JSSH (Jurnal Sains Sosio Humaniora)
Vol. 10 (1), 2026
https://online-journal.unja.ac.id/jssh
e-ISSN: **2580-2305;** p-ISSN: **2580-1244**

Good Corporate Governance as Oversight of Earnings Management Quality

Desri Yanto[1*], Eka Jumarni Fithri[2], Nelly Masnila[3], Neisya Amaliah[4], Rija Anjani[5], Mutiara Rizki [6]

[1,2,3,4,5,6] *Politeknik Negeri Sriwijaya, Sumatera Selatan, Indonesia.*
Coresponding author e-mail: desri.yanto@polsri.ac.id

ARTICLE INFO

Keywords:
Good Corporate Governance, Earnings Management, the Indonesia Stock Exchange (IDX), Board of Commissioners
DOI:
10.22437/jssh.v10i1.55105

Received:
April 10th, 2026

Reviewed:
May 15th, 2026

Accepted:
May 19th , 2026

ABSTRACT

This study examines the efficacy of Good Corporate Governance (GCG) as an oversight mechanism against earnings management, utilizing audit quality as a moderating variable. Employing a quantitative methodology, the research population comprises basic industry and chemical companies listed on the Indonesia Stock Exchange (IDX) spanning the 2022–2025 period. Through purposive sampling from an initial pool of 95 firms, a final sample of 76 companies was selected, yielding 304 firm-year observations. Empirical findings demonstrate that the proportion of independent commissioners, the presence of female commissioners on the board, and the board's financial and accounting expertise all exert a significant negative effect on earnings management. Furthermore, audit quality is proven to strengthen the mitigating effect of these three board characteristics on earnings management practices. The implications of this study suggest that fostering board independence, gender diversity, and specialized financial expertise, coupled with high-quality external audits, is critical for constraining opportunistic managerial behavior and safeguarding the integrity of financial reporting.

1. Introduction

Firms are established with the primary objective of generating profit and maximizing wealth for their owners. A firm's profitability or loss is reflected in its financial statements. These financial statements are the product of the firm's economic activities and comprise the statement of financial position, statement of comprehensive income, statement of changes in equity, and statement of cash flows (SAK, 2023). The financial statements generated from these economic activities serve as a reflection of the firm's current condition and act as a signaling mechanism regarding its financial health. Consequently, stakeholders are anticipated to leverage the informational signals embedded within the presented financial statements as a foundational basis for their decision-making processes concerning the firm's financial status (desri Yanto & Frymaruwah, 2022).

To ensure optimal corporate financial management and the generation of high-quality financial information, firm owners delegate the responsibility of managing economic activities to the management. The goal is to maximize profitability and yield positive financial

disclosures (Ghafran et al., 2022). A paramount component of financial reporting is the income statement. This statement delineates the firm's financial standing—whether operating at a profit or a loss—and contains critical information enabling stakeholders to evaluate management's efficacy in financial stewardship (Schipper, 1989). Management is deemed to perform effectively when the firm generates positive earnings; conversely, negative earnings indicate suboptimal managerial performance (Yanto & Kusumawardani, 2023). Furthermore, the information derived from the income statement functions as a vital signal to stakeholders concerning the financial soundness of the enterprise. Other salient constituents relying on the income statement include the government, investors, and creditors. The government utilizes the income statement to determine the firm's tax obligations; investors interpret it as a signal of corporate health to inform their investment decisions; and creditors rely on it to assess the firm's solvency and capacity to finance debt, operational expenses, and capital investments (Song et al., 2023).

Stakeholders exert substantial pressure on management, demanding consistently strong performance to ensure robust financial outcomes for the firm (Schnackenberg & Tomlinson, 2016). This pressure compels management to leverage all facets of business operations to enhance the firm's financial performance. Furthermore, due to these rigorous demands, management exhibits a propensity for opportunistic behavior, utilizing corporate conditions for personal utility rather than prioritizing stakeholder interests. They often rationalize this behavior, asserting that their strenuous efforts warrant substantial bonuses or personal gains. These multifaceted factors incentivize management to engage in earnings management to project a favorable corporate performance, circumvent negative signaling to stakeholders, and secure maximized managerial compensation and bonuses. Earnings management inherently involves activities directed at manipulating the firm's reported earnings—either by inflating or deflating the figures—to present an artificially sound financial condition, thereby transmitting a positive signal to stakeholders, creditors, and investors. As noted by Al-Shaer & Zaman, (2021), the manipulation of earnings through upward or downward adjustments constitutes a primary mechanism of earnings management.

Earnings management is generally categorized into two distinct typologies: First, discretionary accruals, which involve the manipulation of reported earnings through subjective managerial selections of accounting policies designed to either artificially inflate or deflate profits (Scott, 2015). Second, real earnings management, characterized by deviations from normal operational activities. This arises from management's intent to mislead stakeholders into believing that specific financial reporting objectives have been achieved through the firm's standard operating procedures (Nassir Zadeh et al., 2025).

Earnings management practices are fundamentally facilitated by the existence of information asymmetry between management and stakeholders (Asegdew, 2016). This informational disparity, coupled with manipulative earnings practices, can precipitate severe corporate crises. The Enron scandal of the early 2000s serves as a quintessential paradigm of corporate fraud, wherein the corporation was proven to have artificially inflated its revenue by obfuscating substantial debt and the financial losses incurred by its subsidiaries. Furthermore, external entities whose fiduciary duty was to ensure the financial statements were free from material misstatement were complicit in the firm's illicit business practices. Arthur Andersen, acting as both the external auditor and financial consultant, colluded with Enron's management to orchestrate and sustain these unethical operations.

In response to such malfeasance, the Sarbanes-Oxley Act was enacted to curtail managerial interference in the audit procedures conducted by independent financial auditors. The legislation mandates that corporations implement rigorous procedures to ensure the accuracy of their financial disclosures. It explicitly holds the CEO and CFO accountable for the

presented financial statements and necessitates the establishment of internal control mechanisms, an independent Board of Commissioners, and the overall institutionalization of Good Corporate Governance (GCG).

The implementation of Good Corporate Governance (GCG) is imperative for a firm to provide reasonable assurance that its financial statements have been prepared in accordance with applicable standards, are comprehensively disclosed, and maintain a high degree of accountability. The manifestation of GCG is inextricably linked to the internal oversight functions executed by the Board of Commissioners (Fung, 2014). Diligent monitoring by the Board of Commissioners over the firm's financial operations is critical in yielding accountable financial reports, thereby bolstering public trust in the corporation (Klein, 2002). Furthermore, robust external oversight provided by independent auditors with high integrity, such as the Big 4 accounting firms, significantly enhances the scrutiny of audited financial statements. This synergistic relationship fortifies the oversight capacity of the Board of Commissioners, effectively mitigating the risk of management exploiting financial reports for the purposes of earnings management.

2. Literature Review

2.1 Teori Agensi

Based on Agency Theory (Jensen & Meckling, 1976), an agency relationship is established through a contractual agreement wherein the principal delegates responsibilities to an agent to act in their best interests. Following this framework, shareholders entrust their decision-making authority to corporate management. However, agency conflicts frequently surface due to goal incongruence between these two entities, which can ultimately generate information asymmetry. Consequently, these underlying conflicts create strong incentives for management to engage in earnings management practices.

Furthermore, Schipper, (1989) conceptualizes earnings management as management's deliberate interference in the financial reporting process, typically motivated by the pursuit of personal benefits. In manipulating corporate accounting data, executives tend to adopt distinct strategic behaviors. As categorized by Scott, (2015), these tactical patterns encompass taking a bath, income minimization, income maximization, income smoothing, the offsetting of extraordinary gains, the implementation of aggressive accounting methods, and the strategic timing of revenue and expense recognition.

2.2 Earnings Management

Schipper, (1989) characterizes earnings management as management's deliberate interference in external financial reporting, affording them the capacity to artificially inflate, deflate, or smooth reported income. Complementing this perspective, Scott, (2015) defines the practice as the strategic selection of accounting policies by executives to fulfill predetermined objectives. Furthermore, Healy & Wahlen, (1999) elaborate that earnings management materializes when managers exercise subjective judgment in structuring transactions and preparing financial disclosures. Such manipulation is typically executed with the intent to either obscure the firm's true economic reality from stakeholders or to sway the outcomes of contracts that rely on published accounting figures.

2.3 Good Corporate Governance

Good Corporate Governance (GCG) constitutes a comprehensive framework of systems, processes, structures, and mechanisms designed to orchestrate a harmonious relationship between a firm and its stakeholders. The primary objective is to optimize corporate performance while safeguarding stakeholder interests. According to (Agoes & Ardana, 2014),

the foundational principles of GCG are anchored in transparency, accountability, responsibility, and independence. Operationally, the mechanisms of GCG are implemented through several key components:

a. Size of the Board of Commissioners: As stipulated by the Limited Liability Company Law No. 40 of 2007, this oversight body is mandated to perform comprehensive or specific monitoring in alignment with the articles of association, while also serving in an advisory capacity to the board of directors.
b. Independent Board of Commissioners: Agoes & Ardana, (2014) describe an independent commissioner as an impartial appointee representing minority or independent shareholders. Selected strictly on the merits of their professional expertise, knowledge, and experience, they remain unaffiliated with any specific internal faction.
c. Managerial Ownership: This denotes the proportion of shares held directly by the executive management, including equity stakes controlled by the firm's subsidiaries and affiliated entities.
d. Institutional Ownership: This refers to the equity held by external corporate entities, which can encompass governmental bodies, private corporations, or international institutions.
e. Board Committees: Acting as specialized units established by and reporting directly to the board of commissioners, these committees (e.g., the Audit Committee) are structured to support and facilitate the board's overarching oversight functions

2.4 Audit Quality

The inherent agency conflicts stemming from the decoupling of ownership and control, coupled with information asymmetry between executives and shareholders, necessitate the intervention of external audits (Lin & Hwang, 2010). Independent auditors bear the responsibility of corroborating that financial disclosures are fairly represented in compliance with Generally Accepted Accounting Principles (GAAP) and accurately mirror the enterprise's actual economic health and performance. Consequently, this independent verification significantly bolsters the credibility of the reported financial data.

Moreover, professional auditing standards dictate that external auditors must engage in substantive dialogues with the Board of Commissioners. These discussions are intended to evaluate not only the basic acceptability but the intrinsic quality of the accounting policies adopted by the firm. Ultimately, high-quality audits are anticipated to act as a deterrent against opportunistic earnings manipulation while concurrently mitigating the information risk embedded in financial reporting.

2.5 Relationship Between Variables

The Effect of Independent Board of Commissioners Size and the Role of Audit Quality

Earnings management practices can often be mitigated if a company has objective oversight. The independent board of commissioners serves as a party without personal interest affiliations with either management or controlling shareholders. The larger the proportion of independent commissioners, the stricter the oversight implemented. This is supported by the research of Sahyoun & Magnan, (2020) and Wan Mohammad & Wasiuzzaman, (2019), who consistently found that the presence of independent board members restricts managers' opportunistic behavior in manipulating earnings.

This internal oversight becomes significantly more effective when supported by high external audit quality. High-quality auditors (such as Big Four public accounting firms) present transparent findings, providing accurate data as "ammunition" for independent

commissioners to take action. Based on research by (Almarayeh et al., 2022), the role of independent oversight heavily relies on the credibility of the external audit.

Hypothesis H1a : The size of the independent board of commissioners has a negative effect on earnings management.

Hypothesis H1b : Audit quality strengthens the relationship between the size of the independent board of commissioners and earnings management.

The Effect of Board of Commissioners' Gender Diversity and the Role of Audit Quality

In addition to independence, the dynamics of decision-making within the board are also significantly influenced by gender diversity. Governance literature indicates that the presence of female directors or commissioners tends to bring characteristics of risk aversion and stricter ethical standards. This is consistent with the findings of Rudyanto & Kusnadi, (2025) and is reinforced by Duong & Nguyen, (2025), who demonstrated that boards with female representation are effective in suppressing both real and accrual earnings management activities, as they disrupt uniform groupthink and reject aggressive policies.

The critical and meticulous attitude of a diverse board will result in the maximum detection of manipulation when combined with competent audit quality. Internal diligence coupled with the assertiveness of external auditors makes manipulative practices highly difficult to conceal (Duong & Nguyen, 2025; Mohamed Alshawadfy Aladwey & Zehri, 2025).

Hypothesis H2a : The Board of Commissioners' gender diversity has a negative effect on earnings management.

Hypothesis H2b : Audit quality strengthens the relationship between the Board of Commissioners' gender diversity and earnings management.

The Effect of the Board of Commissioners' Financial and Accounting Expertise and Audit Quality

The courage to be critical must certainly be balanced with technical capacity. Earnings management practices are often concealed through loopholes in complex accounting standards. Research by Badolato et al., (2014) indicates that commissioners without adequate financial literacy can be easily deceived by management. Conversely, a board possessing accounting and financial expertise is able to proactively anticipate and detect anomalies in financial reporting (Xia et al., 2024). This technical expertise also enables the board to communicate complementarily with external auditors. When auditors with high audit quality present complex audit findings, financially expert commissioners can respond and execute corrective actions swiftly.

Hypothesis H3a : The Board of Commissioners' financial and accounting expertise has a negative effect on earnings management.

Hypothesis H3b : Audit quality strengthens the relationship between the Board of Commissioners' financial and accounting expertise and earnings management.

3. Research Methodology

3.1 Research Design

Adopting a quantitative methodology, this research relies on secondary data extracted from corporate financial statements published on the Indonesia Stock Exchange (IDX) over the 2022–2025 observation period. The target population consists of 95 firms operating within the basic industry and chemicals sector that were listed on the IDX during this timeframe, which served as the foundational framework for deriving the final research sample.

3.2 Participants

A purposive sampling technique was chosen for the sample selection process. This method was utilized to establish specific criteria for the selected sample. The criteria for the sample selection are as follows: basic industry and chemicals companies that routinely published their annual financial statements from 2022 to 2025, and all required data must be available within these published financial statements.

By applying the purposive sampling method, a final sample of 76 basic industry and chemicals companies in Indonesia was obtained, representing companies that routinely or continuously issued their financial statements from 2022 to 2025. The sample selection process using the purposive sampling method is detailed in the following table:

Table 1. Sample Selection

Criteria	Excluded	Included
Basic industry and chemicals companies		95
Companies that did not publish financial statements continuously from 2022 to 2025	12	
Companies whose financial statements do not contain the required data	7	
Number of sample companies		76
Total observations used during the 2022–2025 period (76 * 4)		304

Source: Processed data, 2026

3.3 Instruments

This study utilizes five variables, consisting of one dependent variable, namely earnings management, and four other variables: audit quality, Board of Commissioners size, Board of Commissioners gender, and Board of Commissioners accounting expertise. The financial reporting quality variable is estimated using the earnings management approach. The specific method employed is the approach developed by Jones, widely known as the Modified Jones Model. The estimation equation utilized to determine earnings management under the Modified Jones Model (Dechow, 1991) is as follows:

1. Total Accruals (TAC) is calculated as the net income in year t minus the operating cash flows in year t, utilizing the following formula:

$$TAC = NIit - CFOit$$

2. Following this, total accruals (TA) are estimated through an Ordinary Least Squares (OLS) regression model, expressed as follows:

$$\frac{TAit}{Ait-1} = \beta1\left(\frac{1}{Ait-1}\right) + \beta2\left(\frac{\Delta Revit}{Ait-1}\right) + \beta3\left(\frac{PPEit}{Ait-1}\right) + \epsilon$$

3. Utilizing the estimated coefficients derived from the preceding regression model, non-discretionary accruals (NDA) are computed using the following equation:

$$NDAit = \beta1\left(\frac{1}{Ait-1}\right) + \beta2\left(\frac{\Delta Revit - \Delta Recit}{Ait-1}\right) + \beta3\left(\frac{PPEit}{Ait-1}\right)$$

4. In the final step of the procedure, discretionary accruals (DA)—utilized as the core indicator of earnings management—are computed based on the subsequent formula:

$$DAit = \frac{TAit}{Ait-1} - NDAit$$

For the empirical analysis, the variables incorporated within the regression model are defined as follows: DAit: Discretionary accruals for firm i in period t. NDAit: Non-discretionary accruals for firm i in period t. TAC /TAit: Total accruals for firm i in period t. NIit: Net income for firm i in period t. CFOit: Cash flows generated from operating activities for firm i in period t. Ait-1: Total assets of firm i at the end of the preceding period (t-1). Revit: Change in operating revenues for firm i between period t-1 and period t. PPEit: Gross property, plant, and equipment for firm i in period t. Recit: Change in accounts receivable for firm i between period t-1 and period t. ϵit: The error term (residual component).

In this study, the selected variables are operationalized and measured as follows: Board of Commissioners Size: Quantified by the aggregate number of individuals serving on the board. Gender Diversity: Operationalized as a dichotomous dummy variable, which is assigned a value of 1 if the board includes at least one female commissioner, and 0 otherwise. Financial and Accounting Expertise: Calculated as the proportion of board members possessing relevant financial or accounting qualifications relative to the total board size. Audit Quality: Evaluated using a dummy variable, taking a value of 1 if the firm's financial statements are audited by a Big Four public accounting firm (KAP), and 0 otherwise.

3.4 Multiple Regression Model

The regression equation used to examine the relationship between the dependent and independent variables in this study is as follows:

$$Y = \alpha + \beta 1UKA + \beta 1GKA + \beta 3KKAD + \varepsilon \quad (1)$$

$$Y = \alpha + \beta 1UKA*KA + \beta 2GKA*KA + \beta 3KKAD*KA + \varepsilon \quad (2)$$

Where: Y= Earnings Management, KA= Audit Quality, UKA= Board of Commissioners Size, GKA= Board of Commissioners Gender, KKAD = Board of Commissioners' Financial and Accounting Expertise, A= Constant, b1 – b3 = Regression coefficients, and ε= error.

4. Findings

4.1. Uji Model

Model selection tests were conducted to determine the most appropriate model to be used in this study. To determine the most appropriate estimation model, three diagnostic tests were employed: the Chow test, the Hausman test, and the Lagrange Multiplier test. The Chow test yielded a p-value of 0.0413. Since this probability value falls below the 0.05 significance threshold, the Fixed Effect Model (FEM) was selected over the Common Effect Model (CEM). In the second stage, the Hausman test yielded a probability value of 0.4723. Consequently, the Random Effect Model (REM) was selected because the resulting p-value exceeds the 0.05 threshold. Subsequently, the Lagrange Multiplier test was conducted, the results of which are as follows:

Table 2. Langrange Multiplier Test

Lagrange multiplier (LM) test for panel data			
Sample: 2022 2025			
Total panel observations: 304			
Probability in ()			
Null (no rand. effect)	Cross-section	Period	Both

Lagrange multiplier (LM) test for panel data

Alternative	One-sided	One-sided	
Breusch-Pagan	1.256341	0.734471	0.611341
	(0.7112)	(0.5455)	(0.2134)
Honda	0.4412	-0.824118	-0.731312
	(0.4842)	(0.8481)	(0.7312)
King-Wu	0.451143	-0.604418	-0.781342
	(0.4776)	(0.62115)	(0.7211)
GHM	--	--	0.212773
	--	--	(0.6717)

Source: Processed data, 2026

Finally, the Lagrange Multiplier (LM) test was conducted, yielding a p-value of 0.7112. Since this value significantly exceeds the 0.05 threshold, the Common Effect Model (CEM) is determined to be the most appropriate estimation method for this research. The consolidated results of the three diagnostic tests as shown at Table 3.

Table 3. Model Selection Test Results

Test	Criteria	Model Selection	Result
Uji Chow	Prob > 0,05	CEM	0.0413 (FEM)
	Prob < 0,05	FEM	
Uji Hausman	Prob > 0,05	REM	0.4723 (REM)
	Prob < 0,05	FEM	
Uji Legrange Multiplier	Prob > 0,05	CEM	0.7112 (CEM)
	Prob < 0,05	REM	

Source: Processed data, 2026

4.2 Classical Assumption Test

The classical assumption test consists of two tests, namely the multicollinearity and heteroskedasticity tests. The multicollinearity test results are as follows:

Table 4. Multicollinearity Test Results

	X1	X2	X3	X1*Z	X2*Z	X3*Z
X1	1.0000	0.441541	0.022431	0.823813	0.401141	0.131412
X2	0.441541	1.0000	-0.083011	-0.316089	0.430116	0.332216
X3	0.022431	-0.083011	1.0000	0.058431	0.142110	0.711351
X1*Z	0.823813	-0.316089	0.058431	1.0000	-0.077619	0.0118265
X2*Z	0.401141	0.430116	0.142110	-0.077619	1.0000	0.3165721
X3*Z	0.131412	0.332216	0.711351	0.0118265	0.3165721	1.0000

Source: Processed data, 2026

Findings from the multicollinearity test indicate that the research model is free from multicollinearity issues. Given that the correlation coefficients for all variables remain below the 0.85 threshold, it can be concluded that no significant redundant relationships exist between the independent variables. Subsequently, the results for the heteroskedasticity test are detailed as follows:

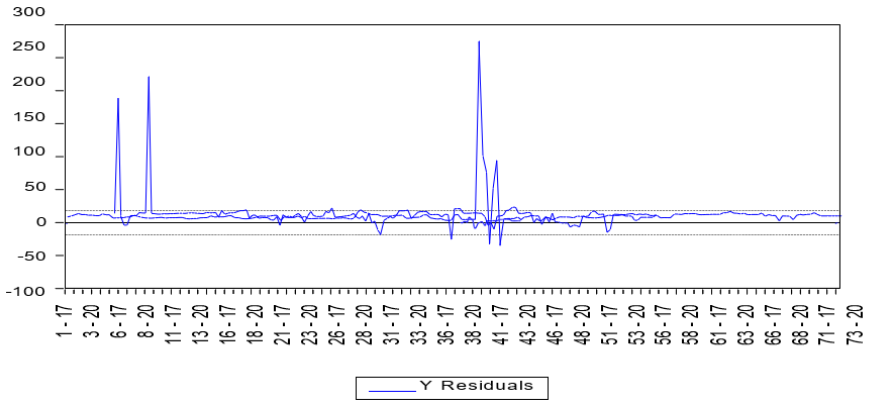

Figure 1. Heteroskedasticity Test Results

Source: Processed data, 2026

The results of the heteroskedasticity test indicate that this study is free from heteroskedasticity, as the graph presented in the figure does not exceed the boundaries of 500 and -500.

4.3 Hypothesis Testing

Hypothesis testing was conducted using the EViews 10 statistical software, with the test results presented as follows:

Table 6. Hypothesis Testing Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.715214	3.158239	15.151132	1.25115
X1	-0.341126	1.411674	2.781147	0.04277
X2	-0.176891	6.726115	4.831189	0.00128
X3	-0.141253	0.642271	1.998128	0.03114
X1*Z	-0.271355	2.411381	2.451879	0.03584
X2*Z	-0.131187	3.619043	2.566589	0.02117
X3*Z	-0.145331	0.749110	3.372192	0.00000
R-squared	0.34389	Mean dependent var		1.774.529
Adjusted R-squared	0.35438	S.D. dependent var		1.831.744

Source: Processed data, 2026

5. Discussion

5.1 Independent Board of Commissioners Size on Earnings Management

Based on the statistical test results, the independent board of commissioners size variable demonstrates a negative and significant effect on earnings management practices. This is evidenced by a probability level of 0.04277, which is below the 5% significance threshold, a negative regression coefficient of -0.341126, and tstatistic 2.781147 is greater than t table 1,967. Empirically, these findings indicate a clear pattern: the larger the size or proportion of independent commissioners within the board structure, the significantly lower the intensity of earnings manipulation by management.

The negative relationship found in this study provides strong confirmation of Agency Theory. In the operational dynamics of a company, conflicts of interest and information

asymmetry frequently arise between shareholders as principals and management as agents. Management often has incentives to act opportunistically, such as manipulating profit figures to project seemingly superior performance in order to secure financial compensation. In this corporate governance context, the presence of an independent board of commissioners serves as a primary control mechanism to bridge this information gap and effectively mitigate the agent's opportunistic behavior. The main strength of independent commissioners in suppressing earnings management lies in their neutral position. As external parties with no affiliation, kinship ties, or direct business interests with the board of directors and controlling shareholders, they are proven capable of executing their monitoring function with a high degree of objectivity (Sahyoun & Magnan, 2020).

A proportional and adequate size of the independent board provides this collective supervisory body with strong bargaining power (Wan Mohammad & Wasiuzzaman, 2019). This ensures that the board is not easily intervened, influenced, or pressured by management during the operational evaluation process. The direct implication of such high independence and objectivity is the creation of a much more stringent evaluation of financial reporting. With an adequate number of members, the independent board of commissioners tends to be more critical and thorough in scrutinizing every accounting policy, use of estimates, and recording method proposed by management. This strict and comprehensive layer of oversight ultimately significantly narrows the managers' room to maneuver in manipulating figures, such as through discretionary accruals.

5.2 Board of Commissioners' Gender Diversity On Earnings Management

The statistical test results indicate that the board of commissioners' gender diversity variable has a negative and significant effect on earnings management practices. This finding is evidenced by a probability level of 0.00128, which is just below the 5% (0.05) significance threshold, is supported by a negative regression coefficient of -0.176891, and tstatistic 4.831189 is greater than t table 1,967. Empirically, these results prove that the existence or an increased proportion of gender diversity—which in this context is generally represented by the presence of female commissioners on the board—can effectively reduce or restrict earnings management practices by management. The primary explanation for this finding can be viewed through socio-psychological and business ethics perspectives. Various corporate governance literatures state that, psychologically, women tend to have a higher degree of risk aversion and are more cautious compared to men. In the context of financial oversight, female commissioners generally possess stricter standards of prudence, are more compliant with regulations, and exhibit sharper ethical sensitivity. These characteristics make them less likely to tolerate manipulative or high-risk actions, such as manipulating financial statement figures through earnings management.

Gender diversity also brings positive implications to the decision-making dynamics in the boardroom. A homogeneous board of commissioners (dominated by one gender) is vulnerable to groupthink, where decisions are made without adequate critical testing (Rudyanto & Kusnadi, 2025). Conversely, the presence of cross-gender commissioners presents richer, more diverse, and independent perspectives. This diversity fosters more comprehensive, critical, and balanced discussions. The board becomes bolder in questioning operational irregularities and criticizing the accounting estimates proposed by the board of directors (Duong & Nguyen, 2025). With high ethical sensitivity and the drive to examine reports in greater detail, the oversight conducted by a board with a diverse gender composition becomes significantly stricter. Female commissioners frequently demand higher levels of transparency and disclosure from management. The pressure to present transparent information directly

narrows the loopholes for managers to engage in opportunistic actions or conceal information through discretionary accrual schemes.

5.3 Board of Commissioners' Financial and Accounting Expertise On Earnings Management

Based on the statistical test results, the board of commissioners' financial and accounting expertise variable shows a negative and significant effect on earnings management practices. This is evidenced by a probability level of 0.03114, which is below the 5% (0.05) significance threshold, along with a negative regression coefficient of -0.141253, and tstatistic 1.998128 is greater than t table 1,967. Empirically, this finding indicates that the more board members who possess educational backgrounds, certifications, or work experience in finance and accounting, the lower the earnings management practices conducted by the board of directors.

The results of this study confirm that independence alone is insufficient to prevent earnings management; technical competence is required for the monitoring function to operate effectively. Financial statements are products fraught with estimates, assumptions, and the complexities of accounting standards. A board of commissioners lacking a deep understanding of accounting risks facing information asymmetry and difficulties in evaluating the fairness of the figures presented by management (Badolato et al., 2014). Conversely, financial expertise provides the board with the capacity to understand, analyze, and challenge the accounting policies selected by the directors.

Board members with financial and accounting expertise possess high financial literacy regarding the loopholes for financial reporting manipulation (Xia et al., 2024). They understand the boundaries of the applicable accounting standards (such as PSAK) and are capable of identifying anomalies in accrual components, particularly the use of discretionary accruals, which often serve as the primary instruments of earnings management. This analytical sharpness enables the board of commissioners to detect indications of earnings manipulation early on, before the financial statements are published to external parties.

The presence of financial experts on the board of commissioners provides a deterrence effect for management. Realizing that their performance and financial statements will be evaluated by a board that "speaks the same language" and understands the intricacies of accounting, management will likely abandon any intention to commit opportunistic acts. The management's room to inflate or deflate earnings for personal gain (such as bonuses or reputation) becomes severely restricted because the oversight is conducted substantively, rather than merely administratively.

5.4 The Relationship Between Audit Quality and Earnings Management

Audit Quality and Independent Board Size: The interaction between the independent board of commissioners size and audit quality (X1*Z) yields a probability of 0.03584 (smaller than alpha 0.05) with a negative coefficient of -0.271355, and tstatistic 2.451879 is greater than t table 1,967. This result proves that audit quality significantly strengthens the negative effect of the independent board of commissioners size on earnings management. The independent board of commissioners requires accurate and credible information support to optimally execute its monitoring function (Ghafran & Yasmin, 2018). High-quality external auditors (e.g., Big Four accounting firms or industry-specialized auditors) are capable of detecting errors or fraud that internal parties might overlook. These high-quality and independent audit findings become a "weapon" or a strong basis of argument for the independent board to exert pressure on management. The synergy between board independence (internally) and high auditor quality (externally) creates a highly robust layer of oversight, thereby narrowing the directors' opportunities to conceal earnings management practices (Saleh & Mansour, 2023).

Audit Quality and Gender Diversity: The interaction between gender diversity and audit quality (X2*Z) yields a probability of 0.02117 (smaller than alpha 0.05) with a negative coefficient of -0.131187, and tstatistic 2.566589 is greater than t table 1,967. This indicates that audit quality significantly strengthens the negative effect of the board of commissioners' gender diversity on earnings management. Psychologically, female commissioners possess a higher level of risk aversion, strong ethical compliance, and meticulous attention to detail (Mohamed Alshawadfy Aladwey & Zehri, 2025). When a company is audited by a high-quality accounting firm, the auditor will uncover financial statement transparency more comprehensively, including indications of red flags regarding the use of accruals. A gender-diverse board of commissioners will respond to these findings or warnings from the auditor very seriously and critically. The ethical sensitivity of female commissioners combined with sharp audit results ensures that any form of earnings manipulation, no matter how small, will be immediately addressed and prevented (Duong & Nguyen, 2025).

Audit Quality and Financial Expertise: The interaction between financial/accounting expertise and audit quality (X3*Z) yields a probability of 0.00000 (highly significant, below alpha 0.05) with a negative coefficient of -0.145331, and tstatistic 3.372192is greater than t table 1,967. This is the strongest interaction in this model, meaning that audit quality very significantly strengthens the negative effect of the board of commissioners' financial expertise on earnings management. Board members with accounting expertise speak the "same language" as external auditors (Nikulin et al., 2022). If the external auditors are of high quality, they will produce a management letter or an audit findings report that is highly technical and detailed regarding management's aggressive accounting policies. A board of commissioners with a financial background will not experience difficulties or information asymmetry in interpreting the auditor's findings (Baatwah et al., 2025). They can rapidly confirm the auditor's findings, evaluate the fairness of accounting estimates (such as depreciation or allowance for doubtful accounts), and effectively veto directors' policies that indicate earnings management (Almarayeh et al., 2022).

6. Conclusion

The conclusions derived from the research conducted in this study are as follows, The number of Independent Board of Commissioners members affects earnings management. The number of female Board of Commissioners members affects earnings management. The Board of Commissioners' financial and accounting expertise affects earnings management. Audit quality is able to strengthen the relationship between the number of Independent Board of Commissioners members and earnings management. Audit quality can strengthen the relationship between the number of female members of the Board of Commissioners and earnings management. Audit quality is able to strengthen the relationship between the Board of Commissioners' financial and accounting expertise and earnings management.

This study has several limitations that should be acknowledged. First, the research only focuses on basic industry and chemical companies listed on the Indonesia Stock Exchange during the 2022–2025 period, which may limit the generalizability of the findings to other sectors or different institutional contexts. Second, the study relies solely on quantitative secondary data, which may not fully capture the internal dynamics of corporate governance practices and managerial decision-making related to earnings management. Future research is therefore encouraged to expand the research scope by involving different industrial sectors, extending the observation period, or conducting cross-country comparisons. In addition, future studies may incorporate qualitative approaches, such as interviews or case studies, to gain deeper insights into how board characteristics and audit quality influence managerial behavior and financial reporting practices.

References

Agoes, S., & Ardana, C. (2014). *Etika Bisnis dan profesi* (Edisi Revisi, Vol. 1). Salemba Empat.

Almarayeh, T., Abdullatif, M., & Aibar-Guzmán, B. (2022). The role of audit committees in mitigating earnings management: evidence from Jordan. *Journal of Accounting in Emerging Economies*, *12*(5), 882–907. https://doi.org/https://doi.org/10.1108/JAEE-09-2020-0235

Al-Shaer, H., & Zaman, M. (2021). Audit committee disclosure tone and earnings management. *Journal of Applied Accounting Research*, *22*(5), 780–799. https://doi.org/https://doi.org/10.1108/JAAR-12-2020-0243

Asegdew, K. (2016). *Determinants of Financial Reporting Quality: Evidence from Large Manufacturing Share Companies of Addis Ababa*.

Baatwah, S. R., Mgammal, M. H., & Aomrah, M. R. (2025). Does audit committee chair expertise combat tax avoidance in emerging markets? Direct and indirect investigation. *International Journal of Accounting and Information Management*, *33*(4), 716–740. https://doi.org/https://doi.org/10.1108/IJAIM-09-2024-0342

Badolato, P. G., Donelson, D. C., & Ege, M. (2014). Audit committee financial expertise and earnings management: The role of status. *Journal of Accounting and Economics*, *58*(2), 208–230. https://doi.org/https://doi.org/10.1016/j.jacceco.2014.08.006

Dechow, P. , & S. R. (1991). The Quality of Accruals and Earnings: The Role of Accrual Estimation Error. *The Accounting Review*, 51–89.

Duong, H. K., & Nguyen, H. C. (2025). Anti-corruption disclosure and earnings management in Vietnam: the moderating impact of gender diversity and audit firm quality. *Asian Review of Accounting*, *34*(2), 410–437. https://doi.org/https://doi.org/10.1108/ARA-12-2024-0381

Ghafran, C., O'Sullivan, N., & Yasmin, S. (2022). When does audit committee busyness influence earnings management in the UK? Evidence on the role of the financial crisis and company size. *Journal of International Accounting, Auditing and Taxation*, *47*, 100467. https://doi.org/https://doi.org/10.1016/j.intaccaudtax.2022.100467

Ghafran, C., & Yasmin, S. (2018). Audit committee chair and financial reporting timeliness: A focus on financial, experiential and monitoring expertise. *International Journal of Auditing*, *22*(1), 13–24. https://doi.org/10.1111/ijau.12101

Healy, P. M., & Wahlen, J. M. (1999). A Review of the Earnings Management Literature and Its. *Accounting Horizons*, *13*(4), pp.365-383. http://www.aaajournals.org/doi/abs/10.2308/acch.1999.13.4.365

Jensen, M. C., & Meckling, W. H. (1976). Also published in Foundations of Organizational Strategy. In *Journal of Financial Economics* (Number 4). Harvard University Press.

Klein, A. (2002). Audit committee, board of director characteristics, and earnings management. *Journal of Accounting and Economics*, *33*(3), 375–400. https://doi.org/https://doi.org/10.1016/S0165-4101(02)00059-9

Lin, J. W., & Hwang, M. I. (2010). Audit Quality, Corporate Governance, and Earnings Management: A Meta-Analysis. *International Journal of Auditing*, *14*(1), 57–77. https://doi.org/10.1111/j.1099-1123.2009.00403.x

Mohamed Alshawadfy Aladwey, L., & Zehri, F. (2025). Earning management and audit committee effectiveness in GCC: the mediating effect of board gender diversity. *Corporate Governance*, *26*(4), 901–925. https://doi.org/https://doi.org/10.1108/CG-06-2024-0318

Nassir Zadeh, F., Askarany, D., Shirzad, A., & Faghani, M. (2025). Retraction notice to "Audit committee features and earnings management" [Heliyon 9 (2023) e20825]. *Heliyon*, *11*(17), e44184. https://doi.org/https://doi.org/10.1016/j.heliyon.2025.e44184

Nikulin, E. D., Smirnov, M. V, Sviridov, A. A., & Bandalyuk, O. V. (2022). Audit committee composition and earnings management in a specific institutional environment: the case of Russia. *Corporate Governance*, *22*(7), 1491–1520. https://doi.org/https://doi.org/10.1108/CG-01-2021-0011

Rudyanto, A., & Kusnadi, Y. (2025). Audit committee status and gender diversity: Implications for real earnings management. *Finance Research Letters*, *86*, 108433. https://doi.org/https://doi.org/10.1016/j.frl.2025.108433

Sahyoun, N., & Magnan, M. (2020). The association between voluntary disclosure in audit committee reports and banks' earnings management. *Managerial Auditing Journal*, *35*(6), 795–817. https://doi.org/https://doi.org/10.1108/MAJ-05-2019-2279

Schipper, K. (1989). Earning Management. *Accounting Horizons*, *3*(4), 91–102.

Schnackenberg, A. K., & Tomlinson, E. C. (2016). Organizational Transparency: A New Perspective on Managing Trust in Organization-Stakeholder Relationships. *Journal of Management*, *42*(7), 1784–1810. https://doi.org/10.1177/0149206314525202

Scott, W. R. (2015). *Financial Accounting Theory. Seventh Edition. Pearson Prentice Hall: Toronto*.

Song, B., Chung, H., Kim, B.-J., & Sonu, C. H. (2023). Do business trainings for audit committees matter in organizations? Focusing on earnings management. *Finance Research Letters*, *51*, 103423. https://doi.org/https://doi.org/10.1016/j.frl.2022.103423

Wan Mohammad, W. M., & Wasiuzzaman, S. (2019). Effect of audit committee independence, board ethnicity and family ownership on earnings management in Malaysia. *Journal of Accounting in Emerging Economies*, *10*(1), 74–99. https://doi.org/https://doi.org/10.1108/JAEE-01-2019-0001

Xia, H., Lin, S., Li, S., & Bardhan, I. (2024). The effect of audit committee financial expertise on earnings management tactics in the post-SOX era. *Advances in Accounting*, *64*, 100725. https://doi.org/https://doi.org/10.1016/j.adiac.2023.100725

Yanto, desri, & Frymaruwah, edwin. (2022). Kinerja Keuangan Perusahaan LQ45 Pada Masa Pendemu Covid19. *Jurnal Riset Terapan Akuntansi*, *6*(2), 211–224.

Yanto, D., & Kusumawardani, M. (2023). Manajemen Laba Dan Keterlambatan Pelaporan Keuangan di Masa Pandemi Covid19. *Jurnal Ilmiah MEA (Manajemen, Ekonomi, Dan Akuntansi)*, *7*(1), 719–732.