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The Effect of Audit Quality, Firm Size, and Auditor Reputation on Earnings Management: A Study of Manufacturing Companies Listed on the Indonesian Sharia Stock Index (ISSI) for the Period 2019-2023)

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ABSTRACT
This study examines the effect of audit quality, firm size, and auditor reputation on earnings management in manufacturing companies listed on the Indonesian Sharia Stock Index (ISSI) during 2019–2023. Using a quantitative approach with purposive sampling, 20 companies were analyzed using secondary data from annual financial reports. Panel data regression with the Common Effect Model was applied. The partial t-test results show that audit quality has a negative and significant effect on earnings management (coefficient = -0.293686, t-statistic = -4.545122, p-value = 0.0000), firm size has a negative and significant effect (coefficient = -0.027295, t-statistic = -2.744986, p-value = 0.0072), and auditor reputation also has a negative and significant effect (coefficient = -0.244585, t-statistic = -3.796877, p-value = 0.0003). These results indicate that higher audit quality, larger firm size, and reputable auditors reduce earnings manipulation practices. From an Islamic business perspective, accurate and transparent financial reporting reflects the value of justice ('adl) as mandated in QS. Al-Maidah: 8, where fairness in disclosure is a form of moral and spiritual accountability to Allah SWT. This study supports signaling theory and provides practical implications for strengthening transparency, accountability, and Sharia-compliant practices.

Keywords: Audit Quality, Auditor Reputation, Firm Size, Earnings Management.
JEL Code: M42, G34, M41, Z12.

I. Introduction

The existence of an efficient and transparent capital market is an important foundation for investment and sustainable economic growth. Accurate and reliable information reflected in company financial statements serves as a compass for investors and other stakeholders in making investment decisions. Financial statements are the primary tool for economic decision-making for internal and external stakeholders (Kurniawan, 2022). Accounting scandals have become an interesting topic of discussion because they involve tricks in presenting financial information, one of which is profit management (Alfiyasahra & Challen, 2020). Companies with high business growth may be encouraged to engage in earnings management practices by

manipulating profits before the company's financial costs are reported. However, profit information is often the target of manipulation through opportunistic management actions to maximize personal satisfaction, as stakeholders tend to pay attention to profits and management rights, especially when performance is measured based on that profit information (Kalbuana et al., 2022).

Various cases show that earnings management does not only occur in small companies, but also in large and publicly traded companies that should have better oversight systems. Companies use earnings management to smooth out fluctuations in earnings and present more consistent earnings each month, quarter, or year. Large fluctuations in revenue and expenses may be a regular part of a company's operations, but such changes can be concerning to investors who prefer to see stability and growth (Hernawati et al., 2021). In this case, financial statements are expected to provide information for investors and creditors to make decisions about investing their funds in the stock market. As company administrators, managers must provide signals about the company's condition by disclosing accounting information, such as financial statements, to owners and investors. However, the information conveyed by managers is sometimes not in line with the actual condition of the company, which creates information asymmetry. Information asymmetry occurs because managers have superior access to information compared to owners or shareholders and investors. Such conditions often encourage managers to manage company profits through earnings management. High levels of information asymmetry can lead to earnings management, as the more information managers have about the company compared to shareholders, the more freedom they have to engage in profit management (Ariani & Yudantara, 2023).

Several state-owned enterprises have been involved in financial statement manipulation practices that have caused public concern. In 2001, PT Kimia Farma Tbk was found to have inflated its net profit by Rp 32.668 billion (kompasiana.com, 2022). In 2018, PT Garuda Indonesia Tbk admitted to recognizing revenue that had not yet been received from PT Mahata Aero Teknologi, resulting in financial statements showing a profit despite actually incurring a loss (cnnindonesia.com, 2019). Meanwhile, PT Indofarma Tbk experienced financial irregularities between 2020 and 2023, resulting in state losses of up to Rp 371.8 billion, despite its financial statements being deemed fair by auditors (cnnindonesia.com, 2019). These cases demonstrate that financial statement manipulation does not only occur in private companies but also involves state-owned enterprises that should uphold principles of transparency and accountability. This situation underscores the urgency of improving audit quality and the role of reputable auditors in preventing profit management practices that could harm public and state interests. The earnings management value can be seen in the following table.

Table 1. Earnings Management Values in Several Companies Listed on the ISSI for the Period 2019-2023

No	Code	Company	Earning Management				
			2019	2020	2021	2022	2023
1	ADES	PT. Akasha Wira International Tbk.	-0,122	-0,069	-0,106	-0,021	-0,064
2	BTON	PT Betonjaya Manunggal Tbk.	-0,221	-0,162	-0,107	-0,197	-0,046
3	BUDI	PT. Budi Stracth & Sweetner Tbk.	-0,098	-0,025	-0,109	0,014	-0,081
4	CAMP	PT. Campina Ice Cream Tbk.	-0.082	-0,132	-0,120	-0,072	-0,070
5	CEKA	PT. Wilmar Cahaya Indonesia Tbk.	-0,097	-0,084	-0,196	-0,018	-0,215
6	EKAD	PT. Ekadharma International Tbk.	-0,059	-0,130	0,056	-0,025	-0,009
7	GOOD	PT. Garudafood Putra Putri Jaya Tbk.	-0,022	-0,080	-0,065	-0,066	-0,343
8	ICBP	PT. Indofood CBP Tbk.	-0,086	-0,069	-0,020	-0,038	-0,035
9	KLBF	PT. Kalbe Farma Tbk.	0,021	-0,042	0,014	0,097	0,018
10	UNVR	PT. Unilever Indonesia Tbk.	-0,026	-0,008	-0,485	-0,127	-0,072

Based on the earnings management in Table 1 for several manufacturing companies listed on the ISSI for the period 2019-2023, almost all companies show negative values. Negative values indicate a tendency toward earnings management practices with a decreasing income pattern, where reported earnings are lower

than actual earnings. In the table above, PT Betonjaya Manunggal Tbk. consistently shows negative values from 2019 to 2023, with the lowest value 2019 at -0.221.

Several companies showed positive values for certain periods, such as PT Kalbe Farma Tbk in 2019, 2021, and 2022, and PT Budi Starch & Sweetener Tbk in 2022. These positive values indicate the presence of income-increasing practices, which involve efforts to boost reported profits. However, the shift from positive to negative values in subsequent years suggests fluctuations in the earnings management strategies employed by the companies. A notable phenomenon was observed at PT Unilever Indonesia Tbk, which in 2021 showed the lowest profit management value among all companies in the research sample, at -0.485, before experiencing an increase in the following period. Meanwhile, PT Garudafood Putra Putri Jaya Tbk showed a significant downward trend from -0.022 in 2019 to -0.343 in 2023, indicating a tendency toward income-decreasing practices during the observation period.

Overall, these figures indicate that earnings management practices in Indonesia's manufacturing industry not only vary between companies, but also fluctuate from year to year. These changes can be attributed to various factors, such as financial performance pressure, industry competition dynamics, changes in accounting regulations, and macroeconomic conditions that affect companies' financial reporting strategies. From an Islamic perspective, accounting is not only intended to present accurate and reliable financial information, but also as a form of moral and spiritual accountability to Allah SWT and to fellow human beings. One of the central values in sharia accounting is justice ('adl), which means putting things in their proper place, including presenting honest and non-misleading financial information. Islam emphasizes that all forms of financial interaction, including recording and reporting, must be conducted in good faith and without harming any party. Companies that deliberately present false or misleading information have violated the principle of justice, as they take advantage of others' ignorance and create information asymmetry. In this case, the word of Allah SWT in QS. Al-Maidah Verse 8:

يٰٓاَيُّهَا الَّذِيْنَ اٰمَنُوْا كُوْنُوْا قَوّٰمِيْنَ لِلّٰهِ شُهَدَاۤءَ بِالْقِسْطِۖ وَلَا يَجْرِمَنَّكُمْ شَنَاٰنُ قَوْمٍ عَلٰٓى اَلَّا تَعْدِلُوْاۗ اِعْدِلُوْا هُوَ اَقْرَبُ لِلتَّقْوٰىۖ وَاتَّقُوا اللّٰهَۗ اِنَّ اللّٰهَ خَبِيْرٌۢ بِمَا تَعْمَلُوْنَ

"O you who believe! Be upholders of justice for Allah, (when) acting as witnesses with fairness. And let not your hatred for a people incite you to act unjustly. Be just, for justice is closer to piety. Moreover, fear Allah, for indeed, Allah is All-Aware of what you do ". (QS. Al-Maidah: 8).

In this verse, Allah SWT calls on believers to always uphold justice and be honest and objective witnesses for Allah, not because of pressure or personal interests. This verse also warns against allowing hatred or conflicts of interest to drive one to act unjustly, as justice is a reflection of one's piety. An auditor plays the role of a professional witness to the fairness of financial statements. Suppose the principle of justice is not upheld. In that case, financial statements may be misused to conceal the truth and deceive the public, which clearly contradicts the principles of Sharia and the commands of Allah SWT.

Research on the influence of audit quality, company size, and auditor reputation on earnings management has been extensively conducted, but the results remain inconsistent. Albert & Widyastuti (2020) found that audit quality has a positive effect on earnings management, while Maulidah & Santoso (2020) showed the opposite, that audit quality can actually suppress such practices. Similarly, findings regarding company size also vary; Tetradia & Priantinah (2023) stated that there is a significant positive influence, while Devi (2022) stated that there is no significant influence. Regarding auditor reputation, Mutia (2020) found that high-reputation auditors have a positive effect on earnings management, contrary to agency theory. These differing results indicate the need for further research to re-examine the relationships between these variables, particularly in the context of companies listed on the Indonesia Sharia Stock Index (ISSI), which has been limited in previous literature.

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Based on the above background and the research gap identified, this study aims to answer the following questions (1) Does audit quality affect earnings management? (2) Does firm size influence earnings management? (3) Does auditor reputation affect earnings management?

II. Literature Review and Hypothesis Development

2.1. Signaling Theory

This theory discusses that the information contained in a company's financial statements can serve as a signal to its users. The theory also explains that management, as the party with deeper insight into the company's condition, will convey signals to investors through financial statements to reduce information asymmetry. This information includes an overview of the company's past, present, and prospects related to its sustainability. In this case, good financial statements can be considered a positive signal that the company has been operating effectively, and positive signals will be responded to favorably by the market (Purba, 2023).

2.2. Earnings Management

Profit management is an effort to influence or manipulate reported profits by using specific accounting methods, accelerating expenditure or revenue transactions, or using other methods designed to influence short-term profits. The actions taken by managers when using judgment in financial reporting and transaction preparation to alter financial statements aim to manipulate the magnitude of profits relative to the company's economic performance or to influence the outcome of agreements (contracts), depending on the numbers generated. (Santoso, 2021). The formula used to calculate earnings management is a modification of the Jones Model developed by Dechow et al. (1995):

a. Calculate total accruals (TAC), which is net income for year t minus operating cash flow for year t, using the formula:

$$TAC = NIit - CFOit$$

Next, total accrual (TA) is estimated using Ordinary Least Squares as follows:

$$TAit / Ait\text{-}1 = \beta1\ (1/Ait\text{-}1) + \beta2\ (\Delta Revit/ Ait\text{-}1) + \beta3\ (\Delta PPEit / Ait\text{-}1) + \varepsilon$$

b. With the regression coefficient as in the above formula, nondiscretionary accruals (NDA) are determined using the following formula:

$$NDAit = \beta1\ (1/Ait\text{-}1) + \beta2\ (\Delta Revit/ Ait\text{-}1 - \Delta Recit/Ait\text{-}1) + \beta3\ (\Delta PPEit / Ait\text{-}1)$$

c. Finally, discretionary accruals (DA) as a measure of earnings management are determined using the following formula:

$$DAit = TAit / Ait\text{-}1 - NDAit$$

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2.3. Audit Quality

Audit quality is one of the objectives of an audit that must be carried out by competent, independent, and experienced professionals in accordance with generally accepted auditing standards, to provide users of financial statements with reasonable assurance in the auditor's report that the questions and information related to the financial statements are presented in accordance with auditing standards and are not materially misstated. Low audit quality can lead to adverse outcomes that impact stakeholders such as investors, suppliers, the public, the government, and others (Supriyanto et al., 2022). In this study, audit quality is proxied through the auditor's opinion (WTP) using a dummy variable, where a score of 1 is given if there is an auditor's opinion with WTP and a score of 0 for others. Based on signaling theory, audit quality is important in limiting profit management practices that management may carry out. The presence of independent and experienced auditors assures that the audit process is conducted objectively. Competent auditors can identify indications of accounting manipulation and reject the presentation of reports that do not comply with applicable accounting standards. This process ensures that the published financial statements accurately reflect the company's economic condition, thereby reducing the information gap between management and stakeholders while building investor confidence in the company's performance (Maulidah & Santoso, 2020). Research conducted by Fandriani and Tunjung (2019) shows that audit quality significantly negatively affects earnings management. High-quality audit results can influence the trust of financial statement users. Experienced and more skilled auditors are considered more capable of detecting fraud that may occur in the financial statements reported by companies. This will help users of company financial statements, especially investors, to ascertain or understand the actual condition of the company and encourage managers to present financial statements that reflect the actual situation. Thus, the following hypothesis can be formulated:

H1: Audit quality has a significant adverse effect on earnings management.

2.4. Firm Size

Firm size is a scale by which companies can be classified as large or small in various ways, including total assets, log size, sales, and market capitalization. Firm size also affects the structure of a company's financing; the larger the company size, the more predictable its profitability. Larger companies are relatively stable and capable of generating profits. Earnings management actions will impact small companies because their size is relatively small, leading to an increase in earnings management behavior to make the company's assets appear more substantial during reporting. (Joe & Ginting, 2022). The formula used to calculate firm size:

Size = Ln x (Total Aset)

Based on the signaling theory perspective, management is incentivized to disclose information held by the company as a positive signal to investors. Such disclosure plays a role in reducing information asymmetry between management and investors. Larger companies tend to be subject to stricter scrutiny from shareholders, regulators, and the public. The intensity of this scrutiny can limit management's opportunities to engage in opportunistic behavior, including earnings management practices, thereby reducing the potential for fraud in earnings reporting. Thus, information disclosure and effective oversight are important factors in maintaining the integrity of financial reports and building investor confidence. (Adyastuti & Khafid, 2022). Research conducted by (Ajisman & Yurniwati, 2023) Shows that company size has a negative and significant influence on earnings management. The study concluded that large companies tend not to engage in earnings management because they want to maintain their credibility in the eyes of investors. Larger companies make it easier to find information about the company. The more information that can be obtained, the more critical investors will be and the stricter the supervision of the company's condition will be. Thus, the following hypothesis can be formed:

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H2: Firm size has a significant adverse effect on earnings management.

2.5. Auditor Reputation

Auditors' reputation reflects the image, credibility, and level of public trust in public accounting firms that provide audit services. This reputation is built through a professional track record, consistent compliance with audit standards, and external assessments of the auditor's integrity. Big Four accounting firms generally have a higher reputation than non-Big Four accounting firms because they are known to have adequate resources and extensive experience in handling various large-scale companies (Mutia, 2020). In this study, auditor reputation is proxied through classifying public accounting firms using a dummy variable, namely, whether the external auditor used by the company is from a Big Four or non-Big Four public accounting firm. If from a Big Four public accounting firm, a score of 1 is given, and a score of 0 is given otherwise. Based on signaling theory, auditor reputation plays a crucial role in curbing profit management practices carried out by management. Auditors with a good reputation are generally perceived to have high professional standards, strengthening oversight of the financial reporting process. Such a reputation also pressures management to present financial statements fairly, as the risk of detection and manipulation exposure increases. This makes the auditor's reputation contribute to reducing earnings management while minimizing potential conflicts of interest between agents and principals. (Layyina, 2024). A study by Rachmawati and Minanari (2023) examined the influence of auditor reputation on earnings management. The results indicate that auditor reputation, measured by KAP, significantly negatively affects profit management. These findings suggest that companies using auditors from high-reputation KAPs can reduce profit management. Thus, the following hypothesis can be formulated:

H3: Auditor reputation has a significant adverse effect on profit management.

III. Research Method

The research method used in this study is quantitative. Quantitative methods are research methods based on positivism, which are used to study specific populations or samples, collecting data using research instruments. This type of research is descriptive research, a method for describing research results, providing descriptions, explanations, and validating the phenomenon being studied.

3.1. Data Source

The data used in this study are secondary. Secondary data is data obtained or collected by researchers from various existing sources (Desiyana Safitri, Agus Kurniawan, 2024). Secondary data can be obtained from sources such as the Central Statistics Agency (BPS), books, reports, and journals (Sugiyono, 2019). The secondary data in this study are the annual financial reports of manufacturing companies listed on the Indonesian Sharia Stock Index (ISSI) for 2019-2023.

3.2. Population and Sample

The population is a generalization area consisting of objects/subjects with specific quantities and characteristics determined by researchers to be studied, and then conclusions are drawn. The population of this study is manufacturing companies listed on the Indonesian Sharia Stock Index (ISSI) for the 2019-2023 period, totaling 160 companies. A sample is a portion of a population's total number and characteristics. Sampling in this study used purposive sampling, a technique for determining samples based on the researcher's considerations regarding which samples are most appropriate, helpful, and representative of a

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population. The sampling criteria used in this study are: (1) manufacturing companies listed on ISSI for the 2019-2023 period (2) manufacturing companies that didn't publish financial reports consecutively in ISSI for the 2019-2023 (3) manufacturing companies that didn't experience losses for five consecutive years.

3.3. Literature Study

A literature study is information derived from theories that support the researcher's findings/opinions and assist the researcher in developing a conceptual framework. A literature study can determine whether the information related to the research is new or has already been studied (Sari Anita et al., 2023).

3.4. Documentation

Documentation techniques are data collection methods that involve gathering information from various types of documents or written sources. These documents can be in texts, reports, notes, archives, journals, or other records relevant to the research objectives (Amelia et al., 2023). The documentation method used in this study was to collect annual company financial reports published on the website www.idx.co.id for the period 2019-2023.

3.5. Data Analysis Techniques

The data analysis technique used in this study was Eviews 12 with panel data regression.

IV. Results and Discussion

4.1. Descriptive Analysis

Descriptive statistics analyze data by describing or depicting the collected data as it is, without intending to draw conclusions that apply to the general public or generalizations. This descriptive analysis provides an overview of each variable studied before testing the hypothesis. Descriptive analysis is presented through statistical measures such as mean, median, minimum, maximum, and standard deviation.

Table 2. Descriptive Statistics

	Earning Management	Audit Quality	Company Size	Auditor Reputation
Mean	-0,451418	0,450000	29,00561	0,530000
Median	-0,474531	0,000000	29,03441	1,000000
Maximum	0,529421	1,000000	32,41239	1,000000
Minimum	-1,829428	0,000000	26,16378	0,000000
Std. Dev	0,380395	0,500000	1,483373	0,501614
Observation	100	100	100	100

The average profit management value shows a negative figure of -0.451418, indicating that most companies are experiencing a decline in profits (income decreasing). The minimum and maximum values range from -1.829428 to 0.529421, indicating considerable variation in profit management practices between companies. Audit quality and auditor reputation are dummy variables with averages of 0.45 and 0.53, meaning that 45% of companies have unqualified audit opinions and 53% use Big Four auditors. Meanwhile, company size, measured by the log of total assets, has an average of 29.0056 with a range between 26.1638 and 32.4124, reflecting that the companies in the sample are relatively large in scale.

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4.2. Classical Assumption Test

One of the requirements for using multiple linear regression equations is that the classical assumptions are met. Classical assumption tests consist of normality, multicollinearity, autocorrelation, and heteroscedasticity (Mintarti, 2024).

4.3. Normality Test

The purpose of normality testing is to assess whether, in a regression model, the confounding variables or residuals follow a normal distribution. There are several types of normality tests, namely Skewness and Kurtosis, Jarque-Bera (JB), and Kolmogorov-Smirnov. (Aditiya et al., 2023).

Table 3. Normality Test

Jarque-Bera	3,774794
Probability	0,151468

Based on the normality test results, it is known that the Jarque-Bera test value produces a probability value of 0.151466, which is > 0.05, meaning that the residuals are statistically normally distributed and indicating that the assumption of normality in regression has been fulfilled.

4.4. Multicollinearity Test

The multicollinearity test ensures the regression model has a high or perfect correlation between the independent variables. If the regression model being tested has a high or perfect correlation between the independent variables, then the regression model will be declared to contain multicollinearity.

Table 4. Multicollinearity Test

	Coefficient Variance	Uncentered VIF	Centered VIF
Audit Quality	0,004175	1,843722	1,014047
Company Size	9,89E-05	3,555053	1,015943
Auditor Reputation	0,04150	2,158179	1,014344

Based on the VIF results, all independent variables have a VIF value <10, indicating no multicollinearity between variables in the model.

4.5. Heteroscedasticity Test

Heteroscedasticity testing is the residual variance that is not the same for each variable in the regression model. A good regression model is one in which there is no heteroscedasticity. (Yusuf et al., 2024).

Table 5. Heteroscedasticity Test

Obs*Rsquared	2,706264	**Prob Chi Square**	0,4392

Based on the results of the heteroscedasticity test using the Glejser test, all probability values are <0.05, which means that the regression model does not contain heteroscedasticity problems.

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4.6. Chow Test

This test determines the best model between Fixed Effect and Common Effect. The hypotheses in the Chow test are:

H0: Common Effect Model (Prob > 0.05).
H1: Fixed Effect Model (Prob < 0.05).

Table 6. Chow Test

Effects Test	Statistic	d.f	Prob.
Cross-Section Chi-Square	24,183582	19	0,1892

The probability value (p-value) of 0.1892 is greater than the significance level of 0.05, so there is insufficient evidence to reject H_0. In other words, the assumption that the intercepts between cross-sectional units are the same (Common Effect) is not rejected, so the Common Effect model is chosen as the more appropriate model for this data.

4.7. Hausman Test

This test determines whether the Fixed Effect or Random Effect is most appropriate for estimating panel data. The hypotheses in the Hausman test are:

H0: Random Effect Model (Prob > 0.05).
H1: Fixed Effect Model (Prob < 0.05).

Table 7. Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-S1. D.f.	Prob.
Cross-Sectionrandom	3,810616	3	0,2827

The test results show a probability value (p-value) of 0.2827, greater than the significance level of 5% (0.05). Thus, H_0 cannot be rejected, meaning the Random Effect Model is more appropriate than the Fixed Effect Model. However, because FEM was not selected in the previous test stage, the results of this test are not the primary reference in selecting the model in this study.

4.8. Lagrange Multiplier (LM) Test

The Lagrange Multiplier (LM) test is used to determine whether the Common Effect Model (CEM) or Random Effect Model (REM) is more appropriate for use in panel data analysis. The hypothesis used is:
H0: Common Effect Model (p-value > 0,05)
H1: Random Effect Model (p-value < 0,05)

Table 8. Lagrange Multiplier Test

Breusch-Pagan	0,17839	**Prob.**	0,8937

The test results show a probability value (p-value) of 0.8937, greater than the significance level of 5% (0.05). Thus, H_0 cannot be rejected, so the model used is the Common Effect Model rather than the Random Effect Model.

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4.9. Partial T Test

The t-test shows how much influence one explanatory/independent variable individually has in explaining the variation of the dependent variable. The hypothesis is intended to determine whether an independent variable has a significant partial/individual influence on the dependent variable. (Ekawati & Yanti, 2022).

Table 9. Partial T Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0,050000	0,072028	-0,694168	0,4893
Audit Quality	-0,293686	0,064616	-4,545122	0,0000
Company Size	-0,244585	0,064417	-2,744986	0,0072
Auditor Reputation	-0,244585	0,064417	-3,796877	0,0003

The audit quality variable with a coefficient value of -0.293686, a t-statistic value of -4.545122, and a probability value of 0.0000 indicates that the audit quality variable (X1) has a negative and significant effect on earnings management. The firm size variable with a coefficient value of -0.027295, a t-statistic value of -2.744986, and a probability value of 0.0072 indicates that company size (X2) has a negative and significant effect on earnings management. The auditor reputation variable has a coefficient value of 0.244585, a t-statistic value of -3.796877, and a probability value 0.0003. Therefore, the auditor reputation variable (X3) negatively affects earnings management.

4.10. Panel Data Regression Analysis

$$Yit = -0,29 + -4,54X1 + -2,74X2 + -3,79X3$$

4.11. Discussion

4.11.1 The Effect of Audit Quality on Earnings Management

Based on the t-test table, the regression results show that the audit quality variable negatively and significantly affects earnings management, which means H1 is accepted. In this case, the higher the quality of the audit opinion received by the company, the lower the company's tendency to engage in earnings management practices. In this study, audit quality is measured based on the audit opinion given by independent auditors on the company's financial statements. Companies that receive an unqualified opinion (WTP) are considered to have presented their financial statements transparently and accurately, while modified opinions often indicate weaknesses or irregularities in financial reporting. Additionally, high-quality audit opinions also function as an external control mechanism. Competent and independent auditors will not easily issue an unqualified opinion if there are indications of irregularities or manipulation of information. Therefore, the presence of credible auditors also restricts management's ability to engage in profit management.

This is in line with signaling theory, which explains that companies will send positive signals to external parties, especially investors and creditors, through actions that reflect the quality and credibility of the company. Furthermore, high-quality audit opinions such as WTP serve as a positive signal that the company has prepared its financial statements fairly and has not manipulated financial information, which increases investor and stakeholder confidence in management integrity. This study is in line with research conducted by (Tetradia & Priantinah, 2023), which states that audit quality hurts earnings management, but is not in line with research conducted by (Devi, 2022), which states that audit quality does not affect earnings management, the results of which are not in line with signaling theory.

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4.11.2 The Effect of Firm Size on Earnings Management

Based on the t-test table, the regression results show that the company size variable negatively and significantly affects earnings management. In other words, the larger the company, the less likely it is to engage in earnings management practices. In this study, company size is measured based on total assets. Total assets reflect the amount of resources owned by a company and are a standard indicator of the operational scale of an entity. Large companies generally have better internal control systems, access to qualified auditors, and adequate professional resources to ensure financial statements are prepared per applicable standards. These factors limit management's ability to engage in aggressive earnings management. In line with signaling theory, large-scale companies are generally under stricter supervision from regulators, investors, and the media. Large companies avoid manipulative practices in such conditions because the reputational risks and potential market impacts are much greater. Large companies also have an image of professionalism and good governance. Therefore, company size is a positive signal to the market that the company is more trustworthy and transparent. These results are in line with research conducted by (Adyastuti & Khafid, 2022), which states that company size hurts earnings management, but is not in line with research conducted by (Subali, 2021), which states that company size has a positive effect on earnings management.

4.11.3 The Effect of Auditor Reputation on Earnings Management

Based on the t-test table, the regression results show that the auditor reputation variable negatively and significantly affects earnings management. Auditor reputation in this study is measured based on the classification of public accounting firms that audit company financial statements, namely, whether they are included in the Big Four group. In this study, the sampled companies showed an average use of Big Four KAPs such as Deloitte, PwC, EY, and KPMG, which are known to have international reputations. The study results indicate that companies audited by Big Four KAPs tend to have low levels of earnings management. Furthermore, an auditor's reputation is also closely related to market perception. Users of financial statements, including investors and creditors, tend to place greater trust in financial statements audited by high-reputation auditors. This ultimately pressures management to reduce profit management, as the risks involved are greater for both the company and the auditor themselves. This aligns with signaling theory, where the selection of high-reputation auditors serves as a positive signal the company sends to the market regarding the quality of its financial reporting. Big Four auditors, who are widely recognized for their integrity and high professional standards, can enhance the perceived reliability of financial statements in the eyes of the market. In this context, the presence of reputable auditors is a supervisory tool and part of the company's communication strategy toward the public. This research aligns with the findings of Kurniadi and Anam (, who state that auditor reputation, measured by KAP size, hurts earnings management.

V. Conclusion

Based on the regression analysis and discussion above, it can be concluded that audit quality, firm size, and auditor reputation negatively and significantly affect earnings management practices. These three variables have been proven to reduce the tendency of companies to manipulate financial statements. These results also reinforce signaling theory's relevance in explaining companies' behavior in conveying financial information to external parties. This study has limitations regarding the time period and industrial sectors examined. Therefore, future researchers should conduct studies with a longer time frame, different industrial sectors, or additional variables.

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