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The influence of audit committee and institutional ownership on earnings management with financial performance as intervening variables

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ABSTRACT

This study aims to examine the influence of the Audit Committee and Institutional Ownership on Earnings Management with Financial Performance as Intervening Variables. This study uses a quantitative approach. The population of this research is all manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2018-2021, totaling 220 companies. Sample selection was carried out using purposive sampling method with a final sample of 120 financial reports. The data processing technique used in this study is the Statistical for Social Sciences (SPSS) application version 21. The results of this study indicate that the Audit Committee has a negative effect on Earnings Management, Institutional Ownership has no effect on Earnings Management, the Audit Committee has a positive effect on Financial Performance, Institutional Ownership has a positive effect on Financial Performance, Financial Performance has a positive effect on earnings management, the Audit Committee has an effect on earnings management through Financial Performance, and Institutional Ownership has no effect on Earnings Management through Financial Performance.

Keywords : Earnings Management, Audit Committee, Institutional Ownership, Financial Performance,

INTRODUCTION

Companies must have clear goals when they want to set up a company. One of the objectives to be achieved by the company is to increase the value of the company. Efforts made by company managers in increasing company value by increasing company performance. Company performance can be measured by financial performance which can be seen in the financial statements. Financial reports are very important for knowing the company's financial condition and can be said to be a means of communicating financial information to parties outside the corporation and reports as information products produced by the company are inseparable from the preparation process (Anggreni & Adiwijaya, 2020). According to (Fitri et al., 2018) financial reports must be able to present relevant information so that it can be used by investors for making investment decisions, one of the information that is usually used for making a decision is profit.

Agency theory assumes that each individual is solely motivated by his own self-interest, giving rise to a conflict of interest between the principal and the agent. In the context of a company, what is meant by a principal is a shareholder, while an agent is the management who manages the company. In relation to the agency, management has more internal company information compared to the principal, thus enabling agents to maximize the fulfillment of their personal interests by illegal means, namely moral hazard and adverse selection. (Alexandri & Anjani, 2014) .

In achieving the profit target, management will select certain accounting policies so that later company profits can be regulated (Fionita & Fitra, 2021). Attention to information is often centered on company profits without regard to the procedures used to generate these profits, so that it tends to encourage managers to manipulate earnings and earnings management, laxity in accounting standards allows managers to be given the flexibility to choose the accounting method used in preparing their financial statements, this opportunity can utilized so that the manager's performance is in accordance with the wishes of the financial report maker, which can later influence the users of financial statements in the decision-making process.

Because profit information is very influential, it often allows management to take action to modify profit information so that it can produce the desired information in order to achieve

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its own goals (Oktavianna & Prasetya, 2021) . The selection of an accounting system carried out by management to fulfill its own objectives is called earnings management or earnings management (Sihombing, 2020) . Earnings management is the choice by managers of accounting policies or actions that affect earnings, to achieve certain reported profit objectives (Hadnan & Setiyawati, 2021) . According to (Hardirmaningrum et al., 2021) earnings management is the selection of accounting policies intended so that companies can increase or decrease profits earned in accordance with the needs of management so that the company's financial reports look good in the eyes of users.

Good Corporate Governance is one of the company's tools to become the trust of shareholders, this is in line with Stewardship Theory which says that organizational management is focused on harmonization between capital owners or principles and capital managers or stewards in achieving common goals (Watiputri & Pranoto, 2021) . The implementation of corporate governance requires companies to operate in a safe, healthy manner, and comply with applicable laws and regulations. The corporate governance mechanism is also seen as a system that controls the company, protects the interests of stakeholders, and creates value. Stewardship theory assumes that the manager is the manager of a company that is aligned with the principal's goals (Maulida & Praptoyo, 2018).

According to (Arnas et al., 2021) a good company must have corporate governance that can minimize the management of its earnings by separating owners and managers by differentiating between management and managerial type shareholding structures. One of the most effective ways to reduce earnings management practices is to implement a good corporate governance system (Hadnan & Setiyawati, 2021). Corporate governance mechanisms are clear rules, procedures and relationships between those who make decisions and those who will control (supervise) those decisions that will ensure and oversee the running of the governance system within an organization.

Based on Agency Theory, the audit committee is considered as one of the control mechanisms to reduce earnings management. According to (Fitri & Hakim, 2021), the main purpose of establishing an independent and quality audit committee is to avoid fraud by the directors. The audit committee is committed to obligations and is willing to report them to the board of commissioners (Khairunnisa et al ., 2020). One of the duties of an audit committee in OJK regulations (Financial Services Authority) Number 55/POJK.04/2015 Regarding the Establishment and Guidelines for the Implementation of Audit Committee Work, namely to

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review information on financial reports that will be submitted by companies to the public as well as compliance with laws (FSA, 2015). In this regard, the total number of audit committee meetings is used as an indicator of the activity of the audit committee, which is held at least once a quarter or four times a year. The expertise of the audit committee has been described in the regulation of the Indonesian financial services authority No 02/POJK.05/2014.

Research conducted by (Khairunnisa et al., 2020), states that the audit committee has a negative effect on earnings management. (Ngo & Le, 2021) found that the size and expertise of the audit committee reduced discretionary accruals or constrained earnings management behavior. This is in line with research conducted by (Fitri & Hakim, 2021; Hadnan & Setiyawati, 2021). However, this is contrary to research conducted by (Chaniago & Trisnawati, 2021) which states that the Audit Committee has no influence on earnings management.

Apart from the Audit Committee, the next corporate governance mechanism is institutional ownership. Institutional ownership is the ownership of shares owned by an agency or institution such as banks, insurance companies, investment companies, and pension fund companies. Institutional ownership that is high enough can minimize the existence of earnings management actions depending on the amount of ownership, so that it can monitor management so that it can reduce the motivation of managers in carrying out earnings management practices. According to (Anggreni & Adiwijaya, 2020) Institutional ownership has the ability to control management through an effective monitoring process. The existence of institutional ownership can improve supervision of management's performance and provide encouragement for management to carry out their duties properly. Institutional ownership can suppress the occurrence of earnings management practices carried out by management ((Dharma et al ., 2021). Institutional ownership is the party that has the most influence on decision making, besides that institutional ownership is the party that gives control to management in the company's financial policies (Hardirmaningrum et al ., 2021).

Based on research (Cahyani & Hendra, 2020) , institutional ownership has a negative effect on earnings management. This shows that the greater the percentage of institutional share ownership, the lower the level of earnings management carried out by company managers. This research is in line with research conducted by (Abduh & Ellen, 2018; Suheny, 2019; Yovianti & Dermawan, 2020) . Research (Jao & Pagalung, 2011) also found that institutional ownership affects earnings management but in a positive direction. (Perdana, 2019) found that institutional ownership has a significant positive effect on profit management in companies

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listed on the Indonesia Stock Exchange (IDX). So the greater the shares owned by institutional shareholders in a company, the greater the chance of earnings management. This research is supported by research conducted (Arlita et al ., 2019; Fitri & Hakim, 2021; Pratomo & Alma, 2020) .

Other research is not in line with the research findings above. (Marsha & Ghozali, 2017) found that institutional share ownership has no significant effect on earnings management. This is because management has the responsibility to meet the demands of investor profit targets so that even though the amount of institutional ownership increases, it cannot suppress management actions to carry out earnings management (Dharma et al ., 2021) . This research is supported by research obtained by (Arnas et al ., 2021; Fionita & Fitra, 2021; Hardirmaningrum et al ., 2021; Yanthi et al ., 2021)

Profit is an important measure that is often used as a benchmark by interested parties in assessing financial performance. The description of the company's financial performance contained in the financial reports issued by the company has the aim of presenting financial information that can describe a company's condition in one period (Rahmasari & Trisnaningsih, 2021) . However, when the company's management is in a situation where it turns out that the company's management is unable to obtain profit that has been targeted, management then uses and takes advantage of the flexibility of accounting standards during the process of preparing financial reports to make modifications to profits that will later be included in the company's financial statements. Management will have the motivation to show good performance in order to obtain large profits for the company so that management will be more inclined to use an accounting system which will be able to produce better profit information. The selection of the accounting system carried out by the management to fulfill its own objectives which are set deliberately is called earnings management or earnings management (Sihombing, 2020) .

THEORETICAL REVIEW

Agency Theory (Agency Theory)

(Jensen & Meckling, 1976) explains that agency relationships occur when one or more people (principals) hire another person (agent) to provide a service and then delegate decision-making authority. Agency theory assumes that each individual is solely motivated by his own self-interest, giving rise to a conflict of interest between the principal and the agent. In the context of a company, what is meant by a principal is a shareholder, while an agent is the

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management who manages the company. In relation to the agency, management has more internal company information compared to the principal, thus enabling the agent to maximize the fulfillment of his personal interests by illegal means. The essence of the agency relationship is the separation of functions between ownership by investors and control by management (Jao & Pagalung, 2011)

Stewardship Theory (Stewardship Theory)

The definition of stewardship theory according to Donaldson and Davis (1991) is a theory that describes a situation where managers are not motivated by individual goals but are more aimed at their main outcome goals, namely for the benefit of the organization. Stewardship theory has psychological and sociological roots which are designed to explain situations where managers act as stewards and act in the interests of the owners (Ayem et al., 2019) . This theory is based on considerations related to manager motivation. An executive manager in this theory is considered not as an opportunistic party, in that essentially, they only do a good job of being a good manager for all the assets owned by the company.

Profit Management (Earning Management)

Earnings management is a concept carried out by companies in managing financial reports so that they appear to have quality (quality of financial reporting). The most frequently manipulated financial statements are income statements (Hardirmaningrum et al ., 2021) . Manipulating these financial reports indirectly makes the external financial reporting process irrelevant and non-neutral due to the interference of management who has goals for their own interests, thereby reducing the credibility of financial reports. The intervention of the management will bias the financial statements which will affect users of financial reports, especially investors, in making the policies they want to take for the company.

Audit Committee (Audit Committee)

(Rikasari & Hardiyanti, 2022) states that the audit committee has a role to bridge between internal and external auditors, with supervision carried out by the audit committee on the company's internal control, it will minimize the occurrence of unhealthy actions carried out by management for their own interests. The audit committee has an important role and in terms of maintaining the credibility of the process of preparing financial reports, maintaining the

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creation of an adequate company supervision system and the implementation of good corporate governance.

Institutional Ownership

Institutional shareholders are company shareholders by the government, financial institutions, institutions with legal entities, foreign institutions, trust funds and other institutions (Arlita et al ., 2019) . Meanwhile, according to (Jensen & Meckling, 1976) states that institutional ownership has a very important role in minimizing agency conflicts that occur between managers and shareholders. The existence of institutional ownership in a company will encourage increased monitoring of management performance. The greater the institutional ownership, the greater the power of voice and encouragement from these financial institutions to oversee management and consequently will provide greater impetus for management to optimize company performance and align the interests of management with shareholders or stakeholders.

Financial Performance (Financial Performance)

Financial performance is the main benchmark for measuring whether or not a company's performance is good, this can be seen from its financial reports (Sarafina & Saifi, 2019) . Financial performance is one of the factors that can show the effectiveness and efficiency of a company or organization in order to achieve goals. Measurement of financial performance that is carried out correctly and routinely in each period certainly has the goal of assessing the success that has been achieved by the company and producing useful information for the process of returning management and increasing added value for the company in the eyes of stakeholders.

Hypothesis Development

Based on Agency Theory, the audit committee is also considered as one of the control mechanisms to reduce earnings management. According to (Fitri & Hakim, 2021) the main purpose of establishing an independent and quality audit committee is to avoid fraud by the directors. The audit committee is committed to obligations and is willing to report them to the board of commissioners (Khairunnisa et al ., 2020). Research conducted by (Khairunnisa et al ., 2020) states that audit committees have a negative effect on earnings management. Research

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conducted by (Ngo & Le, 2021) found that the size and expertise of the audit committee reduces discretionary accruals or limits earnings management behavior. This is in line with research conducted by (Fitri & Hakim, 2021; Hadnan & Setiyawati, 2021)

H1: The audit committee influences earnings management

Referring to the agency theory (Agency Theory) from Jensen & Meckling (1976), one of the efforts to anticipate agency problems is to use an ownership structure. Institutional ownership has become an attempt to increase shareholder oversight of agents to avoid earnings management and other corrupt practices. Research conducted by (Cahyani & Hendra, 2020) states that institutional ownership has a negative effect on earnings management. This shows that the greater the percentage of institutional share ownership, the lower the level of earnings management carried out by company managers. This research is in line with research conducted by (Abduh & Ellen, 2018; Suheny, 2019; Yovianti & Dermawan, 2020)

H2: Institutional ownership affects earnings management.

According to (Abduh & Ellen, 2018) Companies that have implemented good corporate governance can make the company's financial performance good. Research conducted by (Abduh & Ellen, 2018) , obtained research results that the audit committee has a positive effect on financial performance. The existence of an audit committee is accepted as a part of the company's organization which can result in increased financial performance. This research is in line with research conducted by (Nurhidayah, 2020) which states that audit committees can improve financial performance in companies. With the existence of an audit committee, companies can be more transparent and reliable about their performance.

H3: The audit committee has an effect on financial performance.

Nurhidayah (2020) which states that institutional ownership can improve performance in company finances. (Pura et al ., 2018; Setiawan & Setiadi, 2020) also states that institutional ownership has a significant positive effect on return on assets (financial performance). This is supported by Agency Theory by Jasen and Meckling (1976) explaining that institutional ownership can be used to minimize agency problems. The more institutional ownership of the company, the stronger the control over the company from external parties, meaning that agency conflicts can be minimized. The lower the value of fraud (fraud) contained in financial reporting, is able to increase the value of the quality of financial reports so that it can improve financial performance.

H4: Institutional ownership affects financial performance.

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Agency theory states that there are differences in interests and information between principals and agents that spur agents to think about how the resulting accounting numbers can maximize their interests. Research conducted by (Sihombing, 2020) states that financial performance has a positive influence on earnings management. This research is in line with research conducted by (Sihombing, 2020) which states that profitability has a positive effect on earnings management, where it can be explained that companies that generate high profits will report lower profits than the actual situation . Companies that have high profits will have political costs because they will be of concern to the government and society when compared to companies that have small profits.

H5: Financial performance influences earnings management.

Agency theory by (Jensen & Meckling, 1976) states that the principal is motivated to prosper himself with ever-increasing profitability to maximize the fulfillment of his economic and psychological needs. Companies that generate high profits will report lower profits than the actual situation. Companies that have high ROA will later tend to do earnings management because management can directly determine the company's ability to generate profits. Research (Sihombing, 2020) states that return on assets has a positive influence on earnings management, which means that the level of return on assets owned by companies will be able to increase the possibility of company management to carry out earnings management.

H6: The audit committee influences earnings management through financial performance.

Research conducted by (Nurhidayah, 2020) states that institutional ownership can improve company financial performance. (Pura et al ., 2018; Setiawan & Setiadi, 2020) supports this research which states that institutional ownership has a significant positive effect on return on assets (financial performance). Companies that generate high profits will report profits that are smaller than the actual situation, as companies that have high profits will have political costs because they will become the concern of the government and society when compared to companies that have small profits. Earnings management by reducing profits is also carried out by companies to avoid high taxes. Based on the explanation above, the hypothesis can be formulated as follows:

H7: Institutional ownership affects earnings management through financial performance.

RESEARCH METHODS

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Operational definition

Audit Committee (X_1)

Audit Committee (X_1) The audit committee is committed to obligations and is willing to report them to the board of commissioners. One of the duties of an audit committee in OJK regulations (Financial Services Authority) Number 55/POJK.04/2015 Regarding the Establishment and Guidelines for the Implementation of Audit Committee Work, namely to review information on financial reports that will be submitted by companies to the public as well as compliance with laws (FSA, 2015). In this regard, the total number of audit committee meetings is used as an indicator of the activity of the audit committee, which is held at least once a quarter or four times a year. Based on BAPEPAM-LK Decree Number: Kep-643/BL/2012, the audit committee must hold regular meetings at least 4 times a year. In this study, the audit committee is measured by the number of audit committee meetings held in one year (Jao & Pagalung, 2011) .

Institutional Ownership (X_2)

Institutional Ownership (X_2) is institutional ownership, namely how many shares are held by institutions in the company at the end of the year and expressed as a percentage. The indicator used to measure institutional ownership is the percentage of shares owned by an institution divided by the total outstanding shares (Shleifer & Vishny, 1986).

$$\text{Institutional Ownership} = \frac{\text{Total Institutional Ownership}}{\text{Total Outstanding Shares}} \times 100\%$$

Profit Management (Y)

Earnings management (Y) has an understanding as a company's effort to take advantage of the accounting structure in order to be able to manipulate financial report numbers. In this case, the accrual component will be easier to use as desired when recording and preparing financial reports. The accounting method used is the accrual basis which is an accounting method in which transactions are not recognized when cash is received or paid but are recognized when receipts and disbursements occur. Accounting policies, income and costs can be used as targets for earnings management. The modified Jones model formula is used in this study. In this model, non-discretionary accruals are estimated during the event period so that

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they are considered the best and produce robust results when determining earnings management. The following is the Modified Jones 1991 model formula (Khairunnisa et al ., 2020) :

$$\mathrm{DAit} = \frac{\mathrm{TACit}}{\mathrm{TAit} - 1} - \mathrm{NDAit}$$

Before obtaining the formula, three stages must be carried out, as follows:

1. Calculating Total Accruals:

$$\mathrm{TACit} = \mathrm{NIit} - \mathrm{CFOit}$$

2. Determining Nominal Total Accruals is estimated using linear regression:

$$\frac{\mathrm{TACit}}{\mathrm{TAt} - 1} = \beta 1 \left(\frac{1}{\mathrm{TAit} - 1}\right) + \beta 2 \left(\frac{\Delta \mathrm{REVit}}{\mathrm{TAit} - 1}\right) + \beta 3 \left(\frac{\mathrm{PPEit}}{\mathrm{TAit} - 1}\right) + \varepsilon$$

3. Determining Nondiscretionary Accruals:

$$\mathrm{NDAit} = \ \beta 1 \left(\frac{1}{\mathrm{TAit} - 1}\right) + \beta 2 \left(\frac{\Delta \mathrm{REVit}}{\mathrm{TAit} - 1} - \frac{\Delta \mathrm{RECit}}{\mathrm{TAit} - 1}\right) + \beta 3 \left(\frac{\mathrm{PPEit}}{\mathrm{TAit} - 1}\right)$$

4. Determining Discretionary Accruals Value:

$$\mathrm{DAit} = \frac{\mathrm{TACit}}{\mathrm{TAit} - 1} - \mathrm{NDAit}$$

Information:

DAit : Discretionary accruals of company i, t
NDAit : Company Non-Discretionary Accruals i, t
TACit : Total company accruals i, t
NIit : net profit of company i, t
CFOit : The company's operating cash flow i, t
TAit-1 : The total of company assets i, t-1
ΔREVit : Change in company income i, t
ΔRECit : Changes in company receivables i, t
PPEit : Company property, plant, and equipment i, t
ε : Error

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Financial Performance (Z)

One way to determine financial performance is to analyze financial reports using financial ratios that are carried out every year within a certain period of time. Return on assets (ROA) as a calculation of financial performance in this study. According to (Fitriza et al., 2021) the ratio used to calculate the competence of a company in utilizing assets to earn profit is ROA. The return on assets (ROA) formula is as follows (Horne & Wachowicz, 1997)

$$\text{ROA} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}}$$

Population and Sample

The population of this research is all manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2018-2021, totaling 220 companies. The sample selection was carried out using a purposive sampling method with the aim of obtaining a representative sample according to the specified criteria. The sample selection process based on predetermined criteria is presented in Table 4.1 below:

Sample Selection Procedure Table

No.	Criteria	Amount
1	companies listed on the Indonesia Stock Exchange during the 2018 period 8-2021	220
2	Companies with IPOs or initial offerings in the 2018-2021 period.	(60)
3	Companies that were delisted during the 2018-2021 period.	(16)
4	Companies that do not present financial statements in Rupiah	(29)
5	The company does not provide complete financial statements for the 2018-2021 period.	(37)
6	Companies that experienced consecutive losses during the 2018-2021 period	(38)
	Initial sample size	30
	Observation year	4

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	Final sample quantity	120

Source: Secondary Data Processed in 2022

Based on the table above, the number of financial reports used as samples in this study totaled 120 financial reports originating from 30 sample companies listed on the IDX for a period of 4 years, namely 2018-2021.

Method of collecting data

Data collection was carried out using the documentation method, namely tracing the annual reports that were selected as samples. The annual report is obtained from the publication of the Indonesia Stock Exchange (IDX) through the website www.idx.co.id for the 2018-2021 period.

Method Data analysis

The data analysis method is a method used to process existing variables so as to produce a useful research result and obtain a conclusion (Dewi, 2018). The data processing technique used is the Statistical for Social Sciences (SPSS) application version 21

RESULTS AND DISCUSSION

Descriptive Statistics Test

Descriptive analysis aims to provide an overview of research data in general to report readers. In this study descriptive statistical measurements were in the form of minimum values, maximum values, average values (mean), and standard deviations. The following table results of descriptive analysis:

Results of Descriptive Statistical Analysis

	N	Minimum	Maximum	Means	std. Deviation
Audit Committee	120	2.00	14.00	5.2083	2.27849
Institutional Ownership	120	5,67	92.37	69.0303	18.77095
Financial performance	120	,04	31,17	7.4307	6.19192
Profit management	120	-,49	,37	,0152	,10558
Valid N (listwise)	120				

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Source: SPSS 21 Results (2023)

The results of the descriptive analysis show that the minimum value of the audit committee is 2.00, the maximum value is 14, the mean value is 5.21, and the standard deviation value is 2.28. The mean value of 5.21 indicates that the average audit committee meets 5 times each year.

Descriptive analysis of institutional ownership variables shows a minimum value of 5.67, a maximum value of 92.37, a mean value of 69.03, and a standard deviation of 18.77. The mean value of 69.03 indicates that the average manufacturing company in the sample is owned by an institution of 69.03%.

Descriptive analysis of financial performance variables shows a minimum value of 0.04, a maximum value of 31.17, a mean value of 7.43, and a standard deviation of 6.19. The mean value of 7.43 indicates an average financial performance that is proxied by an ROA of 7.43%.

Descriptive analysis of earnings management variables shows a minimum value of -0.49, a maximum value of 0.37, a mean value of 0.015, and a standard deviation of 0.105. The mean value of 0.015 indicates that the average earnings management of the manufacturing companies in the sample is 0.015.

Classic assumption test

Before carrying out multiple linear regression testing, it is necessary to test the classical assumptions first. The classic assumption test consists of a normality test, multicollinearity test, autocorrelation test and heteroscedasticity test (Ghozali, 2011)

Normality test

This normality test aims to determine whether a variable is normal or not. Normal or not is based on the standard normal distribution of data with the same mean and standard deviation. So the normality test basically makes a comparison between research data and normally distributed data that has the same mean and standard deviation as research data

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(Ghozali, 2011). A good regression model is if the data distribution is normal or close to normal. The normality test results can be seen in the table below:

Normality Test Results

		Unstandardized Residuals
N		120
Normal Parameters [a,b]	Means	,0000000
	std. Deviation	09568271
Most Extreme Differences	absolute	,077
	Positive	,061
	Negative	-.077
Kolmogorov-Smirnov Z		,841
asymp. Sig. (2-tailed)		,478

a. Test distribution is Normal.

b. Calculated from data.

Source: SPSS 21 Results (2023)

The results of the normality test with Kolmogorov Smirnov showed an asymp sig value of 0.478. This means that the asymp sig value is greater than 0.05 (0.478 > 0.05), so that the research data is normally distributed.

Multicollinearity Test

The multicollinearity test aims to test whether the regression model finds a correlation between the independent (independent) variables. A good regression model should not have a correlation between the independent variables (Ghozali, 2011). Furthermore, it is explained that the detection of multicollinearity can be seen from the amount of Variance Inflation Factor (VIF) and tolerance, with the following conditions: If the tolerance value is > 0.1 and VIF < 10, multicollinearity does not occur. The results of the multicollinearity test can be seen in the table below:

Table 5.

Multicollinearity Test Results

Model	Collinearity Statistics

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		tolerance	VIF
1	Audit Committee	,925	1,081
	Institutional Ownership	,957	1.045
	Financial performance	,909	1,100

a. Dependent Variable: Earnings Management

Source: SPSS 21 Results (2023)

Based on the table above, it can be seen that the tolerance value of all variables is greater than 0.1 and the VIF value of all variables is less than 10. So it can be concluded that this study is free from symptoms of multicollinearity.

Heteroscedasticity Test

Heteroscedasticity shows that the variance of the variables in the model is not the same (constant). If the residual variance from one observation to another observation remains, then it is called homoscedasticity and if it is different it is called heteroscedasticity (Ghozali, 2011). A good regression model is one that has homoscedasticity or does not have heteroscedasticity. The heteroscedasticity test in this study used the Park test. The Park test is by regressing the natural logarithm value of the squared residual (Lne2) with the independent variables. If the sig. in the park test > 0.05 then there is no heteroscedasticity, the results of the heteroscedasticity test can be seen in the table below:

Table 5. Heteroscedasticity Test Results (Park Test)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	std. Error	Betas		
1	(Constant)	-8,256	,928		-8,900	,000
	Audit Committee	.089	,091	,091	,977	,331
	Institutional Ownership	,016	,011	,130	1.425	, 157
	Financial performance	.065	.034	, 179	1,910	.059

a. Dependent Variable: LnRes

Source: SPSS 21 Results (2023)

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Based on the results of the heteroscedasticity test using the Park test, it can be seen that the significant value of audit committee variables, institutional ownership, and financial performance is above 0.05. So it can be concluded that this study is free from symptoms of heteroscedasticity.

Autocorrelation Test

The autocorrelation test aims to test whether in a linear regression model there is a correlation between confounding errors in period t and errors in period t-1 (previously), where if there is a correlation, then there is an indication of an autocorrelation problem. One of the ways used to detect the presence or absence of autocorrelation is to use a Run Test (Ghozali, 2011). The results of the autocorrelation test can be seen in the table below:

Table 5.. Autocorrelation Test Results (RunsTest)

	Unstandardized Residuals
Test Value [a]	-,00493
Cases < Test Value	60
Cases >= Test Value	60
Total Cases	120
Number of Runs	59
Z	-,367
asymp. Sig. (2-tailed)	,714

a. Median

Source: SPSS 21 Results (2023)

The results of the autocorrelation test with the run test showed an asymp sig value of 0.714. This means that the sig asymp value is greater than 0.05 (0.714 > 0.05), so that the research data is free from autocorrelation symptoms.

Hypothesis testing

Hypothesis testing is a test conducted to see whether there is influence between variables and to prove the hypotheses that have been previously set. This test was carried out using path analysis with the help of SPSS 25. This path analysis method was used to examine the intervening variables in the study. Based on this analysis, it can be seen whether the

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intervening variable is able to mediate the relationship between the independent variable and the dependent variable

Pathway Model Analysis I

Results of Path Analysis Model I

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	std. Error	Betas		
1	(Constant)	-,370	2,525		-,147	,884
	Audit Committee	,700	,240	,258	2,912	,004
	Institutional Ownership	.060	,029	, 182	2,061	.041

a. Dependent Variable: Financial Performance

Source: SPSS 21 Results (2023)

proposed research hypotheses (X1 and X2) can be seen as follows:

a. The Audit Committee variable has a t count that is greater than t table (2.912>1.977), with a beta coefficient of 0.700, and a significant level of 0.004 < 0.05. So, it can be concluded that the Audit Committee has a positive and significant effect on financial performance. Thus, the hypothesis is accepted.
b. The institutional ownership variable has t count which is greater than t table (2.061>1.977), with a beta coefficient of 0.060, and a significant level of 0.041 < 0.05. So, it can be concluded that institutional ownership has a positive and significant effect on financial performance. Thus, the hypothesis is accepted.

Coefficient Test of Path Model I

Coefficient Test Results for Pathway I Model

Model	R	R Square	Adjusted R Square	std. Error of the Estimate
1	, 302 [a]	,091	.076	5.95288

a. Predictors: (Constant), Institutional Ownership, Audit Committee

Source: SPSS 21 Results (2023)

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The table above shows a correlation coefficient (R) of 0.091. This shows that the effect of X1 and X2 on Y1 is 9.1% while the remaining 90.9% is the contribution of other variables not included in the study.

Pathway Model Analysis II

Results of Pathway Model Analysis II

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	std. Error	Betas		
1	(Constant)	,063	.041		1,530	,129
	Audit Committee	-,014	,004	-,308	-3,525	,001
	Institutional Ownership	,000	,000	-.057	-.658	, 512
	Financial performance	,007	,002	,384	4,355	,000

a. Dependent Variable: Earnings Management

Source: SPSS 21 Results (2023)

a. The Audit Committee variable has t count which is smaller than t table (-3.525 <-0.308), with a beta coefficient of -0.014 , and a significant level of 0.001 < 0.05 . So it can be concluded that the Audit Committee has a negative and significant effect on Earnings Management. Thus, the hypothesis is accepted.

b. The Institutional Ownership variable has t count which is smaller than t table (0.658 < -0.057), with a beta coefficient of 0.000, and a significant level of 0.512 > 0.05. So, it can be concluded that institutional ownership has a positive and insignificant effect on earnings management. Thus, the hypothesis is rejected.

c. The financial performance variable has a t count that is greater than t table (4.355 > 0.384), with a beta coefficient of 0.007, and a significant level of 0.000 > 0.05 . So it can be concluded that Financial Performance has a positive effect and significant to Earnings Management. Thus, the hypothesis is accepted.

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Path Model Coefficient Test II

Coefficient Test Results for Path II Model

Model	R	R Square	Adjusted R Square	std. Error of the Estimate
1	, 423 [a]	, 179	,158	,09691

a. Predictors: (Constant), Financial Performance, Institutional Ownership, Audit Committee

Source: SPSS 21 Results (2023)

The table above shows a correlation coefficient (R) of 0.179. This shows that the effect of X1 and X2 on Y1 is 17.9% while the remaining 82.1% is the contribution of other variables not included in the study.

Sobel test

The Sobel test is a test conducted to determine the significance of the indirect effect of the independent variables (X1 and X2) on the dependent variable Y through the intervening variable. The Sobel test was carried out with the following results:

Sobel test I

Audit Committee-Financial Performance-Earnings Management			
a_1	b	Sa_1	sb
0.700	0.007	0.240	0.002

Source: SPSS 21 Results (2023)

$$\text{t count} = \frac{a_1 b}{\sqrt{(b)^2(sa_1)^2 + (a_1)^2(sb)^2 + (sa_1)^2(sb)^2}}$$

$$\text{t count} = \frac{0{,}700 \times 0{,}007}{\sqrt{(0{,}007)^2(0{,}240)^2 + (0{,}700)^2(0{,}002)^2 + (0{,}240)^2(0{,}002)^2}}$$

$$\text{t count} = \frac{0{,}0049}{\sqrt{(0{,}0000028224) + (0{,}00000196) + (0{,}0000002304)}}$$

$$\text{t count} = \frac{0{,}0049}{\sqrt{0{,}0000050128}}$$

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$$\text{t count} = \frac{0{,}0049}{0{,}002239}$$

$$\text{t count} = 2{,}1885$$

t table = 1.9806

Based on the results of the calculations above, the t-count value of 2.1885 is greater than the t-table value of 1.9806, it can be concluded that there is a mediating effect. This shows that indirectly the audit committee through financial performance influences earnings management. Thus, the hypothesis is accepted.

Sobel Test II

Institutional Ownership-Financial Performance-Earnings Management			
a_2	b	Sa_2	sb
0.060	0.007	0.029	0.002

Source: SPSS 21 Results (2023)

$$\text{t count} = \frac{0{,}060 \text{ x } 0{,}007}{\sqrt{(0{,}007)^2(0{,}029)^2 + (0{,}060)^2(0{,}002)^2 + (0{,}029)^2(0{,}002)^2}}$$

$$\text{t count} = \frac{0{,}00042}{\sqrt{(0{,}000000041209) + (0{,}0000000144) + (0{,}000000003364)}}$$

$$\text{t count} = \frac{0{,}00042}{\sqrt{0{,}000000058973}}$$

$$\text{t count} = \frac{0{,}00042}{0{,}000243}$$

$$\text{t count} = 1{,}7284$$

t table = 1.9806

Based on the results of the calculations above, the t-value of 1.7284 is smaller than the t-table value of 1.9806, it can be concluded that there is no mediating effect. This shows that institutional ownership indirectly through financial performance has no effect on earnings management. Thus, the hypothesis is rejected.

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CONCLUSIONS AND RECOMMENDATIONS

Conclusion

Based on the results of the research described above, the authors conclude as follows.

1. The Audit Committee has a negative and significant effect on earnings management. which means the more independent and significant the number of committees, the more effective the oversight to minimize potential earnings management.
2. Institutional Ownership has no effect on earnings management. The results of this study indicate that institutional ownership does not have the ability to reduce earnings management practices
3. The Audit Committee has a positive and significant effect on financial performance. With the existence of an audit committee, companies can be more transparent and reliable about their performance. As well as with the supervision carried out by the audit committee on financial reporting, risk management, audit implementation, corporate governance implementation so that it can encourage to improve the company's financial performance.
4. Institutional Ownership has a positive and significant effect on financial performance. The more institutional ownership of the company, the stronger the control over the company from external parties, meaning that agency conflicts can be minimized. The lower the value of fraud (fraud) contained in financial reporting, is able to increase the value of the quality of financial reports published by a company so that it can improve performance finance.
5. Financial performance has a positive and significant effect on earnings management. this can be explained that companies that generate high profits will report lower profits than in actual circumstances. Companies that have high profits will have political costs because they will be of concern to the government and society when compared to companies that have small profits.
6. The audit committee influences earnings management through financial performance. Companies that generate high profits will report lower profits than the actual situation . Companies that have high ROA will later tend to do earnings management because management can directly determine the company's ability to generate profits.

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7. Institutional ownership has no effect on earnings management through financial performance. This means that even though it has been mediated by financial performance, institutional ownership still cannot affect earnings management

Limitations

This research has many limitations, including this research was only conducted on manufacturing companies on the Indonesia Stock Exchange within a period of 4 years. In addition, many companies do not present complete financial statements, have been delisted, have experienced successive losses, and do not present Rupiah financial statements.

Suggestion

It is hoped that it will be able to provide additional samples to be studied more in order to obtain better research results, then be able to add other or new variables that have a major influence on earnings management, be able to use different software, different analysis techniques and test hypotheses so that get better and maximum results.

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