

ABSTRACT

Earnings management is a discretionary action taken by managers in preparing financial statements to achieve specific objectives, such as maintaining reputation, securing performance-based bonuses, or attracting investors. Such practices can distort financial information and reduce its reliability for stakeholders. This study examines the effect of audit quality, managerial ownership, institutional ownership, and profitability on earnings management, while incorporating leverage and firm size as control variables.

The population of this study consists of companies listed in the LQ45 index on the Indonesia Stock Exchange (IDX) during the 2019–2023 period. The sample was selected using purposive sampling, resulting in 90 observations from 18 companies over five years. Data were obtained from annual financial reports published on the official IDX website and the respective company websites. The analytical method employed is panel data regression with a fixed effect model, processed using EViews software.

The results indicate that, simultaneously, audit quality, managerial ownership, institutional ownership, and profitability significantly influence earnings management. Partially, managerial ownership and profitability have a positive and significant effect on earnings management, with probability values of 0.0224 and 0.0001, respectively. Meanwhile, audit quality (measured by audit tenure) and institutional ownership do not significantly influence earnings management, with respective p-values of 0.3584 and 0.1998. These findings suggest that in large-cap companies listed in the LQ45 index, higher managerial ownership may encourage opportunistic behavior in earnings manipulation, while the effectiveness of audits and institutional ownership remains insufficient to substantially curb such practices.

This research provides important implications for investors, auditors, and regulators in understanding the key drivers of earnings management. For investors, the findings may serve as a reference when assessing the integrity of financial reports. For auditors and policymakers, the results highlight the need to enhance audit standards and strengthen corporate governance regulations to promote transparent and reliable financial reporting.

Keywords: Earnings Management, Audit Quality, Managerial Ownership, Institutional Ownership, Profitability, Leverage, Firm Size