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## THE EFFECT OF MANAGERIAL OWNERSHIP AND AUDIT COMMITTEE ON EARNINGS MANAGEMENT WITH FIRM SIZE AS A MODERATING VARIABLE IN PRIVATE BANKS LISTED ON THE INDONESIA STOCK EXCHANGE

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### ABSTRACT

This study is aimed at testing and analysing the influence of managerial ownership and the audit committee on earnings management with firm size as a moderation variable in private banks listed on the Indonesia Stock Exchange during the 2018-2022 period. Sample selection was carried out using the purposive sampling method. The data used is secondary data obtained from [www.idx.co.id](http://www.idx.co.id) website. Data analysis was carried out by calculating the PLS Algorithm using SmartPLS and then hypothesis testing was carried out. The results show that company size is able to moderate the influence of managerial ownership on profit management, while managerial ownership and the audit committee have no effect on profit management, and company size is not able to moderate the influence of the audit committee on profit management. This study contributes to the corporate governance literature by providing empirical evidence regarding the role of firm size as a significant moderating variable, specifically strengthening the influence of managerial ownership on earnings management—a finding that challenges the conventional view in agency theory.

**KEYWORDS:** EARNINGS MANAGEMENT, MANAGERIAL OWNERSHIP, AUDIT COMMITTEE, FIRM SIZE

### ABSTRAK

Kajian ini bertujuan untuk menguji dan menganalisis pengaruh kepemilikan pengurusan dan jawatankuasa audit terhadap pengurusan pendapatan dengan saiz firma sebagai pembolehubah moderasi dalam bank swasta yang disenaraikan di Bursa Saham Indonesia sepanjang tempoh 2018-2022. Pemilihan sampel dijalankan menggunakan kaedah persampelan bertujuan. Data yang digunakan adalah data sekunder yang diperolehi daripada laman web [www.idx.co.id](http://www.idx.co.id). Analisis data dijalankan dengan mengira Algoritma PLS menggunakan SmartPLS dan kemudian pengujian hipotesis dijalankan. Keputusan menunjukkan bahawa saiz syarikat mampu menyederhanakan pengaruh kepemilikan pengurusan terhadap pengurusan keuntungan, manakala kepemilikan pengurusan dan jawatankuasa audit tidak mempunyai kesan terhadap pengurusan keuntungan, dan saiz syarikat tidak mampu menyederhanakan pengaruh jawatankuasa audit terhadap pengurusan keuntungan. Kajian ini menyumbang kepada literatur tadbir urus korporat dengan menyediakan bukti empirikal mengenai peranan saiz firma sebagai pembolehubah moderasi yang signifikan, khususnya

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mengukuhkan pengaruh pemilikan pengurusan terhadap pengurusan pendapatan—satu penemuan yang mencabar pandangan konvensional dalam teori agensi.

*KATA KUNCI: MANAJEMEN LABA, KEPEMILIKAN MANAJERIAL, KOMITE AUDIT, UKURAN PERUSAHAAN*

## 1. INTRODUCTION

Earnings management research is essential to determine whether companies still practice manipulating profits (Wiyadi *et al.*, 2017). The number of cases related to earnings management in financial reports has led to a decrease in public confidence in the quality of auditors (Maulidah & Santoso, 2020). Management activities hurt investors and creditors and impact company owners (Jao & Pagalung, 2011). Earnings management is likely due to the lack of good company management. Further, several cases related to earnings management always occurs in Indonesian banking companies. The case that hit Bank Century involved management engineering financial reports so that the company showed appropriate capital. In addition, this was done to obtain rescue funds from the Minister of Finance, Sri Mulyani (Ariesanti, 2015). As of January 28, 2008, it turned out that Bank Century's capital was allegedly 132.5%. Bank Indonesia (BI) does not allow eliminating 100% related to securities (Oktariani & Africano, 2017).

Earnings management practices carried out by management are not included in the category of fraud if the manager's behavior is still within the scope of selecting accounting methods and principles in line with Generally Accepted Accounting Principles (GAAP). Earnings management practices have 2 (two) different views, namely negative views and optimistic views. However, earnings management more often prioritizes situations or conditions where managers compile profit figures in financial reports for personal and company interests. Company managers use a profit management system to estimate company profits in management practices by applicable accounting standards (Fandriani & Tanjung, 2019). Phenomena related to earnings management tend to occur directly or indirectly due to errors or negligence on the part of financial management and are influenced by internal and external factors (Astari & Suputra, 2019).

Companies engaged in the banking subsector are the objects of this study. Banking companies are one of the subsectors that play an active role in the Indonesian capital market. Banking subsector companies have different characteristics than other companies; these companies have strict regulations, especially in determining whether a bank is healthy. Bank Indonesia: A bank must meet the minimum Capital Adequacy Ratio (CAR) when presenting financial reports. Thus, management has the initiative to implement profit management practices so that the company meets the standards required by Bank Indonesia. One of the factors that can influence earnings management actions is managerial Ownership. Gideon (Pramesti & Budiasih, 2017) stated that managerial ownership is the number of shares owned by company management. The motivation of company management to carry out earnings management practices will vary, such as management as shareholders and management that is not a shareholder. The greater the amount of managerial ownership, the more earnings management practices can be minimised so that supervision in the company can be improved (Astari & Suryanawa, 2017). Research conducted by Febria (2020) stated that managerial ownership positively affects earnings management. Managerial ownership has a positive value which indicates that for every one unit increase in managerial ownership, earnings management will increase or it can be interpreted that the higher the managerial ownership, the higher the earnings management actions will be or vice versa. This result needs to be consistent with research by Gunarti (2015), Utari and Sari (2016), and Aryanti *et al.* (2017), which show that managerial ownership hurts earnings management. On the other hand, according to research by Almalita (2018), Pradipta (2019), Sebastian, and Handojo (2019), managerial ownership does not affect earnings management practices.

According to (Perdana, 2019), the audit committee is established by the board of commissioners. It has the task of objectively presenting financial reports, examining internal controls and corporate risk management, and determining the adequacy of independent and internal audits. An audit committee in

a company is expected to detect practices contrary to the principle of information transparency and minimize the occurrence of earnings management actions. The existence of an audit committee that plays a role in overseeing financial reports can help avoid fraudulent actions that the company may plan. The audit committee is also tasked with overseeing the accounting rules implemented by the company and ensuring that all reports comply with accounting standards. The existence of an audit committee is considered an essential element because it can monitor the actions of company management. With a large number of audit committees, the supervision of management is increasingly stringent (Yuliani & Prastiwi, 2021). Research by Palestine (2006) and Sanjaya (2008) proves that the audit committee does not affect earnings management.

Another factor that is considered to influence earnings management practices is firm size. According to (AA *et al.*, 2017), firm size is a classification of the form of a company into a company that has a large size and a small size. Two views were obtained regarding firm size towards earnings management. The first view is that small companies carry out more earnings management actions than large companies. This happens because small companies want to show the company's condition, which is always good, with the aim that investors will invest their capital. The second view is that large companies will be more careful in submitting financial reports because the public will notice them more, so companies will be more careful in reporting their conditions.

Several studies related to managerial ownership, audit committees, and firm sizes were conducted using various models and different research methods (Putri & Sofian, 2013; Gunarti, 2015; Panjaitan, 2019). Explained selectively, a work by Putri and Sofian (2013) stated that managerial ownership and firm size have a significant positive effect on earnings management, while the audit committee has a significant negative relationship with earnings management.

This study differs from previous studies by using Firm Size as a moderating variable on earnings management as a dependent variable. The second thing distinguishing this study from other studies is the data analysis method, where researchers use regression analysis with the PLS approach, while most previous studies use multiple linear regression analysis. This study is expected to provide new contributions in terms of adding insight and knowledge using methods that have never been used before. Therefore, this study aims to formulate the problem of how managerial ownership and audit committee influence earnings management with firm size as a moderating variable with the aim of the study to determine the influence of managerial ownership, audit committee on earnings management with firm size as a moderating variable. The benefits of the study are that it provides benefits and contributes to the development of the theory of earnings management practices.

Despite numerous previous studies, the results of studies on the influence of managerial ownership and audit committees on earnings management remain inconsistent. Previous studies often focused on the non-financial industry or state-owned banks (Gunarti, 2015; Panjaitan, 2019). This study attempts to fill this gap by focusing on private banks in Indonesia, which have unique regulatory characteristics and ownership structures, to confirm the validity of existing theories. Academically, this study aims to develop an understanding of Agency Theory by examining the role of firm size as a moderating variable. This approach is necessary to provide a more comprehensive understanding of the contextual conditions (i.e., the bank's scale of operations) that make GCG mechanisms effective in mitigating the risk of earnings management.

## **2. LITERATURE REVIEW**

### *Earnings Management*

Earnings management is a management action that chooses an accounting policy from a certain standard to influence the profit that will occur as they wish through the management of internal factors owned or used by the company (Ekasiwi, 2012). According to Healy and Wahlen (1999), earnings management occurs when managers use judgment in financial reporting and transaction structures to change financial statements to mislead shareholders about the company's economic performance or influence the consequences of agreements related to the figures reported in the

financial statements. Earnings management actions carried out by managers cause low-profit quality because they do not correspond to the existing facts. This earnings management provides false economic benefits to the company so that in the long term, it will be very disruptive and even dangerous to the company (Merchant & Rockness, 1994).

#### *Managerial Ownership*

Managerial ownership is the proportion of shareholders from management who actively participate in corporate decision-making, such as directors and commissioners (Pujiati & Widanar, 2007). Fuerst and Kang (in Wahyudi and Pawestri, 2006) found a positive relationship between insider ownership and market value after controlling for corporate performance. According to Cho (in Ruan *et al.*, 2009), managerial ownership affects investment and firm value, and according to Denis and Mc, managerial and institutional ownership support agency explanations (Cheng & King, 2009). Connell (in Ruan *et al.*, 2009), the influence of managerial ownership on firm value has attracted particular research in corporate finance literature. Increasing managerial ownership from the lower level helps to connect the interests of insiders and shareholders and leads to better decision-making, resulting in higher firm value (Ruan *et al.*, 2009).

#### *Audit Committee*

In carrying out its supervisory function, the board of commissioners is assisted by several committees, one of which is the audit committee. With an audit committee that runs effectively, commissioners can improve the quality of financial reporting. The duties of the audit committee, as stated in Bank Indonesia regulation number 8/4/PBI/2006 concerning the implementation of good corporate governance for commercial banks, are to monitor and evaluate the planning and implementation of audits and monitor the follow-up of audit results in order to assess the adequacy of internal control including the adequacy of the financial reporting process. The audit committee oversees the accounting rules implemented by the company and ensures that all reports are by accounting standards.

#### *Firm Size*

Firm size is a comparison of the smallness or size of a company, so it can describe the company's performance (Siti & Zulaikha, 2019). There are various ways to group company size, including total assets, log size, total sales, stock market value, etc. The size of a company can affect its ability to bear any risks that may occur from various situations that the company will face. Large companies bear lower risks than small companies. This is because large companies have better control over market conditions to increase their ability to compete in the market. Not only that, large companies have more resources than small companies to maximize the company's value and gain good access to external information (Zakia *et al.*, 2019).

#### Hypotheses

##### *The Influence of Managerial Ownership on Earnings Management*

Ownership is a form of commitment from shareholders to delegate control at a certain level to managers. One factor that can influence earnings management actions is managerial ownership. The greater the amount of managerial ownership, the more earnings management practices can be minimized so that supervision in the company can be improved. These results are inconsistent with research by Gunarti (2015), Utari and Sari (2016), and Aryanti *et al.* (2017), which showed that managerial ownership negatively impacts earnings management. Conversely, research by Almalita (2018), Pradipta (2019), and Sebastian and Handojo (2019) found that managerial ownership does not affect earnings management practices.

H<sub>1</sub>: Managerial ownership positively affects profit management in private banks listed on the Indonesia stock exchange for the 2018-2022 periods.

*The Influence of the Audit Committee on Earnings Management*

An audit committee in a company is expected to detect practices contrary to the principle of information transparency and minimize the occurrence of earnings management actions. The existence of an audit committee that plays a role in overseeing financial reports can help avoid fraudulent actions that the company may plan. The audit committee is also tasked with overseeing the accounting rules implemented by the company and ensuring that all reports are by accounting standards. If the quality and characteristics of the audit committee can be achieved, then the transparency of the company's management accountability can be trusted, thereby increasing the trust of capital market players. In addition, the audit committee's responsibility to protect the interests of minority shareholders can convince investors to entrust their investments to the company. This is supported by research conducted by Agustia (2013), which found that audit committees have no significant effect on earnings management. Research conducted by Palestine (2006) and Sanjaya (2008) also demonstrated that audit committees have no effect on earnings management.

H<sub>2</sub>: The audit committee positively affected profit management in private banks listed on the Indonesia stock exchange from 2018 to 2022 periods.

*The Effect of Managerial Ownership on Earnings Management with Firm Size as a Moderating Variable*

Managerial investors responsible for the company's operations are considered incapable of changing the company's size and increasing the company's assets. Managerial ownership has a positive value, indicating that every increase in one unit of managerial ownership will increase earnings management. It can be interpreted that the higher the managerial ownership, the higher the earnings management action will be, or vice versa. Firm size is a classification of a company's form into a large size and a small size. In large companies, tighter internal control mechanisms and external monitoring (such as independent auditors) can reduce the incentive to engage in earnings management, even though managerial ownership is high. Therefore, firm size can moderate the effect of managerial ownership on earnings management. This is supported by research conducted by Anggraeni & Hadiprajitno (2013), which found that company size negatively impacts earnings management, meaning that larger companies tend to engage in less earnings management due to tighter oversight. Research conducted by Carolin, Rahman & Susilo (2022) shows that both variables (managerial ownership and company size) jointly impact earnings management. Saputri & Buwana (2024) found that company size significantly impacts earnings management, with larger companies facing greater pressure from investors and market analysts.

H<sub>3</sub>: Firm size can moderate the influence of managerial ownership on profit management in private banks listed on the Indonesia stock exchange for the 2018-2022 periods.

*The Influence of Audit Committee on Earnings Management with Firm Size as a Moderating Variable*

Firm size determines the size of the total assets owned by the company. Larger total assets of the company will increase the company's productivity. The existence of an audit committee is an important factor in maintaining the integrity of financial statements, both for large and small companies. This shows that the role of the audit committee in preventing earnings management is consistent across various firm sizes. An influential audit committee is expected to reduce management's incentives to manipulate earnings in large and small companies. Therefore, firm size can moderate the influence of the audit committee on earnings management. This is supported by research conducted by Putri and Pohan (2023). The results of the study showed that company size had no effect on earnings management, but the audit committee strengthened the influence of profitability and leverage on earnings management. The results of research conducted by Annabella and Susanto (2022) showed that company size as a moderating variable was proven to weaken or strengthen the relationship depending on the scale and complexity of the company. This is very relevant as a basis for your research hypothesis. Clara *et al.* (2022) showed that the audit committee was able to moderate the effect of leverage on earnings management, indicating that the existence of an effective audit committee can control opportunistic management behavior, especially in companies with high debt.

H<sub>4</sub>: Firm size can moderate the influence of the audit committee on profit management in private banks listed on the Indonesia stock exchange for 2018-2022 periods.

### 3. METHODOLOGY

The data used in this study are secondary data from the annual financial reports of private bank sub-sector companies listed on the Indonesia stock exchange (IDX) in 2018-2022. The data collection method in this study is quantitative. Quantitative research methods examine specific populations or samples, use research instruments to obtain data and analyze data statistically/quantitatively to test the established hypothesis (Sugiyono, 2018). The sampling used purposive sampling, which is deliberate sampling according to the requirements or criteria of the required sample. The sampling criteria in this study are as follows: 1) Companies that provide financial reports audited by independent auditors on the Indonesia stock exchange (IDX) during the 2018-2022 period. 2) Banking companies that are listed as private banks during the 2018-2022 periods. 3) Banking companies with managerial ownership during the 2018-2022 periods. This requirement is determined because to determine the value of managerial ownership, company management must own company shares. Data were obtained from published data from the Indonesia stock exchange (IDX). The operationalisation of the variables used is the independent variable (free) and the dependent variable (bound). The sample companies are 47 private bank companies, and those that meet the criteria are 12 companies with 60 research data.

#### *Operational Definition*

Operational definitions are used to avoid differences in interpretation and misunderstandings related to the variables studied. The following variables are employed in this study:

a. Managerial Ownership (X1)

Managerial stock investment is one of the determinants of a company's capital structure. Managerial ownership is the proportion of management shareholders who actively participate in company decision-making, such as directors and commissioners (Pujiati and Widanar, 2007).

b. Audit Committee (X2)

In carrying out its supervisory function, the board of commissioners is assisted by several committees, one of which is the audit committee. With an effective audit committee, the board of commissioners can improve the quality of financial reporting. The audit committee's duties, as outlined in Bank Indonesia Regulation Number 8/4/PBI/2006 concerning the Implementation of Good Corporate Governance for Commercial Banks, include monitoring and evaluating audit planning and implementation, as well as monitoring follow-up actions on audit results to assess the adequacy of internal controls, including the adequacy of the financial reporting process.

c. Earnings Management (Y)

Earnings management is a management action to select accounting policies based on certain standards to influence the resulting earnings to be as desired by managing internal factors owned or used by the company.

d. Company size (Z)

Company size is the size of a company, as measured by its total assets, which in turn influences the company's social performance in achieving its goals.

#### *Data Analysis Methods*

The data analysis method used was a two-stage approach using the SmartPLS application. The two-stage approach is a method used to test moderation effects using formative constructs. There are two stages of testing using the two-stage approach, namely (Ghozali, 2021):

a. Stage 1: Testing the main effects of the PLS model to obtain latent variable scores. These latent variable scores are then calculated and stored for further analysis.

b. Stage 2: Creating an interaction term by multiplying the scores of the exogenous and moderator latent variables and then regressing them as an interaction term against the endogenous variable.

*Descriptive Statistical Analysis*

Descriptive statistical analysis is a descriptive technique that provides information about the data owned and does not intend to test the hypothesis. The measurements used in this Study are mean, standard deviation, maximum, and minimum. Mean is used to find the average of the data concerned. Standard deviation determines how much the data concerned varies from the average. Maximum is used to find the most significant amount of data concerned. Minimum is used to find the smallest amount of data concerned.

*PLS Model Evaluation*

This study considers outer model evaluation, also called measurement model evaluation, is carried out to assess the validity and reliability of the model. For formative constructs, there is no need to conduct validity and reliability testing, so structural model estimation is carried out directly (Ghozali, 2021). Furthermore, inner model testing is considered as follows:

**R-Square**

The inner model's R-squared value is examined. This is a goodness-fit test of the model, with the basis for decision-making as follows (Ghozali, 2021). The R-squared result of 0.33 - 0.67 is included in the moderate category, and if the result is 0.19 - 0.33, it is included in the weak category (Ghozali, 2014).

**Hypothesis Testing**

The inner model also has a significance test (Path Coefficients). There are provisions in the significance test that can be seen from the parameter coefficient value (original sample) and the significance value of the *t*-value or *p*-value. To see the direction of positive or negative influence between variables, see the original sample column. The basis for decision-making for the significance test is (Ghozali, 2021): a) If *p*-value < 0.05, it has a significant effect. b) If *p*-value > 0.05, it has no significant effect.

**4. RESULTS AND DISCUSSION**

Private banks are banks owned and managed by private parties, not the government. Private banks generally offer more flexibility in decision-making and innovation in banking products and services. Fierce competition among private banks encourages them to continuously innovate and improve service quality. Good corporate governance is crucial for private banks. Aspects such as ownership structure, the role and direction of the board of commissioners, and the existence of an audit committee influence earnings management practices. This study uses data from public companies listed on the Indonesia stock exchange. The research object used is the annual report of private banks from 2018 to 2022. There were 47 companies in the banking sector listed on the IDX from 2018 to 2022. After sampling using the purposive sampling technique, 12 companies were obtained that were eligible to be research objects. Consequently, the total annual reports of companies sampled in this study were 60 annual reports of banking companies for 5 years from 2018 to 2022.

*Descriptive Statistical Analysis*

**TABLE 1: DESCRIPTIVE STATISTICS**

<b>Indicators</b>	<b>N</b>	<b>Min</b>	<b>Max</b>	<b>Mean</b>	<b>Standard Deviation</b>
Managerial ownership (X1)	60	0.000	26,535	3,708	6,522
Audit committee (X2)	60	0.25	1,667	0.573	0.225
Company size (Z)	60	28,945	34,812	31,677	1.51
Earnings management (Y)	60	-0.743	0.382	-0.049	0.23

Source: Table by Authors

1. The minimum value of managerial ownership is 0.000, with a maximum value of 26.535. The average managerial ownership is 3.708, with a standard deviation of 6.522, indicating high variation in managerial ownership across firms.

2. The audit committee's minimum value is 0.25, with a maximum value of 1.667. The average is 0.573, with a standard deviation of 0.225, indicating that most companies have similar audit committee compositions. This may reflect regulatory compliance or common corporate governance practices.
3. The minimum firm size value is 28.945, with a maximum value of 34.812. The average firm size is 31.677, with a standard deviation of 1.51. The standard deviation value of 1.51, which is lower than the average value of the variable, illustrates that the data in the research sample for the firm size variable is quite varied.
4. The minimum value of earnings management is -0.743, with a maximum value of 0.382. The average is -0.049, with a standard deviation of 0.23, indicating considerable variation in earnings management practices across firms.

The R-Square value for this study's earnings management variable (Y) is 0.165. This value explains that the percentage of earnings management can be explained by the independent research variable of 16.5%, while the remaining 83.5% is influenced by other variables that are not the focus of this Study. The R<sup>2</sup> result of 0.165 for the endogenous latent variable in the structural model indicates that the influence of exogenous variables (which influence) on endogenous variables (which are influenced) is included in the weak category.

**TABLE 2: HYPOTHESES TESTING**

Pathway	Original sample	Sample mean	Standard deviation	t-value	p-value
Managerial ownership(X1) ==> Earnings management (Y)	- 0.436	-0.384	0.356	1.222	0.222
Audit committee (X2) ==> Earnings management (Y)	0.025	0.022	0.212	0.118	0.906
Firm size (Z) x managerial ownership(X1) ==> Earnings management (Y)	- 1,064	- 0.97	0.487	2.183	0.029*
Firm size (Z) x audit committee (X2) ==> Earnings management (Y)	0.022	0.033	0.17	0.129	0.898

Source: Table by Authors

When Table 2 is examined, it can be seen that firm size in moderating the influence of managerial ownership on earnings management has a *p*-value < 0.05 and *t*-statistics > 1.96, which means it has a positive relationship. While the influence of managerial ownership on earnings management, audit committee on earnings management, and firm size in moderating the influence of audit committee on earnings management has a *p*-value > 0.05, *t*-statistics < 1.96 means it has no effect.

## 5. DISCUSSION

### *The Influence of Managerial Ownership on Earnings Management*

Ownership represents a commitment from shareholders to delegate a certain level of control to managers. One factor that can influence earnings management is managerial ownership. The greater the amount of managerial ownership, the more likely earnings management practices can be minimized, thereby improving oversight within the company. This study results show that managerial ownership's influence on profit management has a significant value.0.222 greater than 0.05, thus indicating that managerial ownership has no effect on earnings management in private banks listed on the Indonesia Stock Exchange for 2018-2022. This means that in this study, although the results of this Study indicate that the managerial ownership variable has no effect on earnings management, this can be interpreted as the more significant the managerial Ownership in the company, the lower the earnings management actions taken by the company's management. The results of this study are

based on research conducted by Agustia (2013) and Anggraeni and Hadiprajitno (2013), which concluded that managerial ownership has no significant effect on earnings management.

#### *The Influence of the Audit Committee on Earnings Management*

The existence of an audit committee within a company is expected to detect practices that violate the principle of transparency and minimize the occurrence of earnings management. Having an audit committee responsible for overseeing financial reporting can prevent fraudulent activities that might be planned by the company. The results of this study indicate that the influence of the audit committee on earnings management has a significance value of 0.906, which is greater than 0.05, thus indicating that the audit committee has no effect on earnings management in private banks listed on the Indonesia Stock Exchange for the 2018-2022 period. This means that the number of audit committees does not affect earnings management. An audit committee is considered an essential element because it monitors the accounting rules applied in the company and ensures that each report is by accounting standards. [This result obtained](#) is consistent with research conducted by Mughini and Cahyonowati (2015), Sunandar *et al.* (2014), and Prastiti and Meiranto (2013), whose research results show that there is no relationship between the size of the audit committee and earnings management, which means that simply increasing the size of the audit committee may not automatically reduce earnings management practices.

#### *Firm Size in Moderating the Effect of Managerial Ownership on Earnings Management*

Managerial ownership has a positive value, indicating that every one-unit increase in managerial ownership leads to increased earnings management. This means that higher managerial ownership leads to higher earnings management, or vice versa. Company size classifies a company's structure into large and small companies. The results of the Study indicate that Firm Size in moderating the effect of managerial ownership on earnings management has a significance value of 0.029, which is smaller than 0.05, thus indicating that firm size can moderate the effect of managerial ownership on earnings management in private banks listed on the Indonesia Stock Exchange for the period 2018-2022. This means that the effect of managerial ownership on earnings management will differ depending on the company's size. In large companies, stricter internal control mechanisms and supervision from external parties (such as independent auditors) can reduce the incentive to manage earnings, even though managerial ownership is high. Results of research studies by Panjaitan and Muslih (2019) found that partially company size had a significant negative effect on earnings management in BEI manufacturing companies 2014-2017, indicating the strong relevance of company size in the context of earnings management.

#### *Firm Size in Moderating the Influence of Audit Committee on Earnings Management*

The existence of an audit committee is considered crucial because it can monitor the actions of company management. Therefore, a larger audit committee leads to tighter oversight of management (Yuliani & Prastiwi, 2021). Company size is used to determine the size of a company's total assets. Higher total assets will increase company productivity. The existence of an audit committee is a crucial factor in maintaining the integrity of financial statements, for both large and small companies. This finding suggests that the audit committee's role in preventing earnings management tends to be consistent across various company sizes. The results of this study indicate that Firm Size in moderating the influence of the audit committee on earnings management has a significance value of 0.898, more significant than 0.05, thus indicating that Firm Size is unable to moderate the influence of the audit committee on earnings management in private banks listed on the Indonesia Stock Exchange for the period 2018-2022. This means that the existence of firm size cannot strengthen or weaken the influence of the audit committee on earnings management. This indicates that the existence of the audit committee is an essential factor in maintaining the integrity of financial statements, both for large and small companies.

## 6. CONCLUSION, LIMITATIONS AND FUTURE RESEARCH

Based on the test results and discussion, it can be concluded that managerial ownership had no effect on profit management in private banks listed on the Indonesia Stock Exchange from 2018 to 2022. Similarly, the audit committee has no influence on profit management in private banks listed on the Indonesia Stock Exchange for the same period. However, firm size was found to moderate the influence of managerial ownership on profit management in private banks listed on the Indonesia Stock Exchange from 2018 to 2022. In contrast, however, firm size cannot moderate the influence of the audit committee on profit management in private banks listed on the Indonesia Stock Exchange for the 2018 to 2022 period.

### *Implication and Contribution*

This research provides significant contributions, both theoretically and practically. Theoretically, the finding that firm size is able to moderate the relationship between managerial ownership and earnings management enriches the agency theory literature, confirming that the effectiveness of good corporate governance (GCG) mechanisms is conditional and strongly influenced by the entity's scale of operations. Practically, these results have important implications for regulators (OJK) to consider bank size factors when formulating supervisory policies, as well as providing a warning to bank management and investors that the focus should not only be on fulfilling formal requirements for managerial ownership and audit committees, but should also be on the quality of GCG and the adjustment of supervisory strategies based on the complexity of company size.

### *Limitations*

This study has several limitations that must be considered. First, this study has limitations in the use of internal GCG variables, namely focusing only on managerial ownership and the audit committee. This model does not include other external or internal GCG variables that have the potential to significantly influence earnings management, such as institutional ownership, the proportion of independent commissioners, or external auditor quality. Second, the sample is limited to private banks and the period 2018–2022, which includes the pandemic era, meaning the research results cannot be generalized to other banking sectors or normal market conditions.

### *Future Research*

Based on the conclusions above, the researcher provides several suggestions. In terms of managerial implications, management should consider these findings when making decisions to prevent the occurrence of earnings management practices. The company's management is expected to be able to implement and run good corporate governance better and consistently, in accordance with existing regulations, so that transparency, fairness, and responsibility to shareholders can be maintained. Regarding directions for future research, it is recommended that future researchers conduct further studies on other variables that can influence earnings management, such as institutional ownership, profitability, and other relevant factors. Additionally, future researchers are also encouraged to expand the scope of their research by using financial reports from companies not only in the banking sector but also from other companies listed on the Indonesia Stock Exchange, so that a broader comparison of research results across different types of companies can be made.

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