

Earnings Management in JII Firms: Does Audit Quality Moderate CSR, Ownership, and Leverage?

Salfa Nurul Tafziyah¹, Nawirah^{2*}

Department of Accounting, Faculty of Economics, Maulana Malik Ibrahim State Islamic University of Malang, Indonesia^{1,2}

220502110125@student.uin-malang.ac.id, nawirah@uin-malang.ac.id

*Corresponding Author

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ABSTRACT

The existence of earnings management practices remains a phenomenon among companies listed in the Jakarta Islamic Index (JII). This condition indicates that the presentation of financial information does not fully reflect actual performance, potentially affecting the quality of decisions made by stakeholders. The purpose of this study is to examine the effect of corporate social responsibility (CSR), managerial ownership, and leverage on earnings management, with audit quality as a moderating variable. The research sample consists of 17 companies consistently listed in the Jakarta Islamic Index (JII) during the 2021–2024 period, resulting in 68 firm-year observations. Secondary data were obtained from annual and sustainability reports, then analyzed using panel data regression and Moderated Regression Analysis (MRA) with EViews 12 software. The results show that CSR has a positive and significant effect on earnings management, while managerial ownership and leverage do not show significant effects. Furthermore, audit quality does not moderate the relationship between the independent variables and earnings management. The novelty of this research lies in examining the moderating role of audit quality in the relationship between governance mechanisms and earnings management in companies included in the JII, using data from the post-economic recovery period. This study contributes to strengthening empirical evidence regarding the limitations of the effectiveness of governance mechanisms in curbing earnings management practices in the context of the Sharia capital market.

Keywords: *Audit Quality; Corporate Social Responsibility; Earnings Management; Jakarta Islamic Index; Leverage; Managerial Ownership*

INTRODUCTION

Earnings management is a central issue in financial reporting because profit is the main indicator used by investors and creditors to assess company performance and serves as the basis for economic decision-making (Darwis et al., 2020; Nawirah et al., 2022). This is in line with the findings of Panjaitan & Muslih, (2019), which show that profit plays a role in influencing stock prices, where profit stability is often associated with a lower level of risk. Healy & Wahlen, (1999) define earnings management as the use of managerial judgment in financial reporting to modify reported earnings figures for specific purposes. The phenomenon of earnings management is still widely found, especially in developing countries, which are characterized by weak regulatory enforcement and high information asymmetry (Mlawu et al., 2025).

The phenomenon of earnings management is increasingly relevant in the context of the Jakarta Islamic Index (JII), which normatively demands Sharia-based transparency and accountability. However, empirical evidence shows a gap between these expectations and actual practices in the field. This is reflected in the case of PT Kalbe Farma Tbk., a blue-chip company with a domestic market share of more than 35% during the 2017–2021 period (Suwito et al., 2023), which exhibited an increase in discretionary accruals from 1.50% in 2022 to 1.90% in 2024 (Indah et al., 2026), as well as indications of income smoothing practices during the 2013–2017 period, as shown by an Eckel Index value of 0.9481 (Maulina, 2020). Previous research has proven that earnings management practices do not only occur in companies with certain characteristics but also in large companies with high levels of exposure, indicating that the presence of oversight mechanisms is

not necessarily effective in limiting opportunistic behavior. Therefore, further examination is needed regarding the factors that influence earnings management and the circumstances that affect the effectiveness of these control mechanisms.

From the perspective of agency theory, conflicts of interest between principals and agents arise as a consequence of the separation of ownership and control, which is further exacerbated by information asymmetry (Jensen & Meckling, 1976). This condition creates opportunities for managers to engage in opportunistic actions, including in financial reporting. Governance mechanisms have been examined as factors influencing earnings management practices; however, previous research findings have shown inconsistent results. In several studies, corporate social responsibility (CSR) disclosure is viewed as a means of legitimacy that can be used to conceal opportunistic practices (Zhang et al., 2021). Nevertheless, other research indicates that CSR has the potential to enhance reporting ethics and suppress earnings management practices (Velte, 2024). In addition, a bibliometric study by Santos-Jaén et al., (2021) explains that the relationship between CSR and earnings management still shows mixed findings and leaves several research gaps that have not been comprehensively explained.

Managerial ownership theoretically plays a role in aligning the interests of managers and shareholders (Harahap, 2021; Warfield et al., 1995). A number of empirical studies support this role by showing a negative effect on earnings management (Dewi et al., 2023; Hasty et al., 2023; Setiani & Pandji, 2022). This can occur because managers who own shares tend to be more responsible and cautious in making accounting decisions, as they also bear the associated risks, thus reducing the likelihood of earnings management practices. However, the effectiveness of this mechanism depends on the proportion of ownership, so at low levels of managerial ownership, its influence in curbing opportunistic behavior becomes limited (Christi et al., 2022; Damanik & Khairin, 2023; Harahap, 2021).

On the other hand, leverage is not only an indicator of contractual pressure that encourages managers to engage in earnings management (Alsaadi, 2025; Hasty et al., 2023; Setiowati et al., 2023), but can also serve as external monitoring through stricter creditor supervision, which in turn limits managerial discretion (Wirianata, 2020). However, findings showing no effect of leverage on earnings management (Dewi et al., 2025; Mulyono & Opti, 2023; Rusliyawati, 2023). indicate that these two mechanisms do not work independently, but rather interact to determine the direction and strength of their influence on earnings management. Thus, the empirical inconsistencies that arise are not merely differences in results, but reflect the dynamic trade-off between incentive and monitoring effects that form a conditional relationship. Therefore, an analytical approach is needed that can capture the interrelationship between these mechanisms within the framework of corporate governance.

Kalbuana et al., (2022) state that auditing financial statements is one way to monitor earnings management practices. Becker et al., (1998) emphasize that highly reputable auditors, such as the Big Four, are more effective in limiting accrual-based earnings management. Previous studies (Himawan, & Surayani, 2022; Rusliyawati, 2023) have found that audit quality is able to moderate the relationship between CSR, leverage, and managerial ownership with earnings management. Big Four audit firms are considered more independent and strive to maintain public trust, so the reports they audit tend to be more trusted by investors. Conversely, Chowdhury & Eliwa, (2021) found that Big Four audit quality does not always succeed in curbing real earnings management practices, since real earnings management is carried out through operational activities such as sales, production, and discretionary expenditures, which are not always reflected in accruals in financial statements and are beyond the auditor's scope of control. Similar findings were also presented by Zabidi et al., (2025) who found that audit quality alone is not sufficient to prevent earnings management practices. These findings are consistent with research by (Hasty et al., 2023; Pratama & Kusumadewi, 2020), who did not find evidence that audit quality moderates the relationship between CSR, leverage, and managerial ownership on earnings management. These differences indicate a research gap regarding the conditions and contexts that affect the effectiveness of audit quality as a moderating variable, making it relevant to be further investigated in companies listed on the Jakarta Islamic Index (JII).

Based on the aforementioned background, this study aims to examine the effect of corporate

social responsibility (CSR), managerial ownership, and leverage on earnings management with audit quality as a moderating variable in companies listed on the Jakarta Islamic Index (JII) for the 2021–2024 period. This period represents the post-COVID-19 recovery phase, which is characterized by increased pressure to maintain performance and investor confidence. This research extends the work of Kalbuana et al., (2022) by replacing the variables of firm age and profitability with CSR and managerial ownership, and by positioning audit quality as a moderating variable. The research gap in this study lies in the inconsistency of empirical findings regarding the influence of CSR, managerial ownership, and leverage on earnings management, as well as the unclear conditions under which audit quality functions effectively as a moderating variable. In addition, studies that specifically examine the role of audit quality as a moderating variable on the independent variables within the Jakarta Islamic Index remain relatively limited in the previous literature. The novelty of this research lies in testing the role of audit quality in explaining the direction and strength of the relationship between CSR, managerial ownership, and leverage on earnings management within a single moderation model. This study contributes by providing empirical evidence regarding the specific conditions under which audit quality is effective or ineffective in constraining earnings management practices, as well as offering practical implications for regulators, investors, and practitioners in designing more targeted oversight mechanisms.

LITERATURE REVIEW

Agency Theory and Earnings Management

Agency theory, as introduced by Jensen & Meckling, (1976), explains that the separation between ownership and control creates conflicts of interest between shareholders and managers, which are intensified by information asymmetry. Under such conditions, managers may be motivated to engage in earnings management to achieve performance targets, comply with debt covenants, and maintain investor confidence. In the context of firms listed on the Jakarta Islamic Index (JII), this conflict becomes more critical given the normative expectations of transparency and Sharia-compliant ethical conduct. Therefore, agency theory serves as the conceptual foundation for examining the relationships among CSR, managerial ownership, leverage, and audit quality in this study.

Corporate Social Responsibility and Earnings Management

From the perspective of agency theory, information asymmetry between principals and agents creates incentives for managers to engage in opportunistic actions, including earnings management (Jensen & Meckling, 1976). Within this framework, CSR is not only understood as an ethical commitment to stakeholders (Licandro et al., 2023), but also as a strategic instrument that can be utilized for non-ethical purposes (Susilo et al., 2025). Several studies show that CSR serves as a legitimization mechanism that enables companies to reduce external monitoring pressure and increase flexibility in financial reporting, thereby potentially encouraging earnings management (Pratama & Kusumadewi, 2020; Rahmasari dan Kurniawan, 2024; Rusliyawati, 2023; Zhang et al., 2021). However, these findings are not universal. Other studies indicate that CSR is actually associated with enhanced reporting ethics and reduced opportunistic behavior (Velte, 2024). In addition, a bibliometric review by Santos-Jaén et al., (2021) explains that the relationship between CSR and earnings management still shows conceptual ambiguity and empirical inconsistency, leading to the conclusion that the direction of this relationship depends on certain conditions, particularly the effectiveness of monitoring mechanisms. Thus, the inconsistency of previous findings indicates that the effect of CSR on earnings management cannot be definitively concluded, and therefore needs to be empirically re-examined. Based on this, the hypothesis proposed is:

H1: corporate social responsibility affects earnings management

Managerial Ownership and Earnings Management

Managerial ownership is theoretically viewed as an alignment mechanism that can reduce agency conflicts arising from information asymmetry (Gao & Johnston, 2025; Jensen & Meckling,

1976; Liu, 2023; Pu & Zulkafli, 2024). Within this framework, an increase in share ownership by managers is expected to encourage a long-term value orientation and suppress earnings management practices (Lindra et al., 2022). Several empirical studies support this argument by showing that managerial ownership has a negative effect on earnings management (Hasty et al., 2023; Siwi et al., 2025; Wicaksono & Andriansyah, 2023). These findings are further supported by (Sun et al., 2024), who found that higher levels of Environmental, Social, and Governance (ESG) involvement are negatively correlated with discretionary accruals. This may occur because the effectiveness of ownership structure in limiting earnings management is conditional, where its role is influenced by the broader quality of corporate governance. However, other studies (Christi et al., 2022; Damanik & Khairin, 2023; Harahap, 2021) show that managerial ownership has no effect on earnings management. Harahap, (2021) explains that this condition is presumed to occur because the proportion of share ownership by management is relatively small, so managerial ownership has not yet functioned as an effective control mechanism to suppress earnings management practices. These differences in research findings indicate that the relationship between managerial ownership and earnings management remains inconsistent and therefore needs to be empirically re-examined. Based on this, the hypothesis proposed is:

H2: managerial ownership affects earnings management

Leverage and Earnings Management

Within the framework of agency theory, leverage is viewed as a source of contractual pressure that can motivate managers to engage in earnings management in order to meet obligations under debt agreements (Hasty et al., 2023; Jensen & Meckling, 1976). High leverage reflects a dominance of debt-based financing, thereby increasing the company's exposure to creditor oversight and the risk of covenant violations (Hasty et al., 2023). In such conditions, information asymmetry allows managers the opportunity to opportunistically exploit accounting flexibility, either through accrual manipulation or real activities (Awuye & Aubert, 2022; Rusliyawati, 2023). Several empirical studies show that leverage has a positive effect on earnings management (Alsaadi, 2025; Hasty et al., 2023; Setiowati et al., 2023), indicating that contractual pressure from creditors can encourage opportunistic reporting behavior. However, this contrasts with the findings of Wirianata, (2020) who found that leverage has a negative effect on earnings management. This is because high leverage can increase creditor monitoring, thereby limiting management's ability to manipulate earnings. Meanwhile, studies by (Dewi et al., 2025; Mulyono & Opti, 2023; Rusliyawati, 2023) found that leverage has no effect on earnings management. High leverage does not always encourage earnings management practices because companies with high levels of debt are generally under stricter creditor supervision. These differences in research findings indicate that the relationship between leverage and earnings management remains inconsistent and therefore needs to be empirically re-examined. Based on this, the hypothesis proposed is:

H3: leverage affects earnings management

Audit Quality as a Moderating Variable the Relationship Between CSR and Earnings Management

Audit quality reflects the auditor's ability to detect and disclose material misstatements, which is influenced by competence and independence (DeAngelo, 1981). Within the framework of agency theory, this function positions audit as an external monitoring mechanism that serves to limit managers' opportunistic behavior, including earnings management practices (Hoang et al., 2022; Jensen & Meckling, 1976). Several studies indicate that high audit quality, particularly through reputable auditors such as the Big Four, can enhance the credibility of financial statements and narrow the scope of managerial discretion (Becker et al., 1998; Pratama & Kusumadewi, 2020). In the context of the relationship between CSR and earnings management, empirical findings also show that audit quality can weaken the tendency to use CSR as a legitimization tool to conceal opportunistic behavior (Hoang et al., 2022; Pratama & Kusumadewi, 2020; Rusliyawati, 2023). However, the effectiveness of this role is not always the same under all conditions. A study shows the limitations of auditors, indicating that not all CSR activities used by companies to cover up earnings management practices can be adequately detected and verified. Based on this explanation,

the hypothesis of this study is:

H4: audit quality moderates the relationship between CSR and earnings management

Audit Quality as a Moderating Variable the Relationship Between Managerial Ownership and Earnings Management

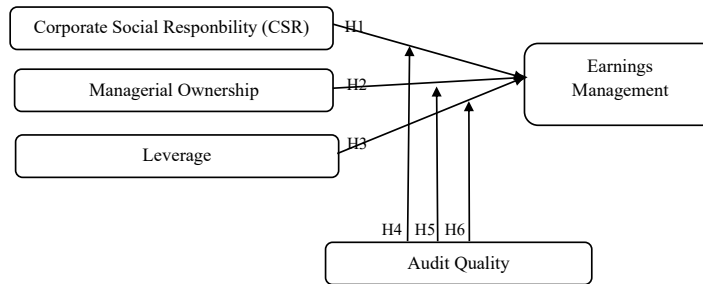
Managerial ownership reflects the proportion of shares owned by management and theoretically functions as a mechanism to align the interests of agents and principals (Jensen & Meckling, 1976). Several studies show that increased managerial ownership is associated with a decrease in earnings management practices, as managers have a stronger incentive to maintain the company's long-term performance (Hasty et al., 2023; Siwi et al., 2025). However, the effectiveness of this mechanism does not always stand alone, since opportunistic behavior may still occur in conditions of weak oversight. In this regard, audit quality serves as an external monitoring mechanism that enhances the credibility of financial statements, where highly reputable auditors such as the Big Four have proven to be more effective in detecting earnings manipulation compared to non-Big Four auditors (Agustin & Widiatmoko, 2022; Alzoubi, 2016; Hasty et al., 2023). Nevertheless, empirical evidence directly examining the moderating role of audit quality in the relationship between managerial ownership and earnings management remains limited. Findings from other governance contexts indicate that high-quality auditor oversight can suppress opportunistic behavior (Alharasis et al., 2025). Meanwhile, a study by Sianny (2024) shows that audit quality does not always strengthen the role of managerial ownership in reducing earnings management, indicating that its effectiveness as an external monitoring mechanism is conditional. Thus, the limited empirical evidence suggests that the role of audit quality in enhancing the effectiveness of managerial ownership still requires further investigation. Based on these considerations, the hypothesis proposed is:

H5: audit quality moderates the relationship between managerial ownership and earnings management

Audit Quality as a Moderating Variable the Relationship Between Leverage and Earnings Management

Leverage reflects the proportion of a company's financing that comes from debt, where a high level of leverage increases contractual pressure and dependence on external parties (Hasty et al., 2023). Within the framework of agency theory, such pressure can motivate managers to maintain performance stability in order to comply with debt covenants, ultimately creating opportunities for earnings management. Several empirical findings indicate that leverage is associated with an increase in earnings management practices as a response to creditor pressure. However, this relationship does not always follow the same pattern. The presence of external monitoring mechanisms, particularly audit quality, can alter this dynamic. Highly reputable auditors such as the Big Four have proven to be more effective in identifying manipulation practices compared to non-Big Four auditors, who tend to be associated with higher levels of earnings management (Alzoubi, 2016; Becker et al., 1998). In addition, research by (Rusliyawati, 2023; Sari & Trilestari, 2023) shows that high audit quality can reduce the effect of leverage on earnings management. These findings indicate that leverage not only serves as a source of pressure that encourages opportunistic behavior, but also interacts with audit quality as a monitoring mechanism that can limit such effects. Thus, the role of leverage in earnings management is conditional, depending on the effectiveness of the accompanying external oversight. Based on this explanation, the hypothesis of this study is:

H6: audit quality moderates the relationship between leverage and earnings management



Picture1. Conceptual Framework

Image source: data processed by researchers (2026)

METHODS

Research Design, Population, and Sample

This study employed a descriptive quantitative research approach, in which all stages of the research process from data collection and processing to results presentation were grounded in numerical analysis. The research population comprised all companies consistently listed in the Jakarta Islamic Index (JII) throughout the observation period of 2021–2024. Employing a purposive sampling technique, a final sample of 17 companies was selected based on the criteria detailed in Table 1, yielding a total of 68 firm-year observations across the four-year period.

Table 1. Purposive Sampling Criteria

No	Criteria	Total
1.	Companies consistently listed in the JII during 2021–2024	17
2.	Companies that did not publish annual reports consecutively during 2021–2024	0
3.	Companies that did not publish sustainability reports consecutively during 2021–2024	0
Total sample		17
Total research data (17 × 4 years)		68

Data Type and Collection

This study utilized secondary data obtained from two primary sources: the official websites of sampled companies and the Indonesia Stock Exchange (IDX) database. Data were collected through systematic documentary analysis of annual reports and sustainability reports published between 2021 and 2024.

Operational Definition and Measurement of Variables

Earnings Management (Dependent Variable) was measured using discretionary accruals calculated through the Modified Jones Model. This study's earnings management assessment is based on (Alodat et al., 2024), with discretionary accruals calculated in the following way: Calculating TAC by subtracting net income from operating cash flows:

$$TA_{it} = NI_{it} - CFO_{it}$$

Estimating TA using the Ordinary Least Squares method:

$$\frac{TAC_{it}}{A_{it-1}} = \beta_1 \left(\frac{1}{A_{it-1}} \right) + \beta_2 \left(\frac{\Delta REV_{it}}{A_{it-1}} \right) + \beta_3 \left(\frac{PPE_{it}}{A_{it-1}} \right) + \epsilon$$

Determining NDA using the previous regression coefficients:

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

Using the DA formula:

$$DA_{it} = \frac{TAC_{it}}{A_{it-1}} - NDA_{it}$$

Description: TAC_{it} : Total accruals of company i in year t NI_{it} : Net income of company i in year t CFO_{it} : Operating cash flows of company i in year t NDA_{it} : Non-discretionary accruals of company i in year t ΔREV_{it} : Revenue of company i in year t minus revenue in year $t-1$ ΔREC_{it} : Receivables of company i in year t minus receivables in year $t-1$ PPE_{it} : Property, plant, and equipment of company i in year t A_{it-1} : Total assets of company i in year $t-1$ β : Regression coefficient ε : Error term"

CSR (Independent Variable) was measured using the CSR Disclosure Index (CSRI) based on the Global Reporting Initiative (GRI G4) framework, which encompasses 91 indicators across economic, environmental, and social dimensions. Disclosed items were scored 1, and undisclosed items were scored 0. This calculation refers to the research by (Ibrahim et al. 2023; Ong & Djajadikerta, 2020; Rahmasari dan Kurniawan, 2024). The following is the calculation of CSR:

$$CSR_{ij} = \frac{\sum X_{ij}}{N_j}$$

Description: CSR_{ij} : CSR Disclosure Index of the company $\sum X_{ij}$: Total CSR disclosures of the company N_j : Total number of items for the company, amounting to 91 indicators

Managerial ownership can be understood as the extent to which company shares are owned by members of management within a firm, either directly or indirectly through affiliated entities (Hasty et al. 2023). This variable is operationalized as the ratio of management's shares to the total number of outstanding shares, expressed as a percentage. This method of measurement has been applied in a number of empirical studies, such as (Dewi & Honggowati, 2023). The computation of managerial ownership is expressed as follows:

$$KM = \frac{\text{Number of shares owned by managerial parties}}{\text{Outstanding shares}} \times 100\%$$

Leverage (Independent Variable) indicates the degree to which a firm relies on debt financing to support its operations and investment activities. In this study, leverage is proxied by the debt-to-equity ratio (DER). The use of DER as a measurement indicator refers to the approach adopted by Hasty et al. (2023) and is consistent with the proxy employed by Harahap, (2021). The formula for calculating DER is presented as follows:

$$DER = \frac{\text{Total Liabilities}}{\text{Total Equity}}$$

Audit Quality (Moderating Variable) was measured using a dummy variable. Companies audited by Big Four public accounting firms are assigned a value of 1, whereas companies audited by non-Big Four firms are assigned a value of 0. This measurement approach refers to the research of (Pratama & Kusumadewi, 2020).

Data Analysis Technique

Data were analyzed using panel data regression combined with Moderated Regression Analysis (MRA) via EViews 12. Model selection followed three sequential tests: the Chow Test, Hausman Test, and Lagrange Multiplier Test, which indicate that the Random Effects Model (REM) is the most appropriate estimator. Conceptually, REM is employed because it treats firm-specific effects as random variables drawn from a common distribution and assumes no correlation with the independent variables, allowing the model to capture unobserved heterogeneity without estimating separate parameters for each entity (Baltagi & Bresson, 2024). This approach leads to more efficient estimation and enables broader generalization, treating cross-sectional variation as part of a random distribution. The base regression model is specified as:

$$Y = \alpha + \beta_1 CSR_{it} + \beta_2 KM_{it} + \beta_3 LV_{it} + \varepsilon_{it}$$

The moderation model incorporating audit quality (Z) is specified as:

$$Y = \alpha + \beta_1 CSR_{it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{1Zit} + \beta_5 X_{2Zit} + \beta_6 X_{3Zit} + e$$

RESULT

This study analyzed panel data from 17 companies that were consistently listed on the Jakarta Islamic Index (JII) over four consecutive years (2021–2024), yielding a total of 68 firm-year observations. All data were processed using EViews 12. The analysis proceeded through four sequential stages: descriptive statistical analysis, model selection testing, panel data regression including partial hypothesis testing and coefficient of determination, and Moderated Regression Analysis (MRA). The following results present the statistical findings along with their empirical meanings as they relate to the research objectives. The results presented below outline the statistical findings and their empirical interpretations in relation to the research objectives. The descriptive statistics reported in Table 2 illustrate the distributional profile of all variables analyzed in this study.

Table 2. Results of Descriptive Statistical Analysis

	CSR	KM	LV	ML	KA
Mean	0.346562	0.045557	0.940885	-0.075145	0.941176
Median	0.324786	0.000118	0.694726	-0.061641	1.000000
Maximum	0.564103	0.687559	6.465892	0.061490	1.000000
Minimum	0.136752	4.15E-08	0.128783	-0.221771	0.000000
Std. Dev.	0.122086	0.162915	1.060901	0.072665	0.237044
Skewness	0.163596	3.663464	2.994550	-0.396947	-3.750000
Kurtosis	2.120388	14.61850	13.47817	2.466686	15.06250

Source: Data processed using EViews 12 (2026)

Based on the results of descriptive statistical analysis of the 68 research samples, the earnings management variable (Y) shows a minimum value of -0.221771 and a maximum value of 0.061490, with an average of -0.075145. In addition, this variable has a standard deviation of 0.072665, indicating a fairly significant variation between companies, although still within a reasonable range. The Corporate Social Responsibility (CSR) variable (X1) shows a minimum value of 0.136752 and a maximum value of 0.564103, with an average of 0.346562. Furthermore, this variable has a standard deviation of 0.122086, which is lower than its average value, indicating that the data tends to be homogeneous with a relatively uniform distribution. The managerial ownership variable (X2) has a minimum value of 0.000000415 and a maximum value of 0.687559, with an average of 0.045557. In addition, a standard deviation of 0.08512 reflects considerable variation between companies, although still within a reasonable range. The leverage variable (X3) shows a minimum value of 0.128783 and a maximum of 6.465892, with an average of 0.940885. The audit quality variable (Z) has a minimum value of 0.000000 and a maximum of 1.000000, with an average of 0.941176. Moreover, the standard deviation of 0.237044, which is smaller than the average, indicates that the variation in the data is relatively low, so the distribution of data for this variable tends to be homogeneous with a relatively uniform spread.

Prior to hypothesis testing, the most appropriate panel data estimation model was determined through three sequential specification tests. The Chow Test was first conducted to compare the Common Effects Model (CEM) against the Fixed Effects Model (FEM), with results presented in Table 3.

Table 3. Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	6.395661	(16,48)	0.0000
Cross-section Chi-square	77.631224	16	0.0000

Source: Data processed using EViews 12 (2026)

Both the F-statistic and Chi-square probability values fall below the 0.05 significance threshold, leading to rejection of the null hypothesis and indicating that the FEM is preferable over the CEM. Consequently, the Hausman Test was conducted to determine whether the FEM or the Random Effects Model (REM) provides a superior fit, as shown in Table 4.

Table 4. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	5.945900	3	0.1143

Source: Data processed using EViews 12 (2026)

The probability value of 0.1143 exceeds the 0.05 threshold, indicating failure to reject the null hypothesis and confirming that the REM is more appropriate than the FEM. To further validate this selection, the Lagrange Multiplier Test was conducted as presented in Table 5.

Table 5. Lagrange Multiplier Test Results

	Cross-section	Time	Both
Breusch-Pagan	24.84649	1.525903	26.37239
	(0.0000)	(0.2167)	(0.0000)

Source: Data processed using EViews 12 (2026)

The cross-section probability value of 0.0000 indicates that the null hypothesis is rejected, thus the Random Effects Model (REM) is determined to be the most appropriate estimation model for this study. Based on this, the analysis was conducted using the Generalized Least Squares (GLS) approach, which conceptually is able to accommodate issues such as heteroscedasticity and autocorrelation (Gujarati, 2009). The full regression results are reported in Table 6.

Table 6. Panel Data Regression Analysis Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.156587	0.043832	-3.572451	0.0007
CSR	0.197028	0.067420	2.922388	0.0048
KM	-0.002294	0.003338	-0.687112	0.4945
LV	-0.007925	0.010134	-0.782023	0.4371

Source: Data processed using EViews 12 (2026)

The regression equation derived from Table 6 is as follows: $Y = -0.1566 + 0.1970(CSR) - 0.0023(KM) - 0.0079(LV)$. The regression results indicate that, when all independent variables (X1, X2, and X3) are held constant, the value of earnings management (Y) is -0.15658. Furthermore, CSR (X1) exhibits a positive coefficient of 0.19172, implying that an increase in CSR is associated with a rise in earnings management, ceteris paribus, where a 1% increase in CSR leads to an increase of 0.19172 in earnings management. In contrast, managerial ownership (X2) shows a negative coefficient of -0.00229, indicating that higher managerial ownership is linked to a reduction in earnings management, such that a 1% increase in managerial ownership corresponds to a decrease of 0.00229, assuming other variables remain unchanged. Similarly, leverage (X3) also demonstrates a negative relationship with earnings management, as reflected by its coefficient of -0.00792, meaning that a 1% increase in leverage is associated with a decrease of 0.00792 in earnings management under ceteris paribus conditions. The statistical significance of each independent variable was evaluated through the partial t-test, the results of which are summarized in Table 7.

Table 7. Results of the Partial Test (t-test)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.156587	0.043832	-3.572451	0.0007
CSR	0.197028	0.067420	2.922388	0.0048

KM	-0.002294	0.003338	-0.687112	0.4945
LV	-0.007925	0.010134	-0.782023	0.4371

Source: Data processed using EViews 12 (2026)

CSR exerts a positive and statistically significant effect on earnings management ($\beta = 0.197028$; $p = 0.0048 < 0.05$), providing empirical support for H1. Managerial ownership yields a non-significant negative coefficient ($\beta = -0.002294$; $p = 0.4945 > 0.05$), leading to rejection of H2. Similarly, leverage produces a non-significant negative coefficient ($\beta = -0.007925$; $p = 0.4371 > 0.05$), resulting in rejection of H3. The overall explanatory power of the model was assessed through the coefficient of determination, as reported in Table 8.

Table 8. Coefficient of Determination Test Results

R-squared	0.125294
Adjusted R-squared	0.084292

Source: Data processed using EViews 12 (2026)

The Adjusted R-squared value of 0.0843 indicates that the variables CSR, managerial ownership, and leverage collectively are able to explain 8.43% of the variation in earnings management. The remaining 91.57% is explained by other variables outside the model. The relatively low Adjusted R² value shows that the model's ability to explain the variation in earnings management is still limited. This condition indicates that earnings management practices are not only influenced by the variables tested, but also by other factors such as firm size, profitability, board characteristics, as well as macroeconomic conditions that were not included in this research model. Nevertheless, a low Adjusted R² value does not necessarily mean that the model is not empirically viable. In social and accounting research, particularly those related to managerial behavior, low R² values are quite common due to the complexity of the phenomena studied and the large number of factors that are difficult to observe directly. Therefore, the validity of the model is more appropriately evaluated through the significance of the coefficients and the consistency of the direction of the relationships with the theoretical framework used. Thus, these findings still have empirical relevance in explaining part of the variation in earnings management, while also indicating the limitations of the model that need to be considered. This opens up opportunities for future research to include additional variables in order to improve the model's explanatory power. To test the moderating role of audit quality (H4, H5, H6), Moderated Regression Analysis (MRA) was subsequently conducted, with results presented in Table 9.

Table 9. Moderated Regression Analysis Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.387317	0.280387	1.381365	0.1723
CSR	-0.564032	0.402290	-1.402054	0.1661
KM	0.001752	0.004813	0.364065	0.7171
LV	-0.299787	0.225194	-1.331241	0.1881
KA	-0.519636	0.272229	-1.908817	0.0611
CSR*KA	0.792240	0.408183	1.940897	0.0570
KM*KA	-0.105206	0.114394	-0.919684	0.3614
LV*KA	0.293491	0.225433	1.301899	0.1979

Source: Data processed using EViews 12 (2026)

The interaction term between CSR and audit quality (CSR×KA) yields a probability value of 0.0570, which marginally exceeds the 0.05 threshold and is therefore not statistically significant, leading to rejection of H4. The interaction between managerial ownership and audit quality (KM×KA) is similarly non-significant ($p = 0.3614 > 0.05$), resulting in rejection of H5. Finally, the interaction between leverage and audit quality (LV×KA) also fails to reach statistical significance ($p = 0.1979 > 0.05$), leading to rejection of H6. These findings collectively indicate that audit quality as proxied by Big Four affiliation does not significantly moderate any of the three

hypothesized relationships within the JII sample during the 2021–2024 period. Across all six hypotheses, only H1 is supported by the data, while H2, H3, H4, H5, and H6 are all rejected, pointing to the limited effectiveness of internal governance mechanisms and external audit monitoring in constraining earnings management within the specific institutional context of JII-listed firms during the post-pandemic economic recovery phase.

DISCUSSION

The Effect of Corporate Social Responsibility on Earnings Management

The empirical results of this study confirm that corporate social responsibility (CSR) exerts a positive and statistically significant effect on earnings management among companies listed in the JII during the 2021–2024 period. These findings support H1 and are in line with agency theory (Jensen & Meckling, 1976), which explains that information asymmetry between managers and shareholders can encourage opportunistic behavior in financial reporting. The positive direction of the relationship indicates that the higher the CSR disclosure, the higher the level of earnings management, demonstrating that CSR, under certain conditions, can be associated with increased managerial flexibility in financial reporting. This finding is consistent with Santos-Jaén et al., (2021), who describe CSR as a tool for legitimacy, and is also supported by (Ramadanti & Istiqomah, 2025; Zhang et al., 2021), who found a positive relationship between CSR disclosure and earnings management. In the Indonesian context, similar results were found by (Pratama & Kusumadewi, 2020; Rahmasari dan Kurniawan, 2024), as well as Rusliyawati, (2023), who showed that CSR can be associated with increased managerial discretion. However, this finding does not mean that all CSR practices are opportunistic. These results indicate that under certain conditions, such as during the post-pandemic economic recovery phase, CSR is used as an effort to maintain reputation and investor trust, thus encouraging management to present stable performance. Additionally, since CSR disclosure is still voluntary, companies have the flexibility to determine what information is disclosed, resulting in less optimal oversight and creating opportunities for flexibility in financial reporting. This finding contributes to the literature by showing that the relationship between CSR and earnings management can also be found in the Islamic stock index, which theoretically has higher governance expectations. These results indicate that strengthening the quality of CSR disclosure, including through the development of more structured reporting standards and stricter verification mechanisms, can be a consideration for regulators and standard setters to enhance the credibility of the information disclosed.

The Effect of Managerial Ownership on *Earnings Management*

Contrary to hypothesis H2, the results of the study show that managerial ownership does not have a significant effect on earnings management in companies listed on the JII. These findings do not fully support the alignment hypothesis of agency theory, which states that share ownership by managers can reduce the incentive to manipulate earnings (Warfield et al., 1995). However, this result can be understood by considering the ownership characteristics in the sample, where the average managerial ownership is only 4.55%, which is not strong enough to substantially influence managerial incentives. Under these conditions, managers tend to continue to act as professional managers with limited ownership involvement. Harahap, (2021) explains that the low proportion of management ownership in public companies in Indonesia causes the alignment mechanism to not always function effectively. This is supported by the findings of (Lubis et al., 2025), which show that the average managerial ownership in Indonesia is around 6%, a level considered insufficient to drive governance through ownership. These findings are also consistent with those of (Christi et al., 2022; Maulina, 2020), who also found no significant effect of managerial ownership on earnings management. In the Indonesian context, the ownership structure tends to be concentrated, including the dominance of institutional and family shareholders, which can influence the role of managerial ownership in the oversight mechanism, so its effectiveness may vary between companies, including those listed on the JII. Thus, these results indicate that the role of managerial ownership in constraining earnings management is not always the same, but depends on the conditions of each company.

The Effect of Leverage on *Earnings Management*

The results of the study show that leverage does not have a significant effect on earnings management in companies listed on the JII, thus H3 is rejected. These findings are not fully consistent with the debt covenant hypothesis in agency theory, which states that companies with high debt levels tend to face contractual pressure that can motivate managers to manipulate earnings (Jensen & Meckling, 1976). However, these results can be understood by considering the characteristics of the companies in the research sample, where companies listed on the JII generally have restrictions on the use of debt, resulting in more controlled leverage levels. The average debt-to-equity ratio of 0.9409 indicates a relatively balanced capital structure, so the resulting financial pressure is not strong enough to encourage earnings management practices. In addition, creditor monitoring at certain leverage levels can also limit managerial discretion, as explained by (Wirianata, 2020). These findings are consistent with those of (Dewi et al., 2025; Mulyono & Opti, 2023), who also did not find a significant effect of leverage on earnings management and linked it to the role of creditor monitoring, which can reduce opportunistic incentives. Thus, these results indicate that the effect of leverage on earnings management is not always the same, but can vary depending on company conditions and the level of monitoring in place.

The Moderating Role of Audit Quality on the Relationship between CSR and *Earnings Management*

The results of the moderation test indicate that audit quality does not moderate the relationship between CSR and earnings management ($p = 0.0570$), thus H4 is rejected. Although the significance value is close to the 0.05 threshold, these findings suggest that the role of audit quality in this relationship has not been empirically observed. One possible explanation is the limited scope of audits, which tend to focus more on the fairness of financial statement presentation rather than on non-financial disclosures such as CSR. Rahayu & Yendrawati, (2025) explain that auditor oversight tends to be centered on formal accounting information and does not fully cover strategic aspects of CSR disclosure. As a result, the use of CSR as a tool to shape stakeholder perceptions cannot always be controlled through audit mechanisms. These findings are consistent with Hoang et al., (2022), who found that auditors, including those affiliated with the Big Four, have limitations in constraining earnings management in companies that are active in CSR disclosure. Thus, these results indicate that audit quality is not necessarily effective in strengthening or weakening the relationship between CSR and earnings management.

The Moderating Role of Audit Quality on the Relationship between Managerial Ownership and *Earnings Management*

The results of the moderation test show that audit quality does not moderate the relationship between managerial ownership and earnings management ($p = 0.3614$), thus H5 is rejected. These findings indicate that oversight through audits does not always strengthen the role of managerial ownership in constraining earnings management. In this study, this may be related to the low level of managerial ownership, so that the alignment mechanism does not function optimally. As a result, audit quality also does not play a strong enough role to reinforce this relationship. These findings are consistent with (Suwarno, 2021), who showed that audit quality does not serve as a moderating variable when internal governance mechanisms are not yet effective, and are further supported by (Rosyidah & Rahayu, 2024), who stated that the moderating role of audit quality depends on the strength of the underlying governance mechanisms. Thus, these results indicate that the role of audit quality in this relationship is not always the same, but is influenced by the internal conditions of the company.

The Moderating Role of Audit Quality on the Relationship between Leverage and *Earnings Management*

The results of the moderation test show that audit quality does not moderate the relationship between leverage and earnings management ($p = 0.1979$), thus H6 is rejected. This finding is consistent with previous results showing that leverage also does not have a significant effect on earnings management. Under these conditions, the moderating role is unlikely to emerge because

the main relationship that might be strengthened or weakened is not present. In addition, the limited role of audits may also be an explanation. Chowdhury & Eliwa, (2021) found that auditors, including the Big Four, are not always able to constrain real earnings management practices related to operational decisions. Meanwhile, Rusliyawati, (2023) found that the moderating role of audit quality in the relationship between leverage and earnings management is not always consistent and depends on certain conditions. Thus, these results indicate that the role of audit quality in this relationship does not always emerge and may differ depending on company characteristics as well as the form of earnings management practices undertaken.

CONCLUSION

This study examines the effect of CSR, managerial ownership, and leverage on earnings management in companies listed on the Jakarta Islamic Index (JII) for the 2021–2024 period, with audit quality as a moderating variable. The results show that CSR has a positive and significant effect on earnings management, while managerial ownership and leverage do not have significant effects. In addition, audit quality was not proven to moderate any of these relationships. Overall, these findings indicate that the governance mechanisms tested have not consistently worked to limit earnings management practices in JII companies. From a theoretical perspective, this study demonstrates that the predictions of agency theory do not always apply uniformly, but rather depend on the conditions of each governance mechanism. Managerial ownership, leverage, and audit quality are not automatically effective, but are influenced by ownership level, capital structure, and the characteristics of existing oversight. The findings regarding the positive relationship between CSR and earnings management also reinforce the view that non-financial disclosure can be strategically utilized in financial reporting, even in companies with relatively high governance expectations such as those in the JII.

From a practical perspective, these results indicate that existing oversight mechanisms have not been fully able to limit managerial flexibility in financial reporting. Therefore, regulators may consider strengthening the quality of disclosure, including encouraging verification or assurance of non-financial information such as CSR, as well as enhancing the role of auditor oversight to not only focus on financial statements but also consider their relationship with other relevant disclosures. However, this study has limitations, particularly the low Adjusted R² value (8.43%), which indicates that the variation in earnings management cannot be optimally explained by the variables in the model. This suggests that earnings management practices are likely influenced by other factors outside the model, such as ownership structure, board characteristics, or broader economic conditions. Therefore, future research is recommended to include these variables in order to provide a more comprehensive understanding of the determinants of earnings management.

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