DIJEFA: Dinasti International Journal of Economics, Finance & Accounting
E-ISSN: 2721-303X
P-ISSN: 2721-3021
https://dinastipub.org/DIJEFA dinasti.info@gmail.com +62 811 7404 455

DOI: https://doi.org/10.38035/dijefa.v6i1.4065
https://creativecommons.org/licenses/by/4.0/
Received: 23 January 2025 | **Revised:** 05 March 2025 | **Accepted:** 20 March 2025

The Influence of Investment Opportunity Set, Leverage, and Profitability on Earnings Management with Audit Quality as a Moderating Variable (Empirical Study on Manufacturing Companies Listed on the Indonesia Stock Exchange for the Period of 2018-2022)

MF Christiningrum[1*], Brigita Vira P. Pinasti[2]
[1]Institut Bisnis Nusantara, Jakarta, Indonesia, christiningrum@ibn.ac.id.
[2]Institut Bisnis Nusantara, Jakarta, Indonesia, brigita.viraningtyas@gmail.com.

[*]Corresponding Author: christiningrum@ibn.ac.id[1]

Abstract: This study aims to examine whether investment opportunity set (IOS), leverage, and profitability influence earnings management practices with audit quality as a moderating variable. Earnings management is measured using discretionary accruals (DA) which was calculated using the Modified Jones Model. IOS used market value to book value of assets (MVBA), while leverage used debt-to-equity ratio (DER), and profitability used return on assets (ROA) as their proxies, respectively. This research used 36 manufacturing companies listed on the Indonesia Stock Exchange between 2018 and 2022 as its sample. The findings show that investment opportunity set and profitability have a significantly positive impact on earnings management practices, with a significance level of α=1%. Meanwhile, leverage does not affect earnings management practices. The results further indicate that audit quality can moderate the impact of the investment opportunity set and profitability on earnings management practices. This highlights that the investment opportunity set and profitability significantly influence earnings management practices while audit quality can moderate their impact.

Keywords: Earnings Management, Investment Opportunity Set, Leverage, Profitability, Audit Quality.

INTRODUCTION

Financial statements are a medium that connects companies with stakeholders whose interest is to understand the companies' financial condition. The statements also reflect management's efficiency in carrying out the company's activities. A critical piece of information used by stakeholders in financial statements is profit (or loss), which is often targeted by opportunistic managers to maximize personal interests, potentially disrupting decision-making processes. Earnings manipulation according to the managers' personal interest is an example of this behavior, referred to as earnings management. Schipper (1989)

in Ratih & Ketut (2017) defines earnings management as interference in the preparation of external financial reporting to gain personal advantages. This occurs due to agency conflicts (agency problems) arising from the separation of ownership (principal) and management (agent) functions (Jensen & Meckling, 1976).

There are several factors that may influence earnings management practices, including investment opportunity set (IOS), leverage, and profitability. Investment Opportunity Set. IOS reflects a company's investment opportunities. A high IOS value may indicate that companies' managers engage in earnings management to attract investors and fund business growth. High IOS value further indicates that the companies are growing and may potentially grow further in the future.

Leverage refers to the use of debt financing to enhance profitability. High leverage implies significant reliance on debt, increasing financial risks for creditors and shareholders. Furthermore, high leverage also indicates that most of the companies' financing originated from debt financing, creating a challenge should the company plan to increase its debt level in the future. Companies with high leverage may engage in earnings management to improve the companies' credit scoring as well as fulfilling the covenants stipulated in the loan agreement.

Profitability indicates a company's ability to generate profits over a specific period. Companies with high level of profitability suggests good performance. Furthermore, higher profitability indicates that the companies are more effective in producing profits. Managers may resort to earnings management during periods of low profitability to stabilize company performance in the eyes of investors.

To deter earnings management practices, independent auditors are engaged by the principals to oversee the accuracy of financial reports. High-quality audits are expected to reduce the likelihood of financial statement fraud, protecting the company's reputation. As auditor quality engaged by the company is increased, the opportunity for managers to manipulate the companies' financial statements is expected to fall.

Based on the information above, this study investigates the impact of the investment opportunity set, leverage, and profitability on earnings management practices in manufacturing companies listed on the Indonesia Stock Exchange. Additionally, this paper also examines whether audit quality moderates these variables' influence on earnings management.

Literature Review

Agency Theory

Agency theory explains the relationship between principals (owners/investors) and agents (management). In this theory, the principals and the agents enter into an agreement where agents are expected to perform a task on behalf of the principals. In Jensen and Meckling (1976), shareholders as the principals delegate the custody of the companies to the managers as agents whose decisions are expected to improve the wealth of shareholders through the improvement of companies' value.

This agency relations creates an agency problem where the theory assumed that shareholders and managers attempted to maximize their own interests and welfare, creating a conflict of interests between principals and agents. In the agency theory, managers as the custodian of the company possess more information compared to the shareholders, creating an information asymmetry between the agents and the principals. This asymmetry creates a loophole where managers might act in an opportunistic manner to advance their own interest and maximize their own utility.

According to Scott (2000) in Lisa (2012), there are two consequences that were born from the information asymmetry, including:

a. Adverse selection, which happens when managers and other internal parties within the companies who possess more knowledge of the companies' situation and prospects do

not disclose all information faithfully to the shareholders, disrupts the shareholders' decision-making process, and distorts the decision taken by the shareholders.

b. Moral hazard occurs when not all the managers' activities are known to the shareholders. Managers, who are aware of this information, might act beyond the knowledge of the shareholders, breaching the contract between agents and principals in the process.

Earnings Management

Definition

According to Schipper (1989) in Ratih and Ketut (2017), earnings management refers to managers' intervention in the financial reporting process for personal gain. Managers choose accounting disclosure methods that are deemed to be more beneficial.

Watts and Zimmerman (1986) in Sulistyanto, pp. 39-40, there are three motivations for managers to conduct earnings management including:

a. Bonus Plan Hypothesis, which occurs when shareholders promise the managers a sum bonus if the company reaches a certain level of profit. The bonus then motivates managers to set the company's profit on a certain level to meet the prerequisite target and earn their promised bonus.
b. Debt Covenant Hypothesis, where, in the context of a loan agreement, managers adjust the company's earnings to delay debt repayment obligations. Which is aimed to be repaid in the future periods.
c. Political Cost Hypothesis, where managers lower earnings to reduce tax liabilities.

Patterns

Scott (2009) in Savitri (2014) explained that there are several patterns that managers use to manage their earnings, including:

a. Taking a Bath is an earnings management pattern that extremely lowers profit (even incurring loss) compared to the previous period's profit level.
b. Income Minimization, also known as decreasing income, is an earnings management pattern where current period profit is lower than previous period.
c. Income Maximization, also known as increasing income, is an earnings management pattern where current period profit is higher than previous period.
d. Income Smoothing is an earnings management pattern where companies stabilize earnings to a relatively consistent level across periods.

Factors Affecting Earnings Management And Hypothesis

Investment Opportunity Set (Ios)

IOS represents the breadth of growth or investment opportunities of a company. A high IOS reflects the company's growth potential, motivating managers to manipulate earnings to appear to fulfill that potential. According to Myers (1977) in Priscilla (2015), IOS represents investment decisions in the form of a combination of assets in possession and future investment options.

Studies by Janah et al. (2020) as well as Irawan and Apriwenni (2021), found that IOS significantly and positively affects earnings management. Companies with a high level of IOS indicate that they may need a high amount of financing to grow the companies. Therefore, managers of these companies are more prone to exercising earnings management to present a better-performing financial statement to the investors and exhibit that the companies possess attractive growth potential in the future. Based on this explanation, this research proposes the following hypothesis:

H1: Investment Opportunity Set positively and significantly affects earnings management practices.

Leverage

The solvability ratio, also known as the leverage ratio, is a ratio used to measure the percentage of companies' assets financed using external debt. This ratio is also used to measure the companies' ability to repay all their liabilities both short and long-term (Kasmir, pp. 112). As the leverage of a company increases, creditors' and investors' financial risk also increases.

In their research, Widya and Darsono (2017) as well as Sitanggang and Purba (2022) found that leverage significantly and positively affects earnings management practices. A high leverage level indicates that the company financed its assets mostly through external debt. This condition disrupts the company's ability to obtain further funding since creditors and investors doubt its ability to fulfill the loan obligation, incurring penalties in the form of credit limit limitation, for example. To prevent such a situation, managers would rather use accounting methods that improve reported profits. Based on this explanation, this research proposes the following hypothesis:

H2: Leverage positively and significantly affects earnings management practices.

Profitability

The profitability ratio, also known as the rentability ratio, is a ratio that is often considered by investors before they invest their capital. Profitability ratio is a ratio used to assess a company's ability to generate profits (Kasmir, pp. 115). Profitability also reflects how a company's management performs in maintaining the effectiveness of the company's operational activities (Sukamulya, pp. 97).

Research by Zakia, et al. (2019) and Nesia, et al. (2024), states that profitability significantly and positively affects earnings management practices. The higher the profitability value of a company, the greater the company's ability to generate high profits, making the company's performance considered good, as it can provide a large return for investors. If a company's profitability decreases in a certain period, the decrease may indicate that there is a decline in the company's performance, so managers will execute earnings management to save their performance so that it remains stable. Based on this explanation, this research proposes the following hypothesis:

H3: Profitability positively and significantly affects earnings management practices.

Audit Quality

The purpose of a financial statement audit is to provide assurance on the integrity of the financial statements presented by company managers. Audit quality is viewed as the ability of auditors to improve the quality of financial reporting of a company. Gerayli (2011) in Agustia (2013) found that highly qualified auditors tend to reject doubtful accounting methods and are better able to detect errors and irregularities. When a company uses a highly qualified auditor, it is expected that investor confidence will improve. Audit quality in accounting research is proxied by the firm where the auditor works. Auditors who work in Big Four public accounting firms are considered more qualified since they are equipped with stricter training and procedures as well as having audit programs that are considered more accurate and effective compared to auditors from non-Big Four public accounting firms. The four public accounting firms that are classified as Big Four are Deloitte Touche Tohmatsu, PricewaterhouseCoopers (PwC), Ernst & Young (EY), and KPMG. Companies that use high-quality auditors are expected to be able to reduce factors that can lead to earnings management practices. Based on this explanation, this research proposes the following hypothesis:

H4: Audit Quality can weaken (strengthen) the effects of Investment Opportunity Set, leverage, and profitability on earnings management practices.

METHOD

This research uses a causal associative method with a quantitative approach. Causal associative research is a study aimed at determining the causal relationship between two or more variables, where there is a variable that influences (independent variable) and there is a variable that is influenced (dependent variable) (Sugiyono, pp. 37). This study will research the influence of investment opportunity set, leverage, and profitability on earnings management practices with audit quality as a moderating variable.

Research Sample

The sampling process in this study was carried out using purposive random sampling, which is a sampling technique using specific criteria that are adjusted to the research objectives. Sugiyono, page 85 [10]. The sample used is manufacturing companies in the consumer goods sub-sector listed on the Indonesia Stock Exchange (IDX) for the period 2018-2022. The criteria for sample selection in this study are as follows:

Table 1. Sample Companies Selection

No	Remarks	Amount
1	Manufacturing companies, consumer goods subsector	47
2	Newly listed companies, 2018 – 2022	(7)
3	Delisted companies, 2018 – 2022	0
4	Companies with incomplete financial statements	(4)
Number of companies used in the research		36
Number of samples used (5 years)		180

Source: Research Data

Variable Measurement

Dependent Variable

Dependent variable is a variable that is influenced or becomes a consequence due to the existence of an independent variable (Sugiyono, pp.39). The dependent variable of this study is earnings management which, is proxied by Discretionary Accruals (DA) and calculated using the Modified Jones model. The Modified Jones model is designed to eliminate the tendency to use potentially incorrect estimates from the Jones model to determine discretionary accruals when discretion exceeds income. The formula for calculating DA is as follows:

$$\frac{\mathbf{TAC_{i,t}}}{\mathbf{TA_{i,t-1}}} = \boldsymbol{\alpha_1}\left[\frac{\mathbf{1}}{\mathbf{TA_{i,t-1}}}\right] + \boldsymbol{\alpha_2}\left[\frac{\mathbf{\Delta REV_{i,t}} - \mathbf{\Delta REC_{i,t}}}{\mathbf{TA_{i,t-1}}}\right] + \boldsymbol{\alpha_3}\left[\frac{\mathbf{PPE_{it}}}{\mathbf{TA_{i,t-1}}}\right] + \mathbf{e_{i,t}}$$

Remarks:

TACi, t : Total accrual of company i at period t
TAit-1 : Total asset of company i at year end period t1
ΔRevenuei, t : Changes in revenue of company i from t1 to t
ΔRECi, t : Changes in receivables of company i from year t1 to year t
PPEi, t : gross property, plant, and equipment of company i at year t
α : fitted coefisien from total accrual regression result
ei,t : discretionary accrual (residual error)

Independent Variable

Independent variables are variables that influence or cause changes or cause the occurrence of the dependent variable (Sugiyono, pp. 39). The independent variables used by the author in this research are as follows:

Investment Opportunity Set (Ios)

In this study, IOS is proxied based on price using the Market Value to Book Value of Assets (MVBA) ratio. This ratio reflects the investment opportunities available to the company by measuring the company's growth prospects based on its assets, and this ratio is calculated by comparing the company's market value to its total assets. The formula for calculating the MVBA value is as follows:

$$MVBA = \frac{\{(Total\ Asset - Total\ Equity) + (outstanding\ shares\ x\ closing\ price)\}}{Total\ Asset}$$

Leverage

Leverage is proxied using debt to equity ratio (DER). DER ratio is used to assess a company's debt relative to its equity. The formula is as follows:

$$DER = \frac{debt}{equity}\ x\ 100\%$$

Profitability

Profitability is proxied by return on assets (ROA). ROA is used to measure a company's ability to generate net income from its assets. The formula is as follows:

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

Moderating Variable

A moderating variable strengthens or weakens the influence of independent variables on a dependent variable. The moderating variable used in this study is audit quality, proxied by Big Four and non-Big Four accounting firms, and is measured using a nominal scale with a dummy variable. 1 (one) is used to represent companies audited by Big Four accounting firms, while 0 (zero) is used to represent companies audited by non-Big Four accounting firms.

Research Model

This research uses two multiple linear regression equation models, as follows:

a. Model used to test the effect of investments opportunity set, leverage, and profitability on earnings management practices:

$$DA = \alpha + \beta1\ MVBA + \beta2\ DER + \beta3\ ROA + \varepsilon$$

b. Model used to test the effect of investments opportunity set, leverage, and profitability on earnings management practices with audit quality as moderator:

$$DA = \alpha + \beta1\ MVBA*KA + \beta2\ DER*KA + \beta3\ ROA*KA + \beta4\ MVBA + \beta5\ DER + \beta6\ ROA + \varepsilon$$

RESULTS AND DISCUSSION

Descriptive Statistics

Table 1. Descriptive Statistics Result

	N	Minimum	Maximum	Mean	Std. Deviation
DA	180	-0,2892	0,2048	-0,018	0,0825
MVBA	180	0,4352	43,8638	2,5164	3,9169
DER	180	0,1085	17,037	1,1779	2,0209
ROA	180	-0,2793	0,4468	0,0611	0,1082

KA	180	0	1	0,32	0,469
Valid N (listwise)	180				

Source: Research Result

Earnings management, proxied by discretionary accruals (DA), has an average value of -0.018 and a standard deviation of 0.0825, ranging from -0.289 to 0.205. This indicates that the sample companies in this study exhibit variability where some companies engage in earnings management practices by decreasing their income, while others increase it.

The investment opportunity set (IOS), proxied by MVBA, has an average value of 2.5164 and a standard deviation of 3.9169 with a range between 0.435 and 43.864. This indicates that the sample companies in this study are varied. There are companies with low growth opportunities and there are also companies with very high growth opportunities, reaching 43.86 times the market value to book value of their assets. On average, companies have a growth opportunity of 2.5 times their book value of assets.

Leverage, proxied by the debt-to-equity ratio (DER), has an average value of 1.1779 and a standard deviation of 2.0209 with a range of values between 0.1085 and 17.037. This indicates that the sample companies in this study have varying debt ratios, with some companies having low debt levels and others having high debt levels. On average, the sample companies have a debt level 1.18 times higher than their equity.

Profitability, proxied by ROA, has an average value of 0.061 and a standard deviation of 0.1082 with a range of values between -0.2793 and 0.4468. This indicates that the sample companies in this study are varied. There are companies that experience losses and there is also a company that generates a profit of 44.7% from their assets. On average, the sample companies generate a profit of 6.1% from their total assets.

Audit Quality (KA) has an average value of 0.32 and a standard deviation of 0.464. This indicates that the sample is varied. There are companies audited by Big Four accounting firms and there are also companies audited by non-Big Four accounting firms. Of the sample companies, 32% use auditors from Big Four accounting firms.

Normality Test

Based on Table 3, the Asymptotic Significance (2-tailed) shows a significance value of 0.071, which is greater than 0.05. Therefore, the sample used in this study is normally distributed.

Table 2. Normality Test Result

		Unstandardized Residual
N		180
Normal Parameters[a,b]	Mean	0,0000000
	Std. Deviation	0,08134239
Most Extreme Differences	Absolute	0,064
	Positive	0,050
	Negative	-0,064
Test Statistic		0,064
Asymp. Sig. (2-tailed)		.071[c]

Source: Research Result

Model 1 Regression Test Result And Discussion

Based on Table 4, the coefficient value of MVBA is 0.005550 with a significance value of 0.0024 < 0.01. This figure indicates that the Investment Opportunity Set (IOS), proxied by market value of stock to book value of assets (MVBA), has a positive and significant influence

on earnings management with a significance level of α = 1%. The higher the value of the investment opportunity set (IOS) of a company, the higher the practice of earnings management with an increasing income pattern.

Investment Opportunity Set (IOS) describes the breadth of growth opportunities or investment opportunities for a company. In this study, IOS is proxied by market value of stock to book value of assets (MVBA) where this ratio describes how the market assesses a company's growth potential based on the company's assets. The MVBA ratio is directly proportional to the value of IOS in a company. Growing companies will have a higher market value compared to their assets.

If the value of IOS in a company is high, it indicates a high growth opportunity for the company. If a company has high growth or development opportunities, then management will require a significant amount of funds to invest in order to increase its production capacity to meet market demand. To obtain these funds, the company will try to find investors or loan from creditors, requiring the company to meet debt covenants. This leads managers to engage in earnings management practices with an increasing income pattern, since increased profits on the financial statements show investors that the company can provide large profits in the future and show creditors that the company is able to meet its covenants. This result is in line with research by Agustina, et al. (2015), Nurlis (2016), Raudatul Jannah, et al. (2020), and Irawan and Apriwenni (2021), which stated that IOS has a significant positive effect on earnings management.

Table 3. Model 1 Hypothesis Testing Result: Effects of Investment Opportunity Set, Leverage dan Profitability on Earnings Management

Model 1

DA = α + β1 MVBA + β2 DER + β3 ROA + ε			
Independent Variable	**Prediction**	**Dependent Variable = Earnings Management**	
		Coefficient	**Significant**
CONSTANT		-0.068856	0.0000
MVBA	+	0.005550	0.0024***
DER	+	0.003458	0.3763
ROA	+	0.537180	0.0000***
R-Squared		0.460622	
Adjusted R-Squared		0.315258	
F-Statistic		3,168748	
Prob (F-Statistic)		0.000000	
DW		2,391230	
***Significant on α = 1%, **Significant on α = 5%, *Significant on α = 10%			
Variable Description: DA stands for discretionary accruals, a proxy for earnings management using the modified Jones model. **MVBA** is a proxy for investment opportunity set, calculated based on the market value of stock to book value of assets. **DER** is a proxy for leverage, calculated by comparing total debt to total equity. **ROA** is a proxy for profitability, calculated by comparing net income after tax to total assets.			

Source: Research Result

Based on the results in Table 4, the coefficient value of Leverage, proxied by the Debt to Equity Ratio (DER), shows a figure of 0.003458 with a significance value of 0.3763 > 0.1. This indicates that in this study, leverage does not have a significant effect on earnings management. This result is not in line with studies by Widya and Darsono (2017), as well as Sitanggang and Purba (2022), which stated that leverage has a significant effect on earnings management. However, the results of this study are in line with research conducted by Irma and Wahyu

(2018), Zakia, et al. (2019), and Chynthia and Ricardo (2021) which stated that leverage does not have an effect on earnings management practices. Leverage, in this study, does not affect the behavior of managers.

Meanwhile, the coefficient value of Return on Asset (ROA) shows a figure of 0.537180 with a significance value of 0.0000 < 0.01. Thus, profitability, proxied by ROA, has a significant positive effect on earnings management with a significance level of α = 1%. The higher the value of profitability in a company, the higher the level of earnings management carried out by the company with an increasing income pattern.

Profitability level indicates a company's ability to generate profits, whereas higher profitability means a higher company's performance and ability to generate profits. Conversely, low profitability indicates that the company's ability to generate profits is low. The result shows that higher profitability indicates higher managers' tendency to engage in earnings management practices. This means that with higher previous period profit, the company might engage in earnings management to maintain a high level of profit in the following period. This pattern repeats so that the profits generated can appear to remain stable from the previous period. Managers do this in order to show that the company they manage has good and stable performance to investors or creditors. This is in line with the findings of Roslita and Daud (2019), Zakia, et al. (2019), and Nesia, et al. (2024) which stated that profitability has a significant positive effect on earnings management practices.

Model 2 Regression Test Result And Discussion

Table 4 shows that the coefficient value of Investment Opportunity Set (IOS), proxied by MVBA, is 0.005550 with a significance level of 0.0024 < 0.01. However, in Table 5, the coefficient value of MVBA after being moderated by audit quality becomes -0.014172 with a significance level of 0.0234 < 0.05. This figure indicates that the Investment Opportunity Set (IOS) before being moderated by audit quality has a positive and significant effect on earnings management with a significance level of α = 1%, but after being moderated by audit quality, the Investment Opportunity Set has a negative and significant effect on earnings management with a significance level of α = 5%. Thus, it can be concluded that audit quality can weaken the influence of IOS on earnings management in the opposite direction and with a decreasing level of significance.

Before being audited by a Big Four accounting firm, companies with a high level of growth opportunities would engage in earnings management practices by increasing the value of profits (increasing income) on their financial statements in order to attract the attention of investors or creditors to fund their company's growth. However, with the presence of a quality auditor, company managers are less free to manipulate their financial statements because managers will be held accountable for the reports they present. The auditor will conduct a very detailed audit of the financial statements and ask the company to provide complete information. If the auditor finds any transactions that should not be recorded in the financial statements for the current period, the auditor will ask the company to make recordings in accordance with applicable accounting standards, resulting in a decrease in the level of profit in the financial statements for the current period. Thus, the presence of a quality auditor or one that is a member of a Big Four accounting firm is able to weaken the behavior of managers in engaging in earnings management practices, in companies with high investment opportunity set values.

Tabel 4. Model 1 Hypothesis Testing Result: Effects of Investment Opportunity Set, Leverage dan Profitability on Earnings Management Moderated by Audit Quality

Model 2		
DA = α + β1 MVBA*KA + β2 DER*KA + β3 ROA*KA + β4 MVBA + β5 DER + β6 ROA + ε		
Variabel Independen	**Prediksi**	**Variabel Dependen = Manajemen Laba**

		Koefisien	Signifikan
KONSTANTA	+/-	-0,058539	0.0001
MVBA*KA	-	-0.014172	0.0234**
DER*KA	+	0.008907	0.6742
ROA*KA	-	-0.164904	0.4312
MVBA	+	0.007267	0.0002***
DER	+	0.004340	0.3039
ROA	+	0.669172	0.0000***
R-Squared		0.493962	
Adjusted R-Squared		0.343617	
F-Statistic		3.285528	
Prob (F-Statistic)		0.000000	
Durbin-Watson		2.505316	

***Significant on α = 1%, **Significant on α = 5%, *Significant on α = 10%

Variable Description: DA stands for discretionary accruals, a proxy for earnings management using the modified Jones model. **MVBA** is a proxy for investment opportunity set, calculated based on the market value of stock to book value of assets. **DER** is a proxy for leverage, calculated by comparing total debt to total equity. **ROA** is a proxy for profitability, calculated by comparing net income after tax to total assets.**KA** stands for audit quality proxied by a dummy variable of 1 for big four firms and 0 for non-big four firms.

Source: Research Result

The coefficient value of Leverage, proxied by the Debt to Equity Ratio (DER) in Table 4, is 0.003458 with a significance level of 0.3763 > 0.1. Then, in Table 5, after being moderated by audit quality, the coefficient value of DER becomes 0.008907 with a significance level of 0.6742 > 0.1. These results show that in this study, regardless of the presence of audit quality, Leverage, proxied by DER, does not have a significant effect on earnings management practices in companies.

The coefficient value of profitability, proxied by Return on Asset (ROA) in Table 4, is 0.537180 with a significance level of 0.0000 < 0.01. This means that profitability has a significant positive effect on earnings management. In Table 5, after being moderated by audit quality, the coefficient value of ROA becomes -0.164904 with a significance level of 0.4312 > 0.1. This value indicates that after being moderated by audit quality, profitability becomes insignificant to earnings management practices. This shows that audit quality from Big Four accounting firms is able to weaken the influence of profitability on earnings management practices.

Before being audited by a Big Four accounting firm, companies with high profitability tended to engage in earnings management practices with an increasing income pattern in order to keep their profit levels appearing stable from the previous period, thus being able to present good performance to investors. However, with the presence of a quality auditor, managers will show the actual profit. This happens because the auditor will conduct strict supervision in the presentation of financial statements and will conduct a detailed and careful examination of the company's financial statements. So when the auditor finds any recordings that are not in accordance with applicable accounting standards, the auditor will ask the company to make corrections (adjustments), so that the financial statements can be more realistic. A quality auditor will refuse to issue an unqualified opinion when the financial statements are considered inaccurate. Thus, the presence of a quality auditor is able to weaken the motivation of managers to engage in earnings management practices, both when profitability levels are high and low.

CONCLUSION

Based on the explanations above, this study concludes as follows:

1. The research results show that investment opportunity set and profitability have a significant and positive effect on earnings management practices at a significance level of α = 1%. However, leverage does not have a significant effect on earnings management practices.
2. The presence of audit quality in this study was able to weaken the influence of investment opportunity set and profitability on earnings management practices. However, audit quality did not have a significant impact on leverage as a variable that impact the implementation of earnings management practices.

REFERENCES

Agustia, Dian. 2013. *Pengaruh Free Cash Flow dan Kualitas Audit Terhadap Manajemen Laba*,Jurnal Akuntansi Faculty of Economics and Business, Universitas Airlangga.

Agustina, Islahuddin, and Muhammad Arfan. 2015. *Pengaruh Set Peluang Investasi dan Financial Leverage terhadap Return Saham yang Dimediasi Oleh Manajemen Laba (Studi Pada Perusahaan Manufaktur Periode 2010-2013 yang Terdaftar di Bursa Efek Indonesia)*, Jurnal Magister Akuntansi, Vol. 4, No. 3, p.27-38, Universitas Syiah Kuala, Banda Aceh.

Anggia, Paramita and Abdul Rohman. 2012. *Analisis Pengaruh Investment Opportunity Set (IOS) dan Mekanisme Corporate Governance terhadap Kualitas Laba dan Nilai Perusahaan*. Jurnal Akuntansi Universitas Diponegoro Vol.1, No.2, Semarang.

Astari, Anak Agung Mas Ratih and I Ketut Suryanawa. 2017. *Faktor-faktor yang Mempengaruhi Manajemen Laba*. E-Jurnal Akuntansi Vol. 20 No. 1, Universitas Udayana, Bali.

Atri F., Widya and Darsono. 2017. Pengaruh *Leverage*, Struktur Kepemilikan dan Kualitas Audit Terhadap Manajemen Laba, Jurnal Akuntansi Universitas Diponegoro Vol. 6, No.3, Semarang.

Irawan, Sally and Prima Apriwenni. 2021. *Pengaruh Free Cash Flow, Financial Distress dan Investment Opportunity Set Terhadap Manajemen Laba pada Perusahaan Infrakstruktur, Utilitas dan Transportasi yang Terdaftas dalam Bursa Efek Indonesia tahun 2014 – 2018***,** Jurnal Akuntansi Bisnis Vol. 14 No. 1, Jakarta.

Izzati, Fify Nesia, et al. 2024.*Pengaruh Profitabilitas, Likuiditas, Leverage dan ukuran Perusahaan Terhadap Manajemen Laba pada Perusahaan Manufaktur Subsektor Industri Barang Konsumsi Makanan dan Minuman yang Terdaftar di Bursa Efek Indonesia Periode 2019-2021*, Jurnal Riset Akuntansi dan Bisnis Indonesia Vol. 4, No. 1, STIE Widya Wiwaha.

Jannah, Raudatul et al. 2020. Pengaruh *Investment Opportunity Set* (IOS), Ukuran Perusahaan, dan Arus Kas Bebas Terhadap Manajemen Laba (Studi Empiris pada Perusahaan Manufaktur Sub Sektor Makanan dan Minuman yang Terdaftar di BEI), Jurnal Institut Teknologi dan Bisnis Asia Malang.

Jensen, Michael C. & William Meckling. 1976.*Theory of The Firm: Managerial Behavior, Agency Cost and Ownership Structure*. Journal of Financial Economics Vol. 3, No. 4, 305 – 360.

Kasmir. 2019. *Pengantar Manajemen Keuangan Edisi kedua*, Cetakan ke-7, Prendamedia Group, Jakarta.

Lisa, Oyong. 2012. *Asimetri Informasi dan Manajemen Laba: Suatu Tinjauan dalam Hubungan Keagenan*, Jurnal WIGA, Vol.2, No.1, Lumajang.

Lupita, Irma Wahyu and Wahtyu Meiranto. 2018, *Pengaruh Surplus Arus Kas Bebas, Ukuran Perusahaan, Leverage dan Kualitas Audit Terhadap Manajemen Laba*, *Journal of Accounting* Vol. 7 No.4, Universitas Diponegoro. Semarang.

Nurlis. 2016. *The Effect to Mechanism of Good Corporate Governance and Investment Opportunity Set on Earning Management: Study on Property and Real Estate Companies are Listed in Indonesia Stock Exchange*, European Journal of Business and Management, Vol. 8 No. 2, p.173-182.

Roslita, Evy dan Arsyad Daud. 2019. *Pengaruh Kepemilikan Saham, Profitabilitas, Leverage, dan Pajak Tangguhan terhadap Manajemen Laba dengan Kualitas Audit Sebagai Variabel Pemoderasi*, Jurnal Manajemen Bisnis Vol. 22 No. 2, Institut Bisnis Nusantara.

Savitri, Ennie. 2014. *Analisis Pengaruh Leverage dan Siklus Hidup terhadap Manajemen Laba pada Perusahaan Real Estate dan Property yang Terdaftar di Bursa Efek Indonesia*, Jurnal Akuntansi Vol.3, No. 1, Faculty of Economics Universitas Riau.

Sitanggang, Abdonsius and Antonius M. Purba, *Pengaruh Asymetric Information, Leverage dan Ukuran Perusahaan Terhadap Manajemen Laba (Studi Empiris pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia tahun 2011-2013*, Jurnal Akuntansi Vol.8, No.1, Universitas Katolik Santo Thomas, 2022

Sukamulja, Sukmawati. 2019. *Analisis Laporan Keuangan sebagai Dasar Pengambilan Keputusan Investasi*, Andi Yogyakarta, Yogyakarta.

Sugiyono. 2022. *Metode Penelitian Kuantitatif, Kualitatif dan R&D 2nd Edition*, 29th Emission, Alfabeta, Bandung.

Sulisyanto, Sri. 2018. *Manajemen Laba: Teori dan Model Empiris*, 2nd Edition, Grasindo, Jakarta.

Yolanda, Cynthia and Ricardo Suhendra Wirjawan. 2021, *Pengaruh Peforma Keuangan, Struktur Perusahaan dan Kualitas Audit dalam Manajemen Laba*, E-Jurnal Akuntansi TSM Vol 1 No.4, Trisakti School of Management, Jakarta.

Zakia, Veni et all. 2019. *Pengaruh Kepemilikan Manajerial, Kepemilikan Institusional, Ukuran Perusahaan, Leverage, Profitabilitas, Pertumbuhan Penjualan Terhadap Manajemen Laba dengan Good Corporate Governance sebagai Variabel Moderating*, Jurnal Riset Akuntansi Vol. 8, No. 4, Universitas Islam Malang.