

The Mediating Role of Audit Capacity Stress in Influencing Factors of Earnings Management

(Case Study on Kompas100 Stock Index Companies Listed on the Indonesia Stock Exchange in 2020-2022)

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Abstract — This study investigates the role that Audit Capacity Stress (ACS) plays as a mediator between different parameters and earnings management. The study focuses on 36 businesses that were listed between 2020 and 2022 on the Indonesia Stock Exchange (IDX) and included in the Kompas100 stock index. Purposive sampling was employed in a quantitative associative analysis method. Version 26 of the Statistical Package for the Social Sciences (SPSS) was used to analyze the data. The findings indicate that while Financial Distress (FD) has no discernible impact on Audit Capacity Stress (ACS), KAP Reputation (AFR) and Audit Fee (AF) do. Earnings Management (EM) is also impacted by KAP Reputation (AFR), Financial Distress (FD), Audit Fee (AF), and Audit Capacity Stress (ACS). While ACS does not mediate the relationship between Financial Distress (FD) and Earnings Management (EM), it does mediate the relationship between KAP Reputation (AFR) and Audit Fee (AF) on Earnings Management (EM). This study provides information for more investigation into the elements influencing earnings management and the function of audit capacity stress.

Keywords—Earnings Management; Audit Capacity Stress; Audit Firm Reputation; Financial Distress; Audit Fee

I. INTRODUCTION (HEADING 1)

The company's reported profit is one of the most crucial components considered by users of financial statements. This element needs to include pertinent data about the operation and financial health of the business. Information about earnings has a big impact on decision-making for financial statement consumers, both within and outside. According to Generally Accepted Accounting Principles (GAAP), manipulation can alter the numbers presented in financial statements, rendering them uninformative. Although earnings management is allowed to a certain extent, it can result in financial information appearing biased to those who read the financial statements.

A well-known example of earnings management is the Enron scandal, where the company engaged in creative accounting and manipulation of financial statements to obscure losses and present a more favorable financial performance. The purpose of this study is to examine how audit capacity stress mediates the relationship between financial distress, audit fees, and audit firm reputation in relation to earnings management in Kompas100 stock index businesses that are listed on the IDX for the 2020–2022 timeframe.

Earning Management

Earnings management involves a company's management deliberately adjusting financial statement figures to present them more favorably to stakeholders such as investors, creditors, and market analysts. This practice can be used to either enhance or diminish a company's reported profits.

Audit Capacity Stress

Audit Capacity Stress refers to the mismatch between the volume of audit tasks and the time available to complete them. When audit capacity stress is high, the workload exceeds the auditor's ability to finish it within a reasonable timeframe. This can lead to several adverse effects, such as auditor fatigue, which impairs

focus and error detection. Reduced audit quality may result as auditors make mistakes under high pressure, increasing the risk of undetected fraud due to incomplete reviews.

Audit Firm Reputation

A public accounting firm's standing is frequently determined by how closely it ties to the Big Four accounting firms. Customers typically assume that an esteemed audit firm's reputation speaks volumes about the caliber of its audit services. Big Four audit firms are thought to provide unbiased, independent audit views that improve accountability and transparency and guarantee that audited financial statements fairly depict a company's financial situation. A reputable audit firm is also associated with a high level of professionalism, which aids in identifying potential fraud in financial statements.

Financial Distress

Financial distress occurs when a company fails to generate enough income to meet its financial obligations, resulting in insufficient cash flow to cover operating costs and debt payments. Economically, this condition can lead to significant consequences, such as considerable financial losses for investors and creditors [7].

Audit Fee

Audit fees are the costs incurred by a company for the audit services agreed upon with the auditor. In some cases, auditors are perceived to use the audit fee as a benchmark for the quality of their audit, meaning that a higher audit fee might lead auditors to work harder to provide a better audit opinion. To guarantee that the audit is carried out properly and preserves the integrity of the financial statements provided, the audit charge should, nevertheless, be appropriate and in line with the agreement [18].

Signaling Theory

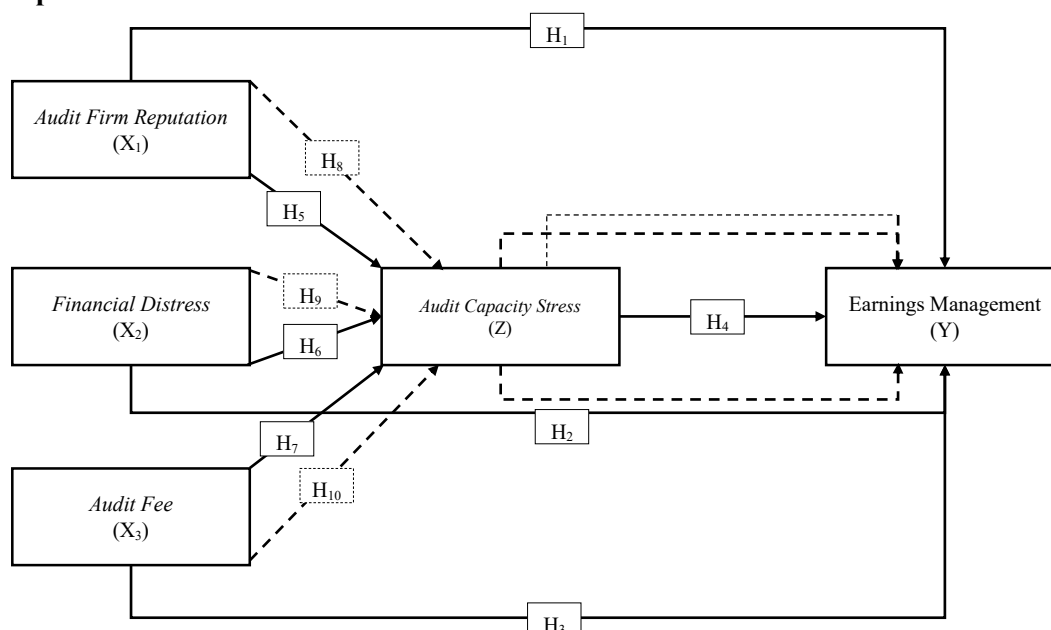
Signaling theory, in the context of earnings management, posits that companies use their financial statements to signal their performance and future prospects to investors. By managing earnings, companies can send positive signals to investors, even when their actual performance may not be as strong as reported. While earnings management can create a more favorable impression of a company, it has several negative implications. It can render accounting information more challenging comparisons between companies more challenging, potentially impacting investment decisions.

Agency Theory

Auditors play a crucial role in detecting earnings management practices. However, certain practices can complicate this task. One such challenge occurs when company management pressures auditors to accept improper accounting practices, compromising auditors' independence and objectivity. According to agency theory, a conflict of interest exists between managers (agents) and owners (principals). This approach, in which business managers function as principals (clients) and auditors as agents, clarifies the connection between audit capacity stress and earnings management. Because they think that auditors who are under a lot of stress are less likely to notice and question these techniques, managers may be more prone to participate in aggressive accounting practices. A heavy workload or a number of clients could also make it harder for them to participate in protracted arguments about dubious accounting. As a result, the study's conclusions imply that stress related to audit capability may be a risk factor for more aggressive corporate earnings management.

There are certain gaps in the corpus of recent literature. Previous study has yielded inconsistent results about the impact of audit firm reputation on earnings management. For instance, research by [6] and [20] found no correlation between audit firms' reputation and earnings management practices. However, research by [19] suggests that auditor reputation has a negative impact on earnings management. Similarly, study by [9] reveals a negative association between financial strain and earnings management, whereas research by [16] reports a positive and substantial relationship between the two. The variable of audit capacity stress, which has not been employed as a mediating variable in earlier research on earnings management, is also introduced in this study.

Conceptual Framework



Factors Affecting Earnings Management Practices

According to [27], audit firm reputation is closely related to audit quality. For example, Big Four auditors, for example, are thought to offer higher-quality audits because of their larger incentives concerning litigation risks and reputational issues. These high-quality audits can limit accrual-based earnings management practices because these firms are motivated to maintain their reputation and avoid legal consequences.

H₁: Audit Firm Reputation affects Earnings Management.

When a business is experiencing severe financial difficulties—for example, not being able to pay creditors on time or fulfilling contracts—it is said to be in financial distress [9]. Management may be encouraged to manipulate earnings when a firm is going through a recession or financial difficulties in order to portray a better financial picture and prevent unfavorable outcomes.

H₂: Financial Distress affects Earnings Management.

The manager of a company often employs the services of an independent auditor to mitigate agency costs¹. But when audit costs are high, there's a chance that auditors will give in to client pressure, which could lower the audit's quality. To keep their lucrative contracts, auditors may feel compelled to match their conclusions with client expectations due to high audit fees, resulting in a conflict of interest, which could, which could influence the integrity of the audit process and increase opportunities for earnings management.

H₃: Audit Fees affect Earnings Management.

Audit Capacity Stress, also known as audit capacity pressure, pertains to the balance between the volume of audit work and the time available to complete it. Research by [24] suggests that audit capacity stress can impact earnings management by influencing practices such as sales manipulation, though it may not significantly affect production manipulation or discretionary spending.

H₄: Audit Capacity Stress affects Earnings Management.

Audit capacity stress is positively impacted by the reputation of the audit business. Increased trust from stakeholders in the organization due to a positive reputation drives up the cost of audit services. Public accountants at the audit business are said to feel less stressed about their audit capabilities as a result of this

¹ Jensen, M. C., & Meckling, W. H. (1979). Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure. In K. Brunner (Ed.), *Economics Social Institutions* (Vol. 1, pp. 163–231). Springer Netherlands.

increased pay. Because of this increased trust and higher fees, a respected audit business is likely to feel less stress related to audit capacity.

H₅: Audit Firm Reputation affects Audit Capacity Stress.

Financial distress, or financial difficulties experienced by a company due to its inability to meet obligations, can significantly influence audit capacity stress. When a client company is in financial distress, it may struggle to meet its audit fee agreements, which can increase the stress experienced by auditors. The financial instability of the client can lead to greater pressure on auditors, as they may face challenges related to fee collection and increased scrutiny, thereby elevating audit capacity stress.

H₆: Financial Distress affects Audit Capacity Stress.

Audit fees are payments made to auditors for their professional services in conducting financial statement audits. In the context of audit capacity stress, higher audit fees can be associated with increased audit effort, which may help mitigate the negative effects of capacity constraints. Audit capacity stress occurs when audit firms face limitations, such as insufficient manpower or expertise, to meet the demands of their client portfolios. Higher audit fees can provide audit firms with additional resources, such as more personnel or better tools, enabling them to address these constraints more effectively and maintain audit quality despite the pressure of limited capacity.

H₇: Audit Fees affect Audit Capacity Stress.

Audit capacity stress is the term used to describe the situation in which an audit business is unable to satisfy the demands of its clientele because of resource constraints, such as a shortage of personnel or experience. The relationship between earnings management and the audit business's reputation is partially mediated by stress related to audit ability. This suggests that the degree of audit capacity stress experienced by the audit business acts as a mediator between the reputation of the audit firm and earnings management, rather than having a direct effect.

H₈: Audit Capacity Stress mediates the relationship between Audit Firm Reputation and Earnings Management.

When a business finds it difficult to fulfill its financial commitments, including making loan repayments, paying invoices, and keeping up sufficient cash flow, it is said to be in financial distress. Stress related to audit capacity occurs when audit firms are faced with resource limitations because of their client's financial difficulties, which could result in fewer comprehensive audits.

H₉: Audit Capacity Stress mediates the relationship between Financial Distress and Earnings Management.

Audit fees refer to the compensation paid by a company to an audit firm for auditing its financial statements. When audit fees are limited, audit firms may face resource constraints that can impact their ability to conduct thorough audits, potentially affecting their performance in detecting earnings management practices.

H₁₀: Audit Capacity Stress mediates the relationship between Audit Fees and Earnings Management.

II. RESEARCH METHODS

A. Research Methods

This study uses quantitative techniques that take an associative approach. The aim is to determine the relationships between two or more variables. This approach will help analyze how different factors are related and their impact on earnings management.

B. Research Variables

1) Independent Variables

a) Audit Firm Reputation (AFR)

Audit Firm Reputation (AFR) refers to the perceived quality and credibility of the Public Accounting Firm (KAP). Reputation is classified in this study according to the audit firm's membership in the Big Four or non-Big Four status. This measurement approach is in accordance with previous research [2] and [20]. The reputation of the audit firm is measured using a nominal scale with dummy variables. Specifically: Value 1: For companies audited by a Big Four audit firm; Value 0: For companies audited by a non-Big Four audit firm.

b) Financial Distress (FD)

When a business finds it difficult to cover its operating expenses and debts, it is said to be in financial difficulty. It shows the kind of financial challenges a business is having. The Altman Z-Score, a well accepted proxy for gauging financial health, is used to determine the degree of financial distress. Based on several financial parameters, the Altman Z-Score is a tool used to assess a company's risk of financial hardship. It can be computed as follows using the Altman Z-Score proxy, per [14]:

$$\text{Altman Z Score} = 1,2x_1 + 1,4x_2 + 3,3x_3 + 0,6x_4 + 1,0x_5$$

Dimana:

$$\begin{aligned} x_1 &= \frac{\text{Working Capital}}{\text{Total Assets}} \\ x_2 &= \frac{\text{Retained Earnings}}{\text{Total Assets}} \\ x_3 &= \frac{\text{Earnings Before Interest and Taxes}}{\text{Total Assets}} \\ x_4 &= \frac{\text{Market Value of Equity}}{\text{Book Value of Total Liabilities}} \\ x_5 &= \frac{\text{Sales}}{\text{Total Assets}} \end{aligned}$$

c) *Audit Fee (AF)*

Audit Fee refers to the compensation received by an audit firm for its professional services in auditing a company's financial statements.

$$\text{Audit Fee} = \text{Ln (Professional Fee)}$$

2) *Dependent Variables*

The dependent variable in this study is earnings management, or the falsification of earnings as stated in financial statements that are subject to examination by an outside auditor. The aim of this study is to evaluate the possibility of earnings management in sample firms using the Jones Modified Model. The study by [21] states that the computation of earnings management involves four steps. These are the steps involved in the calculation:

$$\begin{aligned} TAC &= NIt - CFOt \\ \frac{TACt}{At-1} &= \beta_1 \left(\frac{1}{At-1} \right) + \beta_2 \left(\frac{\Delta REVt}{At-1} \right) + \beta_3 \left(\frac{PPEt}{At-1} \right) + e \\ NDA_t &= \beta_1 \left(\frac{1}{At-1} \right) + \beta_2 \left(\frac{\Delta REVt}{At-1} - \frac{\Delta RECt}{At-1} \right) + \beta_3 \left(\frac{PPEt}{At-1} \right) \\ DAc &= \frac{TACt}{At-2} - NDA_t \end{aligned}$$

Where:

<i>TAC</i>	= <i>Total Accruals</i>
<i>NI</i>	= <i>Net Income</i>
<i>CFO</i>	= <i>Cash Flow Operating</i>
<i>NDA</i>	= <i>Non-Discretionary Accroals</i>
<i>A</i>	= <i>Fixed Assets</i>
<i>REV</i>	= <i>Revenue</i>
<i>REC</i>	= <i>Receivable</i>
<i>PPE</i>	= <i>Property, Plant, and Equipment</i>
<i>DA</i>	= <i>Discretionary Accruals</i>
<i>t</i>	= <i>Current Year</i>
β	= <i>Coefficient</i>
<i>e</i>	= <i>Standard Error</i>

3) *Mediator Variable*

Mediator variables are variables that mediate the relationship between an independent variable and a dependent variable². Rather than directly affecting the dependent variable, a mediator variable influences it through an indirect path. In this study, Audit Capacity Stress is used as a mediator variable to explain or modify the relationship between the independent variable and the dependent variable. According to [10], Audit Capacity Stress can be calculated using the following formula:

$$ACS = \frac{\text{Total Client Audits in Year } t}{\text{Total Audit Partners } t}$$

C. Population and Sample

The study's population comprises all companies that are registered on the Indonesian Stock Exchange (IDX) and included in the Kompas100 stock index between 2020 and 2022. Purposive sampling is the sampling strategy used, in which samples are chosen in accordance with predetermined standards pertinent to the goals of the study. The sample for this study was selected based on the following criteria: (1) Kompas100 stock index businesses that have been listed for a straight year, 2020–2022, on the Indonesian stock exchange. (2) Businesses engaged in non-banking sectors. (3) Companies whose financial statements are displayed in units of rupiah. After being eliminated based on these standards, the sample consisted of 36 issuers.

D. Data Collection Methods

1) *Data Collection Methods*

Secondary data from financial reports on the official websites of businesses that have been listed on the Indonesia Stock Exchange between 2020 and 2022 was used in the study.

2) *Data Analysis Methods*

Using SPSS Statistics 26 software, the data analysis approach used in this work comprises multiple linear regression analysis, descriptive statistical analysis, and Sobel test computations.

a) *Descriptive Statistical Analysis*

Descriptive statistical analysis is used to summarize and describe the features of the collected data without making generalizations³. Measures including the mean, standard deviation, variance, maximum and lowest values, total, range, kurtosis, and skewness are used in this analysis to give a broad picture of the data.

b) *Multiple Linear Regression Analysis*

A statistical method for analyzing the relationship between one dependent variable and two or more independent variables is multiple linear regression analysis. By using the values of the independent variables, this approach aids in predicting the value of the dependent variable. The following is the formulation of the multiple linear regression equation:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e \quad (1)$$

$$Z = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e_2 \quad (2)$$

Dimana:

Y = Earnings Management

Z = Audit Capacity Stress

α = Constant

β = Coefficients

X_1 = Audit Firm Reputation

² Baron, R. M., & Kenny, D. A. (1986). The moderator–mediator variable distinction in social psychological research: Conceptual, strategic, and statistical considerations. *Journal of Personality and Social Psychology*, 51(6), 1173–1182.

³ Sugiyono. (2013). *Metode Penelitian Kuantitatif, Kualitatif dan R & D*. Alfabeta.

X_2 = Financial Distress

X_3 = Audit Fee

X_4 = Audit Capacity Stress

e = Standard error

3) Hypothesis Test

a) Test Coefficient of Determination (R^2)

According to [26], in regression analysis, the *coefficient of determination*, or R^2 , is an important metric. The R^2 test is used to calculate the percentage of the dependent variable's variance that can be predicted from the independent variables.

b) Anova Test (F-Test)

To find out if the independent factors have an overall effect on the dependent variable, apply the Anova F-test. The following standards should be applied when interpreting the F-test results:

1. The null hypothesis is rejected if the significance value is less than 0.05, meaning that the independent factors have a significant combined influence on the dependent variable.
2. The null hypothesis is not rejected if the significance value is greater than 0.05, meaning that the independent variables do not significantly affect the dependent variable jointly.

c) T-Test

Each independent variable's impact on the dependent variable is evaluated separately using the T-test. The following standards should be applied when interpreting the T-test results:

1. If the significance value is less than 0.05, the alternative hypothesis (H_1) is accepted and the null hypothesis (H_0) is rejected since there is a strong impact of the independent variable on the dependent variable.
2. If the significance value is greater than 0.05, the null hypothesis (H_0) is not rejected and there appears to be no discernible impact of the independent variable on the dependent variable.

d) Sobel Test

The Sobel Test is a tool used in research models to assess the importance of a mediation effect. It was created by Michael E. Sobel. This test establishes whether there is a significant transfer of the effect of the independent variable to the dependent variable through the mediator variable. The following formula is used to calculate the Sobel test:

$$t = a * b / SE(a * b)$$

Where:

α = The direct effect of the independent variable on the mediator variable is indicated by the regression coefficient.

b = Regression coefficient that accounts for the influence of the independent variable (indirect effect) and displays the mediator variable's impact on the dependent variable.

$SE(\alpha*b)$ = Standard error of the product of α and b .

The criteria for the Z value in the Sobel test are as follows:

1. t-value > 1.96: Indicates that the mediation effect is significant at the 0.05 alpha level (two-sided).
2. t-value > 2.58: Indicates that the mediation effect is highly significant at the 0.01 alpha level (two-sided).
3. An insignificant t-value: Suggests that the mediation effect is not strong enough to be statistically significant.

III. RESULT AND DISCUSSION

A. Research Sample

For a three-year period (2020–2022), 36 companies make up the study's sample. Purposive sampling, a non-probability sampling technique, is the sample strategy used. Non-Probability Sampling does not provide equal opportunities for each element or member of the population to be selected as part of the sample⁴. The researcher's judgment is used to choose the sample instead.

Table 1. Sample Criteria

No	Sample Criteria	Total
1	Kompas100 stock index companies listed on the Indonesia Stock Exchange consecutively during the period 2020 to 2022.	100
2	Kompas100 stock index companies listed on the Indonesia Stock Exchange that are not included in the non-financial sector during the period 2020 to 2022.	(51)
3	Companies Not Publishing Complete Annual Reports during the period 2020-2022.	(0)
4	Companies Publishing Annual Reports in Currencies Other Than Rupiah (IDR) from 2020 to 2022.	(10)
5	Kompas100 stock index companies publish annual reports with incomplete financial information during the period 2020 to 2022.	(3)
Number of Companies Meeting the Criteria		36
Total Data Used in the Study (3 Years)		108
Number of Samples Eliminated Due to Outliers		(5)
Final Number of Research Samples		103

B. Data Analysis

1) Descriptive Statistics

An overview or description of the data can be obtained using descriptive statistical analysis using the following metrics: mean, variance, kurtosis, skewness, maximum, minimum, sum, range, and average value.

Table 2. Descriptive Statistical Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
AFR	108	.0000	1.0000	.768519	.4237457
FD	108	-.4424	5.1914	1.874988	1.1233030
AF	108	19.3370	25.3580	21.991545	1.2632505
ACS	108	.6400	8.6250	2.315267	1.4728658
EM	108	-.2500	.1700	.005185	.0910631
Valid N (listwise)	108				

Source: Output SPSS Statistics 26 processed secondary data (2024)

2) Classical Assumption Test

The Classical Assumption Test is employed in this study to assess whether the data have problems with normality, autocorrelation, multicollinearity, or heteroscedasticity [11]. When making decisions based on normally distributed data, this study employs the One-Sample Kolmogorov-Smirnov method to determine whether the data is normal if the Asym. Sig. 2 (2-tailed) is more than 0.050.

⁴ Sugiyono. (2013). Metode Penelitian Kuantitatif, Kualitatif dan R & D. Alfabeta.

Table 3. Classical Assumption Test

Classical Assumption Test	Test Results	Description
Normality Test <i>One-Sample Kolmogorov-Smirnov</i>	Asymp. Sig. (2-tailed) 0.200 > 0.050	Data is normally distributed.
Multicollinearity Test <i>Inflation Factor (VIF)</i>	Tolerance > 0.10 AFR = 0.617; FD = 0.831; AF = 0.717; ACS = 0.882 VIF < 10 AFR = 1.621; FD = 1.203; AF = 1.395; ACS = 1.134	Does not experience multicollinearity disorder.
Autocorrelation Test <i>Lagrange Multiplier (LM Test)</i>	Sig. Residual lag 2 (RES_2) 0.067 > 0.050.	There is no autocorrelation disorder.
Heteroscedasticity Test <i>Rank Spearman</i>	Sig. Absolut residual (ABS_RES) > 0.050. AFR = 0.155; FD = 0.056; AF = 0.841; ACS = 0.383	There is no heteroscedasticity disorder.

Source: Output SPSS Statistics 26 processed secondary data (2024)

3) Multiple Regression Linear Analysis

A statistical method for examining the relationship between one dependent variable and two or more independent variables is multiple regression analysis.

Table 4. Multiple Linear Regression Analysis Results

Independent Variable	Dependent Variable	Unstandardized Coefficients B	Sig.	Description
(Constant)		.013	0.641	
AFR	EM	-.011	0.008	Has a significant effect.
FD		-.020	0.000	Has a significant effect.
AF		.002	0.047	Has a significant effect.
ACS		-.007	0.001	Has a significant effect.
(Constant)		5.496	0.000	
AFR	ACS	.653	0.002	Has a significant effect.
FD		-.091	0.166	Has no significant effect.
AF		-.173	0.004	Has a significant effect.

Source: Output SPSS Statistics 26 processed secondary data (2024)

The EM variable will grow by 0.130 if the values of AFR, FD, AF, and ACS are equal to zero (0), according to the above table, where the constant value is positive at 0.130. It can be seen from this table that the constant value is positive at 5,496. This indicates that ACS will grow by 5,496 if the AFR, FD, and AF variables are all equal to zero.

4) Hypothesis Test

a) Test Coeffisien Determination (R^2)

The purpose of the coefficient of determination test is to compute the effect of the independent variable on the dependent variable. The R value 2 indicates the proportion of the independent variable's overall volatility that can be explained by the explanatory variable.

Table 5. Test Results of the Coefficient of Determination (R^2) to Earnings Management

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
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1	.885 ^a	.783	.774	.01326
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a. Predictors: (Constant), ACS, FD, AF, AFR

Source: Output SPSS Statistics 26 processed secondary data (2024)

Table 5's R square value of 0.783 indicates that the ACS, FD, AF, and AFR variables have a 78.3 percent influence on EM, while other factors have an influence of 21.7%. These findings are based on the results of the coefficient of determination test.

Table 6. Test Result of the Coefficient of Determination (R^2) to Audit Capacity Stress

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.343 ^a	.118	.091	.6654477

a. Predictors: (Constant), AF, FD, AFR

Source: Output SPSS Statistics 26 processed secondary data (2024)

The results of Table 6's coefficient of determination test show a R square value of 0.118, meaning that whereas other variables influence ACS by 88.2 percent, AF, FD, and AFR variables influence it by 11.8 percent.

b) Anova Test (F-Test)

Use the F test to determine whether the independent factors have a contemporaneous or combined effect on the dependent variable. applying the conditions that the Sig. value must be less than 0.050 and the Fcount must be more than the Ftable.

Table 7. Anova Test Results 1

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.861	3	1.954	4.412	.006 ^b
	Residual	43.839	99	.443		
	Total	49.700	102			

a. Dependent Variable: ACS

b. Predictors: (Constant), AF, FD, AFR

Source: Output SPSS Statistics 26 processed secondary data (2024)

Table 7 demonstrates that the Fcount value of 4.412 is more than the Ftable of 2.46 and the Sig. value of 0.006 is smaller than 0.050, indicating that the AF, FD, and AFR variables affect EM concurrently.

Table 8. Anova Test Results 2

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.062	4	.016	88.370	.000 ^b
	Residual	.017	98	.000		
	Total	.079	102			

a. Dependent Variable: EM

b. Predictors: (Constant), ACS, FD, AF, AFR

Source: Output SPSS Statistics 26 processed secondary data (2024)

Table 8 demonstrates that the Fcount value of 88.370 is more than the Ftable value of 2.46 and the Sig. value of 0.000 is smaller than 0.050, indicating that the ACS, FD, AF, and AFR variables all effect EM at the same time.

c) T Test

The T test is used to determine each independent variable's effect on the dependent variable. The test conditions are T count value more than Ttabl and Sig value less than 0.050.

Table 9. T-test Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1	(Constant)	5.496	1.247	4.407	.000
	AFR	.653	.201	.372	.002
	FD	-.091	.065	-.143	.166
	AF	-.173	.059	-.316	.004

a. Dependent Variable: ACS

Source: Output SPSS Statistics 26 processed secondary data (2024)

Table 10. T-test Results 2

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1	(Constant)	.013	.027	.468	.641
	AFR	-.011	.004	-.164	.008
	FD	-.020	.001	-.793	.000
	AF	.002	.001	.112	.047
	ACS	-.007	.002	-.168	.001

a. Dependent Variable: EM

Source: Output SPSS Statistics 26 processed secondary data (2024)

The output results explain the following outcomes based on Tables 9 and 10.

1. 1. Audit Firm Reputation (AFR): The hypothesis is supported since the significance value of Audit Firm Reputation (AFR) on Earnings Management (EM) is less than the 0.050 threshold, at 0.008 (p. This indicates that AFR significantly affects EM. There may be a bad correlation between AFR and EM, as indicated by the unstandardized coefficient Beta for AFR of -0.011. This suggests that less profits management is linked to a public accounting firm's greater repute. Because credible auditors are more independent and have stronger oversight, they might discourage corporations from participating in earnings management. This result contrasts with earlier studies [12], [6], and [20], which found no evidence of a meaningful relationship between auditor reputation and earnings management. It does, however, support research [27] that indicates a stronger auditor reputation reduces the possibility that businesses will engage in profits management.
2. Financial Distress (FD): The hypothesis is accepted because the significant value for FD on Earnings Management (EM) is 0.000, which is less than the 0.050 criterion. This indicates that EM is significantly impacted by financial distress. The unstandardized coefficient β for FD is -0.020, indicating that FD and EM have a negative connection. This suggests that lower levels of earnings management are linked to financial trouble. This finding is consistent with other studies by [9] and [24], which discovered that financial difficulty has a detrimental effect on earnings management. It disagrees, therefore, with the results of [27], which found a different connection between earnings management and financial difficulty.
3. 3. Audit Fees (AF): AF's Earnings Management (EM) significance value is 0.047, below the 0.050 cutoff. This suggests that the premise is correct, i.e., audit fees have a major impact on managing earnings. For AF, the unstandardized coefficient β is positive and equal to 0.002. This positive coefficient implies that there is a correlation between increased earnings management and higher audit fees. This result contrasts with earlier studies [11] and [1], which

found no discernible impact of audit costs on earnings management. It does, however, align with the findings of study by [22], which suggests that greater audit fees may strengthen the financial bond between the customer and the auditor and may therefore affect the degree of earnings management.

4. **Stress on Audit Capacity (ACS):** An unstandardized coefficient β value of -0.007, with a significance value of 0.001, is shown by the examination of the impact of audit capacity stress on earnings management (EM). This value is below the 0.050 criterion. This suggests that the hypothesis is correct, i.e., that audit capacity stress significantly impairs the management of earnings. More specifically, lower levels of profits management are linked to higher levels of audit capacity stress. This result is in line with research [11], which indicates that audit capacity stress has a detrimental effect on earnings management. It is in conflict with study [7], which contends that companies with a high clientele should have a enough staff and resources; as a result, the auditor's competence to identify earnings management strategies should not be impacted by audit capacity stress.
5. **Audit Firm Reputation (AFR):** The analysis reveals that AFR has a significance value of 0.002, below the 0.050 cutoff. AFR's unstandardized coefficient β is 0.653, indicating a positive value. This suggests that the hypothesis is correct, i.e., that audit capacity stress is significantly reduced by audit firm reputation. More specifically, there is a correlation between higher audit capacity stress and the audit firm's repute. This conclusion is in line with research by [15], which implies that there might be more pressure on auditors at well-known companies to produce perfect audit outcomes. This pressure is a result of the possible negative effects unsatisfactory audit outcomes could have on the firm's reputation.
6. **Financial Distress (FD):** The test findings indicate that Financial Distress has a significant value of 0.166, above the 0.050 cutoff. This suggests that the hypothesis is not supported, i.e., Financial Distress has no discernible impact on Audit Capacity Stress. To put it another way, auditors' stress levels related to audit capabilities are not greatly affected by a company's financial difficulties. This result is in line with studies by [4], which indicates that auditors can manage difficulties associated with financial difficulty without experiencing a considerable rise in stress when they follow stringent rules and a standardized audit process.
7. **Audit Fee (AF):** Less than the 0.050 criterion, the significant value for Audit Fee in relation to Audit Capacity Stress is 0.004. The Audit Fee's unstandardized coefficient β is -0.173, indicating a negative value. This suggests that the premise is correct, i.e., audit fees significantly reduce audit capacity stress. More specifically, lesser audit capacity stress is linked to higher audit fees. This result is consistent with research by [8], which indicates that audit companies can devote more time and resources to audits in order to charge higher audit fees. This extra assistance lessens the strain and anxiety auditors experience, which helps to mitigate the stress associated with audit capacity.

d) Sobel Test

The Sobel test measuring tool was used in this study, and it was retrieved from the following website: <https://quantpsy.org/sobel/sobel.htm>. with the tcount value being more than the ttable and the probability condition being smaller than 0.050

Table 11. Sobel Test Results

Variables Relationships	a; b; Sa; Sb	p-value	Description
Audit Firm Reputation (AFR) to Earning Management (EM)	a = 0.653; b = -0.007; Sa = 0.201; Sb = 0.002	0.01726153	Has a significant effect.
Financial Distress (FD) to Earning Management (EM)	a = -0.091; b = -0.007; Sa = 0.065; Sb = 0.002	0.19364643	Has no significant effect.
Audit Fee (AF) to Earning Management (EM)	a = -0.173; b = -0.007; Sa = 0.059; Sb = 0.002	0.02459747	Has a significant effect.

Source: Output SPSS Statistics 26 processed secondary data (2024)

Based on the results of the sobel test in table 11, can be concluded as follows

1. The p-value of 0.017 is less than 0.050 and the tcount of 11.371 is more than ttable 1.96, indicating that the hypothesis regarding the association between audit firm reputation and earnings management through audit capacity stress is accepted.

2. Given that the p-value of 0.193 is greater than 0.050, it is possible to conclude that there is insufficient evidence to moderate either the indirect association between financial distress and earnings management or audit capacity stress. Thus, the theory is disproved.
3. Since the tcount of 10.262 is greater than ttable 1.96 and the p-value of 0.024 is less than 0.050, the hypothesis is accepted, or audit capacity stress can mediate the relationship between audit fees and earnings management.

IV. CONCLUSION

Companies use earnings management as a tactic to manipulate the numbers seen in their financial accounts, frequently to show stockholders more appetizing profits. A company's decision to use earnings management is impacted by several factors, including the standing of the public accounting firm, financial hardships, audit fees, and audit capacity stress. Furthermore, manipulating profits can harm a company's reputation and tarnish financial markets. But lawful earnings management techniques, which smooth results over time, can also demonstrate a company's consistency and reliability.

The reputation of audit firms has a major detrimental impact on earnings management. A higher reputation among auditors reduces the likelihood that companies will use earnings management techniques. The financial crisis has a negative effect on earnings management. A corporation may find it challenging to efficiently manage its earnings while it is experiencing financial challenges for several reasons. The management of earnings is significantly improved by audit fees. Increased earnings management is correlated with higher audit fees. There is a common misconception that rising audit fees translate into closer audit scrutiny. Auditing Proficiency Stress significantly impairs the management of profits. More specifically, lower levels of earnings management are correlated with increased audit capacity stress. Auditors may be less able to participate in or support earnings management when they are under a great deal of stress from a large workload and tight deadlines. This leads to more thorough audits and less opportunities for financial manipulation.

The audit capacity stress is positively correlated with an audit firm's reputation. More specifically, audit capacity stress is typically higher in more prestigious audit firms. The level of stress that auditors experience in performing their audits is not much affected by a company's financial struggles. Regardless of the financial status of their clients, auditors are frequently expected to maintain their objectivity and independence. Their top goal is to conduct a thorough audit in compliance with predetermined standards, unbiased by the company's financial struggles. Audit fees have a major detrimental influence on stress connected to audit capability. The burden of managing audit capacity can be reduced by the use of greater resources, such as more staff and better equipment, which are typically made possible by higher audit fees.

Audit capacity stress may act as a mediating factor in the relationship between earnings management and audit company reputation. High-capacity stress can make an audit firm's audit procedures less efficient, which might open more avenues for earnings management. However, audit capacity stress does not lessen the impact of financial distress on earnings management because organizations with sufficient capacity are better equipped to handle financially troubled enterprises, which lowers earnings management. Furthermore, audit capacity stress may operate as a mediator between audit fees and earnings management since stress levels might indirectly influence how audit fees effect earnings management.

The purpose of this study is to improve knowledge of earnings management techniques, how these practices affect the reliability of financial statements, and the variables that affect these techniques. The results are expected to be a useful resource for future scholars, stimulating further investigation into the variables influencing corporate earnings management. Subsequent research endeavors may broaden the purview or utilize distinct approaches to furnish more discernments regarding earnings management.

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