured by Debt to Equity Ratio (DER)                           | Fahmi (2014)                                |

Source: Various sources (2021)

Data Analysis Technique

Three data analyses are used in this research: multiple linear regression, sub-group analysis, and the ANOVA test. The first through fifth hypotheses were tested using multiple linear regression. The sixth through ninth hypotheses were then tested using sub-group analysis. Meanwhile, the tenth hypothesis was tested using the ANOVA test. The research data had to pass the classical assumption test, which included a normality test, multicollinearity test, linearity test, heteroscedasticity test, and autocorrelation test, before the three analyses could be performed.
RESULTS AND DISCUSSION

Descriptive Statistics

With 288 observational data, Table 3 displays the results of a descriptive statistical analysis of the variables used in the research, namely earnings management, financial distress, tax planning, managerial ownership, institutional ownership, audit quality, firm size, profitability, leverage, and auditor industry specialization. Based on descriptive statistics, it is known that there are four variables with an average value less than the standard deviation, indicating that these variables contain extreme data.

Table 3. Descriptive Statistics

|                         | N   | Minimum | Maximum | Mean  | Std. Deviation |
|-------------------------|-----|---------|---------|-------|----------------|
| Discretionary Accruals  | 288 | -0.561  | 0.395   | -0.055| 0.093          |
| Financial Distress      | 288 | -6.476  | 23.491  | 3.903 | 3.805          |
| Tax Planning            | 288 | -5.883  | 6.548   | 0.773 | 0.786          |
| Managerial Ownership    | 288 | 0.000   | 0.683   | 0.067 | 0.120          |
| Institutional Ownership | 288 | 0.019   | 0.980   | 0.650 | 0.203          |
| Audit Quality           | 288 | 0       | 1       | 0.239 | 0.428          |
| Firm Size               | 288 | 25.277  | 33.495  | 28.072| 1.737          |
| Profitability           | 288 | -0.392  | 0.321   | 0.041 | 0.075          |
| Leverage                | 288 | 0.102   | 789.931 | 3.909 | 46.318         |
| Auditor Industry Specialization | 288 | 0 | 1 | 0.131 | 0.339 |

Source: Sample data processing results (2021)

For the period 2012-2019, Table 4 shows the frequency of audit quality variables and the industry specialization of manufacturing company auditors. There are 219 non-Big Four KAPs and 69 Big Four KAPs. There are also 250 non-specialist auditors and 38 specialist auditors.

Table 4. Frequency

| Dummy Variables                 | Non KAP Big Four | KAP Big Four | Non-Specialist Auditor | Specialist Auditor |
|---------------------------------|------------------|--------------|------------------------|--------------------|
| Frequency                       | 219              | 69           | 250                    | 38                 |
| Percentage                      | 76,0             | 24,0         | 86,8                   | 13,2               |

Source: Sample data processing results (2021)

Classical Assumption Tests

The classical assumption test is used in this research as a prerequisite for performing multiple linear regression, sub-group analysis, and the ANOVA test. According to the results of the classical assumption test, the research data escapes the classical assumption with the treatment, which is data trimming. Because of the extreme data in the research data, this was done. As a result of the classical assumption test, the data used for the multiple linear regression model is 239 and the data for the moderation regression model is 240. In other words, for the multiple linear regression model, 49 data points were removed, and for the moderating regression model, 48 data points were removed.
Table 5. Hypothesis Test Result with Multiple Linear Regression

| Hypothesis               | Results | Significance |
|--------------------------|---------|--------------|
| Financial Distress       | +       | +            | 0.781        |
| Tax Planning             | +       | +            | 0.145        |
| Managerial Ownership     | -       | -            | 0.005        |
| Institutional Ownership  | -       | -            | 0.405        |
| Audit Quality            | -       | -            | 0.000        |
| Firm Size                | +       | +            | 0.004        |
| Profitability            | +       | -            | 0.058        |
| Leverage                 | +       | +            | 0.035        |
| Significance F           |         |              | 0.000        |
| Adjusted R Square        |         |              | 0.179        |
| Significance Level       |         |              | 5%           |

Source: Sample data processing results (2021)

Table 6. Hypothesis Test Results with Sub-Group Analysis

| Sub-Group Analysis                  | Sub-Group Analysis | No Control Variables | Using Control Variables |
|-------------------------------------|--------------------|----------------------|-------------------------|
|                                     |                    | F table   F count   Sig. | F table   F count   Sig. |
| Financial Distress                  |                     | 3.034     4.324   0.001 | 2.252     6.281   0.000 |
| Tax Planning                        |                     | 3.034     4.804   0.151 | 2.252     7.029   0.000 |
| Managerial Ownership                |                     | 3.034     4.645   0.025 | 2.252     6.181   0.000 |
| Institutional Ownership             |                     | 3.034     6.584   0.067 | 2.252     6.817   0.000 |
| Significance Level: 5%              |                     |                      |                      |

Notes: F count is the result of chow test; significance is obtained from total regression equation of the three sub-group equations
Source: Sample data processing results (2021)

Table 7. Hypothesis Test Result with ANOVA Test

| ANOVA Test                             |                          |
|----------------------------------------|--------------------------|
|                                        | F                        |
|                                        | Significance             |
| Audit Quality                          | 4.064                    | 0.045                   |
| Auditor Industry Specialization        | 10.495                   | 0.001                   |
| Interaction                            | 0.623                    | 0.431                   |
| Significance Level: 5%                 |                          |

Source: Sample data processing results (2021)

Table 5 displays the results of testing the first to fifth hypotheses. The test results indicate that the third and fifth hypotheses are correct. Meanwhile, the first, second, and fourth hypotheses were all rejected.

Table 6 displays the results of testing the sixth to ninth hypotheses. The test results show that the auditor's industry specialization can be said to be a moderator only in the relationship between financial distress and managerial ownership with earnings management without considering the control variables. However, when the control variable is used, the auditor's industry specialization is moderating all the relationships of the independent variables (financial distress, tax planning, managerial ownership, institutional ownership, audit quality) to the dependent (earnings management) so that the control variable plays an important role in moderating the relationship. As a result, the ninth hypothesis is accepted.

The results of the tenth hypothesis test are shown in Table 7. The test results show that there is no significant interaction between audit quality and industrial audit specialization. This
means concluding that auditor industry specialization is not a moderator for the relationship between audit quality and earnings management. As a result, the tenth hypothesis is rejected.

Several conclusions can be drawn from the findings of this research. First, financial distress has no bearing on earnings management. The findings of this research do not support the hypothesis that financial distress has a positive effect on earnings management, which contradicts agency theory, the debt contract hypothesis, and cannot be used as a signal in relation to earnings management, as well as previous research by Putri and Rachmawati (2018), Chairunesia et al. (2018), and Kurniawati and Panggabean (2020). However, this research backs up Christina and Alexander (2020) findings earnings management is unaffected by companies experiencing greater financial distress. This could be because earnings management can harm a company by increasing information asymmetry, so businesses prefer to report real earnings. Companies can also overcome financial distress by selling assets, merging, reducing expenses, product innovation as needed, and so on (Cicilia, 2018).

Second, tax planning has no bearing on earnings management. Thus, these results would not support the agency theory or the political cost hypothesis, and they contradict previous research by Mudjiyanti (2018), Hidayah and Nuzula (2019), and Fikriyah and Herliansyah (2019). However, the research's findings support the work of Achyani and Lestari (2019) and Pramana and Firmanti (2020). This is based on the understanding that companies engage in tax planning not to reduce tax costs or increase profits, but to comply with tax regulations in order to avoid fines or sanctions (Pramana & Firmanti, 2020). As a result, tax planning is commonly used to undertake tax payments in accordance with tax regulations, so that businesses are considered to be in tax compliance by the government.

Third, managerial ownership has the capacity to reduce earnings management practices. This demonstrates that the research's findings support the hypothesis that managerial ownership has a negative effect on earnings management and, in accordance with agency theory, that the existence of a contractual relationship between executive and company owners results in a issues of interest, and that, in order to reduce the issues, the use of share ownership by company managers is consistent with previous research by Pramesti and Budiasih (2017) and Arthawan and Wirasedana (2018). Managers of companies that own shares in a company will try to align their interests with the contracts that have been agreed upon with the company owners because the company managers are shareholders.

Fourth, institutional ownership has no effect on earnings management. This explains why the research findings contradict the proposed hypothesis and do not support agency theory, as well as how they differ from previous studies by Rad et al. (2016), Fitri et al. (2018), and Anwar and Buvanendrap (2019). However, these findings are consistent with Christina and Alexander (2020) research. Institutional investors are unable to obtain certain information and management decisions that are only available to the company's internal parties, resulting in institutional ownership being unable to reduce earnings management practices (Giovani, 2017). Furthermore, institutional investors only supervise to improve good corporate governance and are not directly involved in managing the company with the company's management, so institutional ownership has no influence on the company earnings management practices.

Fifth, audit quality can hinder company earnings management practices. These findings support the research hypothesis that audit quality has a negative effect on earnings management, and they are consistent with agency theory, which states that in order to reduce information asymmetry caused by the contractual relationship between managers and company owners, managers can use the services of an external auditor, and they are consistent with previous research by Khalil and Ozkan (2016), Lopes (2018), and Natsir and Badera (2020). This explains how improving audit quality can reduce a company's earnings management practices. As a result, the audits produced by the Big Four KAPs are of high credibility and quality, reducing earnings management practices.
Sixth, without any control variables, auditor industry specialization can only moderate the relationship between financial distress and managerial ownership with earnings management. Meanwhile, auditor industry specialization can moderate the relationship between financial distress, tax planning, managerial ownership, and institutional ownership with earnings management using control variables. This means that the auditor can take firm size, profitability, and leverage into account when conducting an audit. As a result, these findings support the research hypothesis that auditor industry specialization can moderate the impact of financial distress, tax planning, managerial ownership, and institutional ownership on earnings management. This research, however, demonstrates that non-specialist auditors are more involved in the moderating relationship. This is supported by the growing number of manufacturing firms that use non-specialist auditors.

Seventh, auditor industry specialization has no effect on the relationship between audit quality and earnings management. This demonstrates that the research findings do not support the proposed hypothesis and contradict the signaling theory that auditor industry specialization can be a positive signal capable of detecting earnings management practices. This is in contrast to the statement made by Challen and Siregar (2012) in their research, which states that specialist auditors can provide a quality audit, thereby becoming a positive signal for company investors. Specialist and non-specialist auditors are members of the Big Four and Non-Big Four KAPs, respectively. The Non-Big Four KAPs have more non-specialist auditors than the Big Four KAPs. Furthermore, a company's lack of specialist auditors is due to the large number of KAPs used by companies in the same industry.

CONCLUSION AND SUGGESTION

According to the findings of this research, financial distress, tax planning, and institutional ownership have no influence on earnings management. This entails explaining how a high or low level of these variables cannot be used to reduce or improve earnings management. The results then differ from managerial ownership and audit quality, which can reduce earnings management practices, so the higher the proportion of share ownership by managers and companies using Big Four KAP audit services, the lower the earnings management practices. These findings suggest that improving the mechanism of good corporate governance can reduce agency conflicts. As a result, the company can consider the possibility of company managers owning shares in the company and utilizing the services of the Big Four KAP.

Furthermore, the research found that non-specialist auditors were better able than specialist auditors to moderate the relationship between financial distress, tax planning, managerial ownership, and institutional ownership with earnings management. Non-specialist auditors can influence earnings management practices by weakening the relationship between financial distress and institutional ownership. Furthermore, non-specialist auditors can help to strengthen managerial ownership in the company by reducing earnings management practices. Non-specialist auditors, on the other hand, strengthen the link between tax planning and earnings management. Thus, based on these findings, companies can consider auditors from KAPs with a large number of clients in a specific industry in order to gain experience in that industry, thereby strengthening corporate governance in the company and sending a good news to investors.

This research, however, has some research limitations. To begin, the value of Adjusted R Square is low, at 17.9 percent. Second, the research sample contains a large amount of unexpected negative data. Third, the emergence of a large number of extreme data (outliers) in the research sample, which can skew the research's results and must be eliminated. Fourth, there is no detailed presentation of EBIT in the financial statements, and each company's interest expense presentation is different, so it must be calculated manually.
There are several suggestions for future research based on the limitations of the current research. Further research can consider other variables that can affect earnings management in a company, such as: board of commissioners, internal audit committee, and tax avoidance, and it can use financial distress measurement to consider whether the company is manufacturing or non-manufacturing.

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