

Auditor Reputation's Moderating Role in Intellectual Capital, Audit Committee Characteristics, and Earnings Management

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ABSTRACT

The increase in company performance, followed by a decline in non-cyclicals consumer sector company profits in 2020–2022, it indicates that the corporation is using earnings management. The research objective is to empirically test the influence of intellectual capital and the audit committee on earnings management sector companies listed on the IDX in 2020-2022 which is moderated by auditor's reputation. The sample of this research consisted of 65 companies with 196 observations. The results indicate intellectual capital has a significantly positive on management of earnings, the audit committee has a significantly negative on earnings management, and the reputation of auditors is unable to moderate the influence of intellectual capital and the audit committee on earnings management. The size of the company, used as a control variable, did not have a significant impact on earnings management. The practical implication is intellectual capital and audit committees can diminish the risk of earnings management.

Keywords: Intellectual capital; Audit Committee; Auditor Reputation; Earnings Management

Reputasi Auditor Memoderasi Pengaruh Intellectual Capital dan Komite Audit pada Manajemen Laba

ABSTRAK

Kenaikan kinerja perusahaan yang diikuti penurunan laba perusahaan sektor consumer non-cyclicals pada tahun 2019-2022 mengindikasikan adanya manajemen laba dalam perusahaan. Tujuan dari penelitian menguji secara empiris pengaruh intellectual capital dan komite audit pada manajemen laba perusahaan sektor consumer non-cyclicals yang terdaftar di BEI tahun 2020-2022 yang di moderasi oleh reputasi auditor. Sampel penelitian berjumlah 65 perusahaan dengan total pengamatan sebanyak 196 sampel. Hasil penelitian menunjukkan bahwa intellectual capital berpengaruh positif signifikan pada manajemen laba, komite audit berpengaruh negatif signifikan pada manajemen laba, reputasi auditor tidak mampu memoderasi pengaruh intellectual capital dan komite audit pada manajemen laba. Ukuran perusahaan sebagai variabel kontrol dalam penelitian ini tidak berpengaruh signifikan terhadap manajemen laba. Implikasi praktis dari penelitian adalah intellectual capital dan komite audit dapat mengurangi risiko praktik manajemen laba.

Kata Kunci: Intellectual capital; Komite Audit; Reputasi Auditor; Manajemen Laba.



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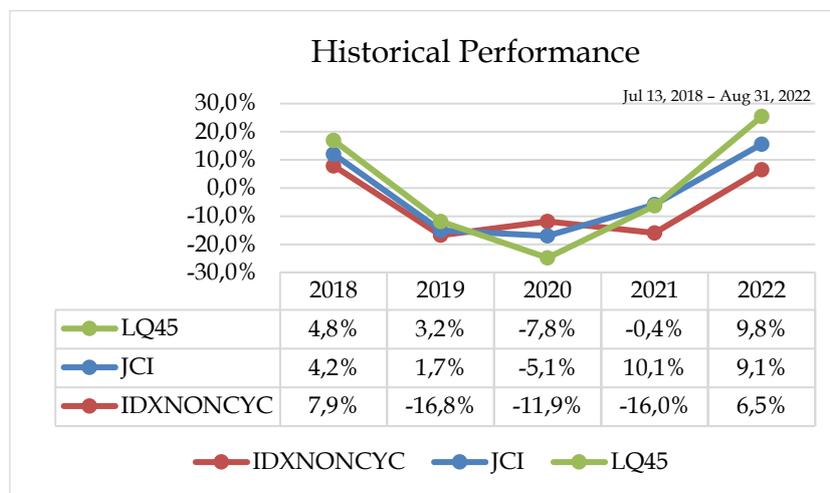
INTRODUCTION

Access to financial information is facilitated through financial reports. These reports are crucial for making investment decisions as they need to accurately represent the company's status. The Statement of Financial Accounting Concepts (SFAC) No. 1 asserts that information about earnings is paramount in assessing company performance, which investors use to gauge the company's dividend-distributing capability. To mitigate risks that could diminish the company's value,

that this involves discretion in financial reporting and transaction structuring to manipulate financial statements, aiming either to reflect the business's economic performance or to influence contractual outcomes. This aligns with Watts and Zimmerman's (1986) statement that earnings management conforms to the three hypotheses of positive accounting theory: bonus plans, debt covenants, and political costs.

A notable instance of earnings management occurred at PT Tiga Pilar Sejahtera Food Tbk (AISA) in 2017, where there was an overstatement of four trillion rupiahs and a misappropriation of Rp1.78 trillion by former management to affiliated parties. This case illustrates a conflict of interest between the agents (managers) and the principals (stakeholders). Although managers should ethically maximize stakeholder welfare, they also aim to enhance company benefits, as outlined by (Jensen & Meckling, 1976). From an intellectual capital perspective, combining the Knowledge-Based View Theory with Agency Theory could curb earnings management practices. According to (Grant, 1991), the Knowledge-Based View Theory posits that various forms of knowledge are valuable resources that provide a long-term competitive advantage.

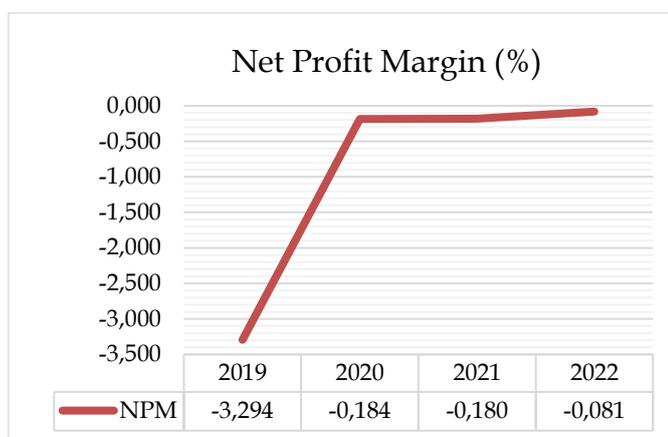
The consumer non-cyclicals sector, often deemed defensive against economic cycles, has shown resilience amidst economic disruptions. This sector's performance is typically stable during changes in GDP, interest rates, and other economic indicators. As societal income levels increase, so does the demand within this sector, leading to heightened market competition (Khayati *et al.*, 2022). However, the Covid-19 pandemic challenged this resilience, leading to a decline in the sector's stock index despite its historically defensive nature against economic fluctuations.



Source: www.idx.co.id, 2022

Figure 1. Historical Performance of Consumer Non-Cyclicals Sector Stocks

A decrease in a company's stock returns typically signals a decline in its profitability. This reduction in profit can be observed through the average net profit margin (NPM) graph for the consumer non-cyclicals sector. The net profit margin, defined as the percentage of total revenue remaining as net profit after all expenses and expenditures are deducted, serves as a critical measure of a company's financial health and efficiency.



Source: Research Data, 2024

Figure 2. Net Profit Margin for Consumer Non-Cyclicals Sector Companies

The graph demonstrates that the company's profit performance remained negative from 2019 to 2022. Despite this, there was a noticeable growth in profit from 2019 to 2022, albeit still within a negative range. This contrasts with the stock performance, which declined from 2019 to 2021 but showed an increase in 2022. A sustained decline in profit impels the company to employ earnings management techniques to uphold its reputation.

Existing research on the effects of intellectual capital and audit committees on earnings management has produced mixed results. Studies by Kalbuana *et al.*, (2020), Kartadjumena & Arnan (2019), Yang (2019), Wato & Tjhai (2016), Galdipour *et al.* (2014) suggest that intellectual capital positively influences earnings management. In contrast, Hapsari & Hartikasari (2022) report a negative impact of

intellectual capital on earnings management. Regarding audit committees, research by Andira & Ratnadi (2022), Natsir & Badera (2020), Sari & Hasnawati (2020), Indrawan *et al.* (2018), Sari (2017) indicates a negative effect on earnings management, while Zadeh *et al.* (2023) and Handoyo & Kusumaningrum (2022) found no significant effect. Sun *et al.* (2014), however, observed a positive effect of audit committees on earnings management.

Given these inconsistent findings, it is believed that other variables may influence the relationships between the dependent and independent variables. Consequently, this study introduces a moderating variable – auditor reputation – to examine its influence on the relationship between intellectual capital and audit committees on earnings management. Additionally, company size is considered as a control variable for non-cyclical consumer sector companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2022.

The Knowledge-Based View Theory posits that both internal and external resources of a company are instrumental in creating a competitive advantage that adds value to the company. This perspective aligns with Agency Theory, which holds that management, acting as the agent, is authorized by the principal or stakeholders to manage the company's resources with the goal of enhancing company performance. Agency Theory also posits that humans are inherently self-interested, have bounded rationality, and are risk-averse (Eisenhardt, 1989). Based on these views of human behavior, it is likely that management will engage in earnings management practices by leveraging and maximizing company resources. Research by Kalbuana *et al.*, (2020), Kartadjumena & Arnan (2019), Yang (2019), Wato & Tjhai (2016), Galdipour *et al.* (2014) supports that intellectual capital positively affects earnings management.

H₁: Intellectual capital has a positive effect on earnings management.

Agency Theory further suggests that management's interests may not always align with those of the company's owners, necessitating oversight mechanisms to ensure that management acts in the best interests of the owners. The audit committee, a critical body in corporate governance, plays a key role in restraining managerial behaviors that could lead to earnings management. This is achieved through the audit committee's oversight of financial reporting credibility and its role in minimizing fraud risks by company management (Harrast & Mason-Olsen, 2007). Studies by Andira & Ratnadi (2022), Natsir & Badera (2020), Sari & Hasnawati (2020), Indrawan *et al.* (2018), Sari (2017) have indicated that the audit committee negatively influences earnings management.

H₂: The audit committee has a negative effect on earnings management.

The Knowledge-Based View Theory underscores the importance of recognizing intellectual capital as a significant asset for companies. Knowledge, when effectively managed, enhances both company performance and asset value. Agency Theory elucidates that management, acting as the agent, is endowed with the authority by principals or stakeholders to utilize company resources to improve performance. This authority often drives management to use various means, including leveraging company resources, to project an enhanced image to stakeholders.

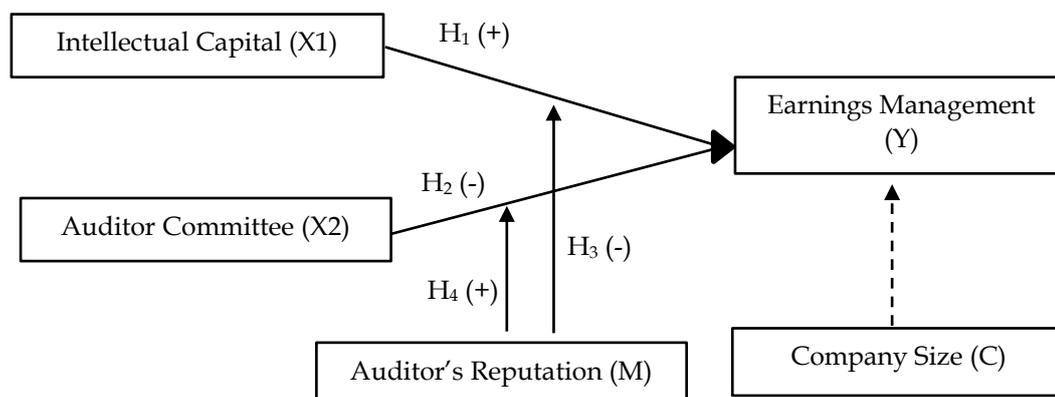
Jesika *et al.* (2015) highlight the critical role of auditors in issuing financial statement opinions, emphasizing their independence and responsibility. This

aligns with Owusu-Ansah's (1998) view that independent audit firms are accountable for the audit opinions they provide in annual and financial reports. Magnis dan Latridis (2017) assert that to prevent earnings management effectively and avoid legal risks, the Big Four auditors are compelled to maintain their independence and adhere strictly to audit and accounting standards, including the disclosure of information about intellectual capital in annual reports.

H₃: Auditor reputation weakens the influence of intellectual capital on earnings management.

Agency Theory also addresses the conflicts that arise between agents and principals due to differing personal interests. This theoretical framework aids auditors, as third parties, in understanding and managing conflicts of interest and information asymmetry. Auditors are tasked with providing unbiased financial statement opinions to serve all stakeholders equitably. Auditor reputation, whether associated with a Big Four or non-Big Four firm, plays a critical role in this context. Merawati (2014) posits that auditors with good reputations and independent audit committees effectively safeguard company interests and uphold audit quality by preventing management interference. Additionally, (Tisna & Suputra, 2017) suggest that the independence and expertise of audit committees in accounting and finance enhance their effectiveness in managing implications of auditor turnover post-audit opinion issuance. Consequently, the reputation and previous findings of an external auditor significantly influence the audit committee's decisions regarding the nomination of new auditors at the General Meeting of Shareholders.

H₄: Auditor reputation strengthens the influence of the audit committee on earnings management.



Source: Research Data, 2024

Figure 3. Research Conceptual Framework

RESEARCH METHODS

This study employed a quantitative associative method to examine the impact of intellectual capital and audit committees on earnings management, with auditor reputation serving as a moderator in non-cyclical consumer sector companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2022. Non-participant

observation was utilized for data collection. The research relied on secondary data, comprising a sample of 65 companies and totaling 196 observations, which were gathered using the purposive sampling technique.

The primary independent variable in this research is earnings management, defined as actions undertaken through accounting policy choices to achieve specific objectives (Scott, 2015). In this study, earnings management was quantified using the Modified Jones Model, which begins by calculating total accruals. These total accruals are then divided into discretionary and nondiscretionary components. The methodology for this calculation is detailed in the following steps:

Total accrual calculation as follows:

$$TAC_{it} = NI_{it} - CFO_{it} \dots\dots\dots (1)$$

Calculate the total accruals (TAC), which are estimated using the Ordinary Least Squares (OLS) regression equation. The equation is as follows:

$$\frac{TAC_{it}}{TA_{it-1}} = \beta_1 \left(\frac{1}{TA_{it-1}} \right) + \beta_2 \left(\frac{\Delta REV_{it}}{TA_{it-1}} \right) + \beta_3 \left(\frac{PPE_{it}}{TA_{it-1}} \right) + \varepsilon \dots\dots\dots (2)$$

Next, calculate nondiscretionary accruals (NDA) using the regression coefficients obtained from the model. The calculation procedure is as follows:

$$NDA_{it} = \beta_1 \left(\frac{1}{TA_{it-1}} \right) + \beta_2 \left(\frac{\Delta REV_{it} - \Delta REC_{it}}{TA_{it-1}} \right) + \beta_3 \left(\frac{PPE_{it}}{TA_{it-1}} \right) \dots\dots\dots (3)$$

Discretionary accruals (DA) are calculated as the residual obtained from estimating total accruals. The calculation process is as follows:

$$DA_{it} = \left(\frac{TAC_{it}}{TA_{it-1}} \right) - NDA_{it} \dots\dots\dots (4)$$

The first independent variable in this study is intellectual capital. Intellectual capital comprises the set of resources a company possesses that are aimed at enhancing performance and future economic benefits. It is measured using the Value Added Intellectual Coefficient (VAICTM), which is derived from three components: value-added physical capital (VACA), value-added human capital (VAHU), and structural capital value-added (STVA). This tripartite model, introduced by Pulic (1998), combines these components to quantify the overall intellectual capital. The formula for the VAICTM method is as follows:

$$VAICTM = VACA + VAHU + STVA \dots\dots\dots (5)$$

The VAICTM calculation stages are:

Calculate value added (VA) using the formula:

$$VA = OUT - IN \dots\dots\dots (6)$$

Calculate VACA using the formula:

$$VACA = \frac{VA}{CE} \dots\dots\dots (7)$$

Calculate VAHU using the formula:

$$VAHU = \frac{VA}{HC} \dots\dots\dots (8)$$

Calculate STVA using the formula:

$$STVA = \frac{SC}{VA} \dots\dots\dots (9)$$

The second independent variable in this study is the audit committee. According to Financial Services Authority Regulation Number 55/Pojk.04/2015, the audit committee is an entity established by the board of commissioners. It functions professionally and independently to support and enhance the board's

capacity to oversee the company’s financial reporting processes, risk management, audit implementation, and corporate governance. Members of the audit committee are required to have expertise in finance or accounting, a stipulation that bolsters the committee’s effectiveness in interpreting financial reports and supervising management. This expertise allows members to grasp the complexities of financial reporting, actively participate in discussions with relevant stakeholders, and safeguard shareholders' interests. The effectiveness of the audit committee is measured using the following formulas proposed by (Andira & Ratnadi, 2022):

$$KA = \frac{\text{The number of independent audit committee members with financial literacy in accounting}}{\text{Total number of audit committee}} \times 100\% \dots\dots\dots(10)$$

Auditor reputation reflects the quality of a company's audit, which encompasses the auditors' ability to detect and report material misstatements in financial statements while adhering to professional ethics and audit regulatory standards. Arsih & Anisyukurillah (2015) suggest that the size of a public accounting firm (KAP) indicates its capacity, with larger firms generally producing higher quality audits. Auditor reputation is assessed based on whether the public accounting firm (KAP) associated with the company is a Big Four or non-Big Four, observed over three consecutive years. This measurement employs a dummy variable to represent the size of the public accounting firm: Dummy = 1 for companies whose financial statements are audited by Big Four KAPs, and Dummy = 0 for those audited by non-Big Four KAPs.

Company size is used as an indicator of a company's wealth. According to Murhadi (2013), all assets owned by a business are converted into their natural logarithmic form to measure the company's size. This conversion to the natural log of total assets is utilized to moderate data fluctuations and simplify the representation of assets that can range into the hundreds of billions or even trillions, without altering the proportion of asset quantities. The formula for this calculation is as follows:

$$SIZE = \text{Ln of Total Asset} \dots\dots\dots(11)$$

The research data were processed using the Statistical Program for Social Sciences (SPSS) software and analyzed through moderated regression analysis (MRA). The application of MRA in this study aims to analyze and test the influence of independent variables on the dependent variable. The equation for the MRA analysis is as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 M + \beta_4 X_1 M + \beta_5 X_2 M + \beta_6 C + \varepsilon \dots\dots\dots(12)$$

Explanation:

- Y = Earnings Management
- α = Constant
- β₁ = The regression coefficient for intellectual capital
- β₂ = The regression coefficient Audit Committee
- β₃ = The regression coefficient for Auditor Reputation
- β₄ = The regression coefficient for the interaction of IC with Auditor Reputation
- β₅ = The Regression coefficient for the interaction of AC with Auditor Reputation

- β_6 = The Regression coefficient for Company Size
 X_1 = *Intellectual Capital*
 X_2 = Audit Committee
 C = Company Size
 M = Auditor Reputation
 X_1M = Interaction between Intellectual Capital and Auditor Reputation
 X_2M = Interaction between Audit Committee and Auditor Reputation
 ε = Error term

RESULTS AND DISCUSSION

Descriptive statistical test in this research is used to analyze data with the aim of obtaining information regarding the characteristics of variables, namely earnings management, intellectual capital, audit committee, auditor reputation, and company size, in terms of the number of observations of the minimum, maximum, average, and standard deviation values. The results of the descriptive statistical analysis can be seen in Table 1.

Table 1. Statistic Descriptive

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Earnings Management	196	-0.186	-0.099	-0.142	0.017
Intellectual Capital	196	-1.864	90.778	17.205	11.147
Audit Committee	196	0.250	0.670	0.543	0.162
Auditor Reputation	196	0.000	1.000	0.500	0.501
Company Size	196	25.332	32.826	29.017	1.651
Valid N (listwise)	196				

Source: Research Data, 2024

The descriptive statistical analysis presented in Table 1 reveals several key findings. Firstly, regarding the variable of earnings management, the minimum value is -0.186 for PT Wicaksana Overseas International Tbk (WICO), while the maximum value is -0.099 for PT Mustika Ratu Tbk (MRAT). The average value stands at -0.142, falling below 0.017, indicating an uneven distribution among the research samples. Secondly, for the variable Intellectual Capital, PT Estika Tata Tiara Tbk (BEEF) records the minimum value of -1.864, whereas PT Astra Agro Lestari Tbk (AALI) exhibits the maximum value of 90.778. The average value is 17.205, with a standard deviation of 11.147. Thirdly, in the case of the Audit Committee variable, Mandom Indonesia (TCID) Tbk reports the minimum value of 0.250, while Eagle High Plantations Tbk (BWPT) demonstrates the maximum value of 0.670. The average value is 0.543, with a standard deviation of 0.162. Fourthly, Auditor reputation is measured using a dummy variable, with a maximum value of 1 and a minimum value of 0, yielding an average value of 0.500. Lastly, for Company size, PT Prima Cakrawa Abadi Tbk (PCAR) registers the minimum value of 25.332, while Indofood Sukses Makmur Tbk (INDF) records the maximum value of 32.826. The average value is 29.017, with a standard deviation of 1.651. Notably, the variables of intellectual capital, audit committee, and company size exhibit average values greater than their respective standard deviations, indicating a uniform distribution among the research samples.

The Kolmogorov-Smirnov test is used in order to ascertain whether the data were normal. The resulting asymptotic significance (two-tailed) alue was 0.200, indicating a normal distribution as it exceeded the significance threshold of 0.05. The heteroscedasticity test was conducted using the Glejser test, revealing no heteroscedasticity, as the significance values for intellectual capital, audit committee, auditor reputation, interaction auditor reputation, intellectual capital, interaction auditor reputation, audit committee, and company size were above the 0.05 threshold. Finally, the absence of autocorrelation was confirmed through a run test, with an asymptotic significance (two-tailed) of 0.390 surpassing the 0.05 significance level.

Table 2. Moderated Regression Analyze

Model	Unstandardized		Standardized.	T	Sig..
	Coefficients B		Coefficients		
	B	Std. Error.	Beta.		
(Constant)	-0.145	0.017		-8.466	0.000
X1	0.010	0.000	0.445	8.361	0.000
X2	-0.014	0.006	-0.135	-2.499	0.013
M	-0.021	0.002	-0.605	-9.773	0.000
X1.M	0.001	0.000	0.083	0.937	0.350
X2.M	-0.006	0.005	-0.098	-1.069	0.286
C	0.003	0.001	-0.032	0.032	0.591
Adjusted R Square	0.527				
Sig. F	0.000				

Source: Research Data, 2024

From the results of the moderated regression analysis (MRA), the regression equation obtained is as follows:

$$Y = -0.145 + 0.001X_1 - 0.014X_2 - 0.021M + 0.001X_1M - 0.006X_2M + 0.003C + e$$

The constant value of -0.145 elucidates that if intellectual capital (X1), audit committee (X2), auditor reputation (M), the interaction between intellectual capital and auditor reputation (X1.M), the interaction between the audit committee and auditor reputation (X2.M), and company size (C) are all valued at zero, then earnings management (Y) will be valued at -0.145 units.

The first hypothesis (H1) examines the influence of intellectual capital on earnings management. The results of the moderated regression analysis indicate that intellectual capital yields a significant level of 0.000, which is smaller than the significance level of 5 percent ($0.000 < 0.05$). This suggests that intellectual capital indeed influences earnings management. The regression coefficient of intellectual capital is 0.001, signifying a positive direction. Thus, the greater the intellectual capital a company possesses, the more likely managers are to engage in earnings management practices. Consequently, the first hypothesis (H1) is upheld.

These findings align with the Knowledge-Based View Theory, which posits that knowledge, in its various forms, is a crucial resource for companies to attain long-term competitive advantages (Grant, 1991). Leveraging their competitive advantage, companies may find it easier to engage in earnings management, ultimately impacting their future market performance (Wato & Tjhai, 2016). The study's outcomes suggest that certain companies in the non-cyclical consumer sector leverage and enhance their intellectual capital to achieve predetermined profit targets. In pursuit of these objectives, these companies resort to earnings

management to maintain their corporate image and uphold shareholder trust. This is particularly crucial as future stock returns constitute a primary concern for investors holding shares.

The second hypothesis (H2) delves into the influence of the audit committee on earnings management. The results of the moderated regression analysis reveal that the audit committee yields a significant level of 0.013, which is lower than the significance level of 5 percent ($0.013 < 0.05$). This suggests that the audit committee indeed influences earnings management. The regression coefficient of the audit committee is -0.014, indicating a negative direction. Thus, the presence of the audit committee tends to restrain managers from engaging in earnings management practices. Consequently, the second hypothesis (H2) is supported.

These findings align with Agency Theory, which posits that management and company owners have divergent interests, necessitating oversight mechanisms such as the audit committee to ensure that management acts in the owners' best interests (Tambunan & Tambunan, 2021). Hence, the presence of the audit committee plays a pivotal role in fostering good corporate governance, as it is tasked with ensuring the credibility of financial reporting and mitigating the risk of fraud by company management (Harrast & Mason-Olsen, 2007).

The third hypothesis (H3) explores the moderated effect of auditor reputation on the influence of intellectual capital on earnings management. However, the results of the moderated regression analysis indicate that the interaction between intellectual capital and auditor reputation yields a significant level of 0.350, surpassing the significance level of 5 percent ($0.350 > 0.05$). This suggests that the interaction of auditor reputation does not have the ability to influence intellectual capital. Consequently, the third hypothesis (H3) is not supported.

The disclosure of the research results fails to establish a clear link with Agency Theory, which posits that management, as the agent, is entrusted by the principal or interested parties to manage company resources with the aim of enhancing company performance. The pursuit of favorable performance may drive management to employ various methods, including leveraging company resources, to portray the company positively to stakeholders. This study reveals that several companies in the non-cyclical consumer sector changed their external auditors in the previous year. For instance, companies like PT Estetika Tata Tiara Tbk (BEEF) and Tigaraksa Satria Tbk (TGKA) switched their external auditors from being affiliated with Big-Four public accounting firms to non-Big-Four ones. Conversely, companies like PT FKS Food Sejahtera Tbk (AISA) and PT Sreeya Sewu Indonesia Tbk (SIPD) transitioned from non-Big-Four public accounting firms to Big-Four ones. Such changes in external auditors can impact the audit opinion of the company (Tisna & Suputra, 2017). These findings contradict the assertions of Jesika et al., (2015) regarding the critical role of auditors in providing opinions concerning the independence and responsibility of auditors in stating an opinion on financial statements. This is because financial statements audited by external auditors in the previous period may have undergone earnings management without being detected in the current period. The reason for the rejection of the third hypothesis is the presence of other factors outside the scope

of the study that influence the interaction between auditor reputation and intellectual capital on earnings management, such as auditor switching (Pratama & Sudiyatno, 2022).

The fourth hypothesis (H4) explores the moderated effect of auditor reputation on the influence of the audit committee on earnings management. However, the results of the moderated regression analysis indicate that the interaction between the audit committee and auditor reputation yields a significant level of 0.286, exceeding the significance level of 5 percent ($0.286 > 0.05$). This suggests that the interaction of auditor reputation does not have the ability to influence the audit committee. Therefore, the fourth hypothesis (H4) is not supported.

The disclosure of the research results fails to confirm a connection with Agency Theory, which posits that Agency Theory assists auditors as third parties in understanding conflicts of interest and addressing issues related to information asymmetry between agents and principals. These results contradict the ideas of Merawati (2014). The role of the audit committee includes nominating and recommending the appointment, dismissal, and/or replacement of external auditors to the board of commissioners. In this study, several companies changed their external auditors. There are various reasons why companies change their external auditors, such as dissatisfaction with the auditor's fees in the audit opinion provided (Lennox, 2000). Disagreements between client companies and the audit opinion, whether previous or forthcoming, can lead to one party's withdrawal (Calderon & Ofobike, 2007). Therefore, the opinion or findings of the previous external auditor and a good auditor reputation will influence the audit committee in recommending or nominating a new external auditor in the General Meeting of Shareholders (RUPS).

The moderation nature in this study is the predictor moderation variable, where the moderation variable only serves as a predictor (independent variable) and does not moderate the relationship in the established model (Utama, 2016). This can be observed in the regression analysis results, where auditor reputation has a significant negative effect on earnings management but does not moderate the relationship between intellectual capital and the audit committee on earnings management.

CONCLUSION

The conclusions drawn from this research empirically indicate that intellectual capital has a positive influence on earnings management, while the audit committee has a negative influence on earnings management. Additionally, auditor reputation does not moderate the effects of intellectual capital and the audit committee on earnings management. Recommendations that can be applied to third-party stakeholders such as creditors, investors, and potential investors include paying attention to the company's corporate governance structure, its resources, and its historical profits or losses to ensure that the expected return matches their expectations. This research has limitations, specially it is unable to prove the auditor's reputation variable as a moderator. For future research, it is suggested to expand the study to other sectors and include the influence of other

factors as moderators of the effects of intellectual capital and the audit committee for diverse outcomes.

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