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AUDIT COMMITTEE INFLUENCE ON ACCRUAL EARNINGS MANAGEMENT: THE MODERATING ROLE OF AUDIT QUALITY

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ABSTRACT

This study aims to examine the effect of the audit committee on accrual-based earnings management with audit quality as a moderating variable. The population of this study includes manufacturing companies in the consumer goods sector, specifically the processed food industry subsector, listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period. A purposive sampling technique was applied, and from the 23 companies in the population, 10 companies were selected as the sample. The study used secondary data obtained from annual reports and financial statements published on the official IDX website. A total of 40 firm-year observations were analyzed using multiple linear regression with SPSS version 27. The results indicate that the audit committee does not have a significant effect on accrual-based earnings management. In addition, audit quality does not moderate the relationship between the audit committee and accrual-based earnings management. These findings imply that the presence of an audit committee and the level of audit quality are not sufficient to reduce earnings management practices in the companies studied.

Keywords: Audit Committee, Audit Quality, Accrual-Based Earnings Management

I. INTRODUCTION

Earnings management refers to managerial actions in preparing financial statements to alter reported earnings, either by accelerating revenue recognition, delaying expenses, or exploiting accounting estimates (Setiowati et al., 2023). According to Arum Sari and Susilowati (2021), earnings management is carried out in accordance with accounting principles but with the intention of influencing stakeholder perceptions.

In Indonesia, this practice remains prevalent. PT Indofarma Tbk was suspected of manipulating its financial statements from 2020 to 2023, causing state losses of up to IDR 371.8 billion (CNBC Indonesia, 2024). Another notable case occurred at PT Tiga Pilar Sejahtera Food Tbk (AISA), which overstated receivables, assets, and recorded fictitious revenues exceeding IDR 5 trillion (Janah et al., 2025). These incidents illustrate the weakness of both internal and external oversight in financial reporting.

Accrual-based earnings management is more difficult to detect because it does not directly affect cash flows. This technique exploits the flexibility of accounting in recording discretionary accruals (Angelica & Kurniawan, 2022), often undertaken near the end of the accounting period to meet short-term earnings targets. One important internal governance mechanism for controlling earnings management is the audit committee. Formed by the board of commissioners, the audit committee is responsible for overseeing the financial reporting process and ensuring compliance with company policies and regulatory requirements (Fitroni & Feliana, 2022). The frequency of audit committee meetings is commonly used as a proxy for the intensity of monitoring activities. Rinta (2021) reports that the more frequently the audit committee meets, the lower the likelihood of manipulation within financial statements

From an external oversight perspective, audit quality plays a crucial role in ensuring the integrity of financial reporting. DeAngelo (1981) states that audit quality is determined by auditor competence and independence. Audit firms affiliated with the Big Four are generally perceived as more credible due to their global reputation, extensive professional resources, and higher levels of independence (Kusuma & Fayliencent, 2023).

Previous studies have examined the relationship between audit committees, audit quality, and earnings management, but their findings are inconsistent. For instance, Badera (2020) found that both audit committees and external audit quality have a significant negative effect on earnings management. Conversely, Kusuma and Fayliencent (2023) reported that the audit committee has no direct effect, although audit quality strengthens the relationship. Santosa et al. (2022) found that audit committees do not significantly influence earnings management, whereas Alexander (2023) showed that the independence of the board of commissioners and audit committee can reduce earnings management—even though the study did not position the audit committee as the primary variable. Fitriyani et al. (2014) found that accrual-based earnings management affects firm performance, but audit quality does not moderate this relationship.

These inconsistent findings suggest that the influence of audit committees and audit quality on earnings management remains inconclusive. This topic is particularly important when considering industry-specific contexts, research periods, and measurement indicators. Therefore, the present study seeks to address this gap by examining manufacturing companies in the processed food subsector listed on the IDX during 2021–2024, using audit committee meeting frequency as a proxy for audit committee effectiveness and Big Four affiliation as a proxy for audit quality.

The mixed results from prior studies highlight the need for further research to better understand the relationship between audit committees, audit quality, and earnings management. This requires considering different industries, time periods, and measurement indicators to gain more robust insights.

This study employs the following indicators: (1) Accrual-based earnings management is measured using the Modified Jones Model through discretionary accruals (Safarida, 2023); (2) Audit committee effectiveness is measured using annual meeting frequency (Perdana et al., 2023); (3) Audit quality is measured using a dummy variable, coded 1 for Big Four auditors and 0 for non–Big Four auditors (Ananda & Rusgowanto, 2024).

This study differs from previous research in several ways: (1) Audit quality is used as a moderating variable rather than an independent variable; (2) It focuses on manufacturing companies in the processed food subsector, an area with limited prior empirical evidence; (3) It uses post-pandemic data (2021–2024), allowing for analysis of recent oversight dynamics.

Accordingly, this study aims to: (1) Examine the effect of audit committees on accrual-based earnings management; (2) Determine whether audit quality moderates the relationship between audit committees and accrual-based earnings management.

II. LITERATURE REVIEW

This study employs agency theory, developed by Jensen and Meckling (1976), as its primary theoretical foundation. Agency theory explains that the relationship between company owners (principals) and management (agents) is prone to conflicts of interest. Managers, as agents, possess greater access to information than owners, allowing them to make decisions that benefit themselves, including engaging in earnings management practices. This information imbalance creates information asymmetry between managers and owners, which may lead to opportunistic behavior by management. To mitigate such conflicts, companies must establish effective monitoring mechanisms, such as audit committees and high-quality external audits.

Accrual-based earnings management is carried out by exploiting the flexibility embedded in accounting standards, such as accelerating or delaying the recognition of revenues and expenses. Although this practice does not directly affect cash flows, it can significantly alter reported earnings. One commonly used technique to detect accrual-based earnings management is the Modified Jones Model, which measures discretionary accruals by distinguishing between normal and manipulated accrual components. Accrual-based earnings management is examined in this study because it is more concealed and difficult to detect compared to real earnings management.

The audit committee is one of the key components of a company's internal control system, established by the board of commissioners. Its primary roles include overseeing the financial reporting process, monitoring internal and external audit activities, and ensuring compliance with applicable regulations and corporate policies. The effectiveness of the audit committee is often measured through the number of meetings held during a fiscal year. The greater the meeting frequency, the more intensive the oversight of the financial reporting process and the lower the opportunity for management to manipulate accounting figures.

Meanwhile, audit quality reflects the auditor's ability to identify and disclose material misstatements in financial reports. High-quality audits are typically performed by auditors with strong professional competence and optimal independence. In this study, audit quality is measured by the auditor's affiliation with a Big Four public accounting firm. Big Four auditors are generally perceived to possess superior technical expertise, strong reputations, and greater independence because they are less economically dependent on individual clients. Adequate audit quality is expected to limit management's ability to engage in aggressive earnings management.

Based on the conceptual framework above, the hypotheses of this study are formulated as follows:

H^1: The audit committee affects accrual-based earnings management.

H^2: Audit quality moderates the effect of the audit committee on accrual-based earnings management.

III. RESEARCH METHOD

This study employs a quantitative approach using secondary data obtained from the annual reports of companies listed on the Indonesia Stock Exchange (IDX) in the processed food subsector for the period 2021–2024. The sample was selected using a purposive sampling technique based on predetermined criteria.

The independent variable in this study is the audit committee, measured by the number of meetings held within a fiscal year. Audit quality is used as the moderating variable and is proxied through auditor affiliation with Big Four public accounting firms, using a dummy scale (1 = Big Four, 0 = non–Big Four). Meanwhile, accrual-based earnings management, as the dependent variable, is measured using discretionary accruals calculated through the Modified Jones Model.

Data analysis was conducted using Moderated Regression Analysis (MRA), a regression technique that examines the interaction effect between the independent variable and the moderating variable. Data processing was performed using the latest version of the SPSS statistical software to ensure accuracy in computation.

IV. RESULT AND DISCUSSION

4.1 Descriptive Statistics Results

The descriptive statistics for the research variables are presented in Figure 1.

Figure 1.
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Komite Audit	40	2.0000	10.0000	5.300000	1.7715704
Kualitas Audit	40	.0000	1.0000	.500000	.5063697
Manajemen Laba Berbasis Akrual	40	-.1822	1.0725	.056052	.1889559
Valid N (listwise)	40				

Source: processed data (2025)

Descriptive analysis was conducted to understand the basic characteristics of each variable examined in the study. The audit committee variable, used as an indicator of internal monitoring, shows a maximum value of 10 and a minimum of 0, with an average of 5.30 and a standard deviation of 1.77. These results indicate that the intensity of audit committee meetings varies across companies, although most firms fall within a moderate level of meeting frequency.

The audit quality variable, which serves as the moderating variable, is measured using a dummy scale of 0 and 1. The mean value of 0.50 with a standard deviation of 0.51 suggests an almost equal distribution between companies audited by Big Four and non–Big Four public accounting firms.

Meanwhile, the accrual-based earnings management variable, measured using discretionary accruals, shows a maximum value of 1.07 and a minimum value of –0.18. The mean value of 0.06 and standard deviation of 0.19 indicate that earnings management practices among the sampled companies tend to be low but still present.

4.2 Regression Model Analysis

Prior to conducting regression testing, the data were analyzed to ensure that classical assumptions—such as normality, homoskedasticity, and absence of autocorrelation—were satisfied. The results confirm that the model meets the BLUE criteria (Best Linear Unbiased Estimator), making it appropriate for further analysis.

The regression model used in this study incorporates an interaction term between the audit committee and audit quality. The model is formulated as follows:

$Y = \alpha + \beta_1 X + \beta_2 Z + \beta_3(X*Z) + e$ .... (1)

Keterangan:

Y = Accrual based earnings management
α = Constant
β_1–β_3 = Regression coefficients
X = Audit committee
Z = Audit quality
X*Z = Interaction between audit committee and audit quality
e = *error*

The results of the regression analysis are presented in Figure 2.

Figure 2.
Multiple Linear Regression

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.170	.267		.638	.528
	Komite Audit	-.063	.184	-.108	-.345	.732
	Kualitas Audit	.120	.386	.321	.310	.759
	Komite Audit*Kualitas Audit	-.079	.239	-.392	-.332	.742

a. Dependent Variable: Manajemen Laba Berbasis Akrual

Source: processed data (2025)

These

The results of the data processing yield the following final regression model:

$Y=0.170-0.063X+0.120Z-0.079(X\times Z)+0.958$ ....(2)

The constant ($\alpha = 0.170$) represents the predicted value of accrual-based earnings management when both the independent and moderating variables are equal to zero.

The coefficient $\beta_1 = -0.063$ indicates that an increase in audit committee meeting frequency tends to reduce earnings management, although the effect is not statistically significant.

The coefficient $\beta_2 = 0.120$ suggests that audit quality increases earnings management, which may reflect context-specific factors within the dataset.

The interaction coefficient $\beta_3 = -0.079$ shows that the presence of audit quality as a moderating variable weakens the relationship between the audit committee and earnings management.

The coefficient of determination (R^2 = 4.2%) indicates that the variables in the model explain only a small proportion of the variation in earnings management, while the majority is influenced by other factors outside the scope of this study.

The results of the simultaneous test (F-test) show that the model is not significant overall, with a p-value of 0.668 (> 0.05). This indicates that, collectively, the audit committee and audit quality do not have a significant influence on accrual-based earnings management.

Partial tests show similar findings. The audit committee has a significance value of 0.732, while the interaction between the audit committee and audit quality has a significance value of 0.742, both of which exceed the 0.05 threshold. Therefore, there is insufficient statistical evidence to conclude that either a direct effect or a moderating effect exists.

4.3 Discussions

These findings indicate that, within manufacturing companies in the processed food subsector listed on the IDX during 2021–2024, the audit committee has not demonstrated sufficient effectiveness in constraining accrual-based earnings management. This result aligns with studies by Santosa et al. (2022) and Kusuma & Fayliencent (2023), which also conclude that the role of the audit committee in reducing earnings manipulation is not significant.

Furthermore, audit quality—proxied by Big Four affiliation—does not moderate the relationship between internal monitoring and earnings management. This contrasts with the findings of Ayunitantry & Adrianto (2021), who emphasize the importance of auditor quality in strengthening corporate financial oversight.

These differences may be explained by various factors, such as differences in measurement approaches, industry-specific characteristics, or the time frame of observation. This study uses meeting frequency as a proxy for the audit committee and auditor affiliation status as an indicator of audit quality, whereas other studies may employ more complex indicators such as independence, expertise, or the intensity of communication with management.

V. CONCLUSION AND RECOMMENDATION

This study aims to examine the effect of the audit committee on accrual-based earnings management, with audit quality as a moderating variable, in manufacturing companies in the processed food subsector listed on the Indonesia Stock Exchange (IDX) during 2021–2024.

The results indicate that the audit committee does not have a significant effect on accrual-based earnings management. Audit quality does not moderate the relationship between the audit committee and accrual-based earnings management.

These findings suggest that the effectiveness of audit committees has not been optimal in constraining accrual-based earnings manipulation. Likewise, the use of external auditors from Big Four public accounting firms is not sufficient to strengthen this relationship.

The results provide several implications. For companies, attention should be directed not only to the frequency of audit committee meetings but also to strengthening the structure, independence, and competence of its members. For auditors, maintaining integrity and independence throughout the audit process is essential to enhance confidence in the quality of financial reporting.

This study also faces several limitations that require further refinement and development to improve the generalizability of future research findings. For investors, the presence and quality of audit committees and external auditors should be considered when assessing the integrity of a company's financial statements. These aspects may serve as important signals for anticipating earnings management practices that could affect investment decisions. For corporate management, greater attention is expected toward enhancing the effectiveness of internal oversight, particularly the performance of the audit committee and the selection of external auditors, in order to improve transparency and public trust.

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