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| RESEARCH ARTICLE

The Effect of Financial Distress and Company Characteristics on Earnings Management with the Audit Committee as Moderator

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| ABSTRACT
The purpose of this study is to examine and analyze the effect of financial distress, operating cash flow, and return on equity on earnings management in publicly listed companies in the manufacturing industry listed on the Indonesia Stock Exchange for the period 2018-2020. To examine and analyze the influence of the audit committee moderation variable to strengthen or weaken the effect of financial distress, operating cash flow, and return on equity on earnings management in publicly listed companies in the manufacturing industry listed on the Indonesia Stock Exchange for the period 2018 – 2020. The method used is a quantitative method with an explanatory research type. The population in this study are all manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2018 – 2020, a total of 150 companies. Determining the number of samples was carried out using a purposive sampling technique, and it was determined that there were 77 companies. The data analysis method used is panel data analysis with the Eviews software program version 10. The results show that financial distress has a positive effect on earnings management in Manufacturing companies listed on the IDX for the period 2018 - 2020. Operating cash flow has no effect on earnings management in Manufacturing companies listed on the IDX for the 2018 - 2020 period. Return on equity has no effect on earnings management in Manufacturing companies listed on the IDX for the 2018 - 2020 period. The audit committee is unable to moderate the effect of financial distress on earnings management in Manufacturing companies listed on the IDX for the 2018 period - 2020. The audit committee is unable to moderate and weaken the effect of operating cash flow on earnings management in Manufacturing companies listed on the IDX for the period 2018 - 2020. The audit committee is able to moderate and strengthen the effect of return on equity on earnings management in Manufacturing companies listed on the IDX period 2018 - 2020.

| KEYWORDS

Financial Distress, Operating Cash Flow, Return on Equity, Audit Committee, Earning Management.

| ARTICLE INFORMATION

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1. Introduction

Financial reports are information media used by investors to find out the condition of a company. For this reason, managers have the responsibility to report financial statements for a certain period to internal and external parties that are transparent and reliable. But in reality, the reported financial reports are far from transparent because some managers do earnings management. Earnings management is the use of accounting engineering to make a company's financial results appear better than they actually are. Earnings management is carried out by utilizing accounting standards to increase the company's reported profits. Some companies deliberately carry out earnings management and manipulate financial report data with various objectives, including making the company appear profitable to investors.

There are several factors that influence companies to practice earnings management, namely financial distress, and internal audit committees (Li et al., 2020). The same thing was also expressed by Ranjbar & Amanollahi (2018) that companies practice earnings

management because the company is experiencing financial distress. Research by Pratiwi et al. (2022) found that one of the factors that allegedly supports the practice of earnings management is financial distress.

Public companies experiencing financial difficulties will be motivated to engage in earnings management practices (Jacoby et al., 2019). Many studies have proven that financial distress has an effect on earnings management practices, such as the research conducted by Pratiwi et al. (2022), which proves that financial distress affects income from earnings management practices.

It is also possible for earnings management practices to occur due to weak or lack of oversight from the audit committee, due to the existence of an audit committee to oversee and ensure that companies implement accounting principles so as to produce accountable and credible financial information. So that the more the proportion of audit committees will have an impact on the company's internal performance and the less earnings management practices. Several studies have shown that audit committees have a significant effect on earnings management, as was done by Sari & Haryono (2021) who revealed that audit committees have a significant effect on earnings management.

A number of studies above show different results, some research results state that financial distress has a positive effect on earnings management. Other studies explain that financial distress has no effect on earnings management. The same condition is found in the audit committee, where Sari & Haryono (2021) found the audit committee has a significant effect on earnings management. However Karina & Sutarti (2021) found otherwise that the audit committee has no significant effect on earnings management. The same thing was also found by Subhasinghe & Kehelwalatenna (2021) the audit committee has no significant effect on earnings management. The results of a review of several previous studies related to the effect of financial distress and audit committees show that consistent results have not been found between one researcher and another, so it becomes interesting to re-examine in different company conditions.

Apart from the phenomena and research gaps, this study refers to research by Li et al. (2020) entitled Financial distress, internal control, and earnings management: Evidence from China. This kind of research is still limited in Indonesia, so it is very interesting to study. The difference in this study lies in the research location where in this study the object used was a manufacturing company listed on the Indonesia Stock Exchange, and the time period used for analysis was the period from 2015 to 2020.

2. Literature Review

2.1 Agency Theory

Agency theory was introduced in 1976 by Jensen and Mekling, which later became the basis for understanding corporate governance. Agency theory is the basis for doing business, where when the owner of the company gives responsibility to other parties (Sucipto & Zulfa, 2021). Where this can be a conflict between the person who owns (principal) and the person who manages (agent), namely agency conflict. Shareholders measure the good or bad performance of managers through the profits generated. Meanwhile, managers do business in order to achieve maximum profit in order to satisfy the desires of shareholders. So it is very likely that managers will manipulate shareholders when reporting the condition of the company so that it looks good in the eyes of shareholders even though this is inversely proportional to the condition of the existing company.

2.2 Earning Management

According to Suyoto & Dwimulyani (2019) earnings management is a choice made by managers in determining accounting policies that are carried out in order to influence reports to achieve certain goals. Earnings management practices have eroded investors' confidence in the quality of financial reporting and hindered the smooth flow of capital in financial markets. Therefore, a control mechanism is needed to align the different interests between management and principals, namely good corporate governance, one of the goals of which is to prevent excessive earnings management actions. Measurement of earnings management in this study uses the earnings management approach model Utami (2005), the Utami model for earnings management is the ratio of working capital accruals to sales.

2.3 Audit Committee

The audit committee is the person who supervises the company. This committee has the duty to oversee the internal control system, external audits, and financial reports to reduce the opportunistic nature of management (Sari & Haryono, 2021). The audit committee has a very important and strategic role in terms of maintaining the credibility of the process of preparing financial reports as well as maintaining the creation of an adequate corporate oversight system and the implementation of good corporate governance. Based on this regulation, companies that have been registered on the IDX are required to have an audit committee consisting of at least 3 (three) members, both from independent commissioners and parties outside the company. The success of the audit committee in carrying out its duties and responsibilities is influenced, among other things, by the number of audit committees (Saepudin et al., 2018).

2.4 Financial Distress

Financial distress is the company's inability to fulfill its obligations or in other words experiencing bankruptcy. When managers know about financial difficulties in the company, apart from reducing costs, earnings management is a practical way to respond to financial distress (Supardi & Asmara, 2019). Financial distress can be detected when a company is experiencing financial difficulties or has experienced a continuous decline in profits and is unable to meet its obligations when they fall due. Companies that are in a "decline" cycle must be able to make good strategic choices by reducing dividends, reducing investment or changing capital structure to avoid financial distress (Koh et al., 2015). To measure financial distress, many studies use the Z-score defined by (Altman, 1968). Li et al. (2020) uses a modified Z-score (ZSCORE) to measure financial distress with the following formula:

ZSCOREi,t= 0,3X1 + 1,0X2 + 1,4X3 + 1,2X4 + 0,6X5

2.5 Operational Cash Flow

According to Kipngetich et al. (2021) operating cash flow is the amount of money remitted for merchandise procurement, tax settlement, vendor fees, wages and other operating expenses. Operating cash flow information provides administration with a clear picture of how much cash and the institution needs to be utilized or generated from the day-to-day operations of the business. Cash Flow from Operating (CFO), is the cash flow obtained or issued from company activities. CFO is measured based on the existing CFO in the cash flow statement at the end of the current year divided by total assets for the year. The formula is as follows (Feldo et al., 2017):

$$Cash\ Flow\ from\ Operating = \frac{Operating\ Cash\ Flow}{Total\ Assets}$$

2.6 Return on Equity (ROE)

Return on equity (ROE) is a ratio for measuring net profit after tax with own capital and generates net income available to owners or investors (Choiriyah et al., 2020). According to Kasmir (2018) ROE is an important measure to determine how efficiently companies will use the money they invest in generating net profit. Pulungan & Insan (2020) explains that return on equity (ROE) is a measure of the amount of profit generated by the company last year compared to the value of its equity. ROE (Return on equity) is the success/failure of management in maximizing the return on investment of shareholders and emphasizing the return on income with the amount invested. The formula is (Choiriyah et al., 2020):

$$ROE = \frac{Earning\ After\ Tax\ (EAT)}{Total\ Equity}$$

The framework of thought used in this study is as follows:

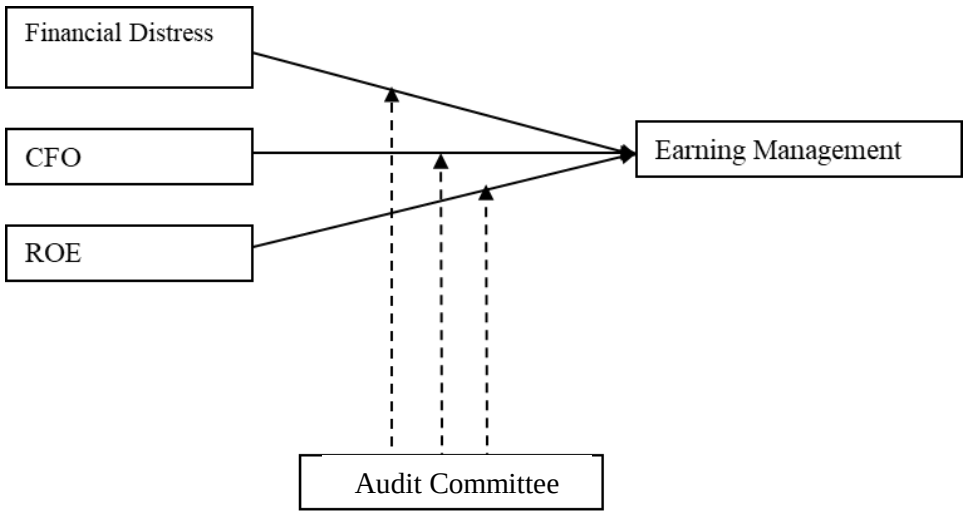

Figure 1. Research Framework

With reference to the framework of thought above, the hypothesis proposed in this study is:

H_1 : Financial distress has a positive effect on earnings management

H_2 : Operating cash flow has a negative effect on earnings management
H_3 : Return on equity has a negative effect on earnings management
H_4 : The audit committee weakens the effect of financial distress on earnings management
H_5 : The audit committee strengthens the effect of operating cash flow on earnings management
H_6 : The audit committee strengthens the influence between return on equity and earnings management

3. Methodology

This research uses a quantitative approach and is included in the type of explanatory research, namely explaining the causal relationship between variables through hypothesis testing, which aims to determine the effect of the independent variable on the dependent variable (Sugiyono, 2018). The variables in this study consist of 4 types of variables, namely: 1) independent variables consisting of financial distress, operating cash flow, and return on equity, 2) dependent variable namely earnings management, and 3) moderating variable namely audit committee. Meanwhile, the population in this study are all manufacturing companies listed on the IDX in 2018 – 2020, a total of 160 companies ; withdrawal of samples using non-probability sampling method with purposive sampling technique. The samples in this study were basic and chemical manufacturing companies that met the following criteria:

1. Manufacturing companies listed on the IDX for the 2018-2020 period
2. Manufacturing companies that consistently published annual audit reports for the 31 December 2018-2020 period
3. Manufacturing companies that have complete annual report data according to research needs
4. Manufacturing companies that experience positive profits during the 2018-2020 period

The data used are company financial reports that have been registered and published in 2018-2020. The data sources in this study are secondary data obtained from the official website of the Indonesia Stock Exchange (ww.idx.co.id), and various literature in the form of books, journals, publications related to the variables in the study. The data obtained were then analyzed using the panel data analysis model using the help of the Eviews version 10 software program. However, previously a descriptive analysis was carried out which provided an overview of a variable as seen from the mean, standard deviation, maximum value and minimum (Ghozali, 2013). After that, the classical assumption test was carried out, namely the normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test. The steps of this analysis are determination analysis (R^2), F statistical test, and t statistical test.

4. Results and Discussion

In this study, the data used is secondary data obtained from the financial reports of manufacturing companies listed on the IDX for the period 2018 – 2020. A summary of the sample selection procedure is presented in the following table:

Table 1. Sampling Criteria

No	Sampling Criteria	Amount
1	Manufacturing companies listed on the IDX for the period 2018 - 2020	160
2	Sort manufacturing company incomplete financial statements	(22)
3	Manufacturing companies that experienced losses in the 2018-2020 period	(61)
	Number of Observations (77 x 3 years of observations)	**231**

Source: Results Processed by Researchers (2022)

4.1 Descriptive Statistics Test

This analysis was conducted to determine the minimum, maximum, average (mean), and standard deviation values of the research data. The results of descriptive statistical tests on all variables can be seen in table 2 as follows:

Table 2. Descriptive Statistical Test Results

	EM	FD	CFO	ROE	KA
Mean	0.047058	4.611943	0.088991	0.145770	3.043290
Maximum	5.211200	174.4121	0.488800	2.244600	5.000000
Minimum	-0.7595	0.869600	-0.255	0.000400	2.000000
Std. Dev.	0.419051	12.43490	0.113700	0.231261	0.291675
Observations	231	231	231	231	231

Source: Results of Data Processing with Eviews 10 (2022)

It can be seen that the Earning Management (EM) variable has a mean or average value of 0.047058 with a maximum value of 5.211200 found in PT Star Petrochem Tbk and a minimum value of -0.759500 found in PT Merck Indonesia Tbk. With a standard deviation of 0.419051 which means that the maximum increase in the average variable.

The Financial Distress (FD) variable has a mean or average value of 4.611943 with a maximum value of 174.4121 found in PT Star Petrochem Tbk and a minimum value of 0.869600 found in PT Barito Pacific Tbk. With a standard deviation of 12.43490 which means that the maximum increase in the average variable.

It can be seen that the Cash Flow from Operating (CFO) variable has a mean or average value of 0.088991 with a maximum value of 0.48880 in PT Multi Bintang Indonesia Tbk and a minimum value of -0.255000 in PT Alaska Industrindo Tbk. With a standard deviation of 0.113700 which means that the maximum increase in the average variable.

It can be seen that the variable Return on Equity (ROE) has a mean or average value of 0.145770 with a maximum value of 2.244600 in PT Merck Indonesia Tbk and a minimum value of 0.000400 in PT Star Petrochem Tbk. With a standard deviation of 0.231261 which means that the maximum increase in the average variable.

The Independent Commissioner Variable (KI) has a mean or average value of 3.043290 with a maximum value of 5.000000 in PT Charoen Pokphand Indonesia Tbk and a minimum value of 2.000000 in PT Alkindo Naratama Tbk. With a standard deviation of 0.291675 which means that the maximum increase in the average variable.

4.2 Analysis of Research Results

a. Classic assumption test

The classic assumption test is a statistical test conducted to measure the closeness of the relationship or influence between independent variables through the magnitude of the correlation coefficient. This classic assumption test consists of a data normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test. The results of the normality test in this study can be seen in Figure 2 below.

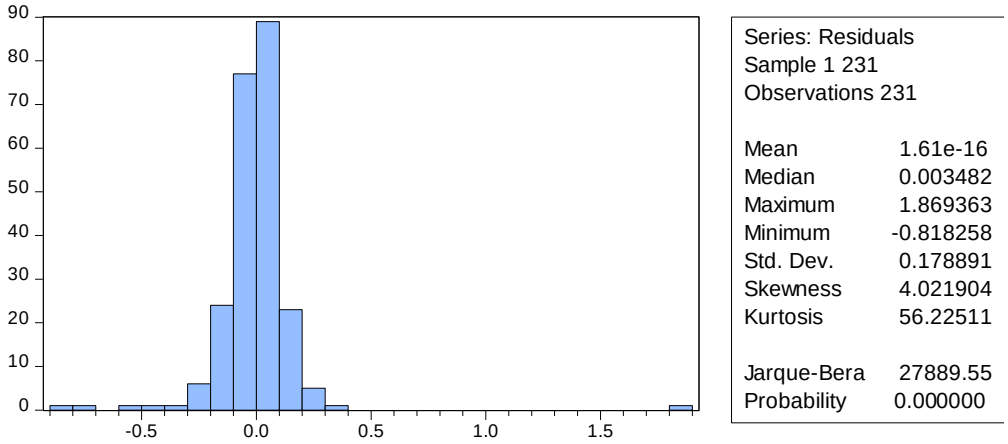

Figure 2. Normality Test Results

Source: Results of Data Processing with Eviews 10 (2022)

The Jarque-Bera value is 27889.55 with a probability value of 0.000000 which is smaller than the significant level of 0.05, so it can be concluded that the data in this study are not normally distributed. Furthermore, the results of multicollinearity in this study can be seen in the following table.

Table 3. Multicollinearity Test Results

No	Variable	VIF	Information
1	*Financial distress*	1.007344	Multicollinearity Does Not Occur
2	Operating cash flow	1.305361	Multicollinearity Does Not Occur
3	*Return on equity*	1.310987	Multicollinearity Does Not Occur
4	Audit Committee	1.001030	Multicollinearity Does Not Occur

Source: Results of Data Processing with Eviews 10 (2022)

The VIF value on the variables financial distress, operating cash flow, return on equity, and audit committee is less than 10. Thus it can be concluded that the six variables are free from multicollinearity problems because the VIF value is < 10. The results of the heteroscedasticity test in this study can be seen in following table.

Table 4. Heteroscedasticity Test Results

Heteroskedasticity Test: White

F-statistic	179.5593	Prob. F(32,198)	0.0000
Obs*R-squared	223.3051	Prob. Chi-Square(32)	0.0000
Scaled explained SS	5746.335	Prob. Chi-Square(32)	0.0000

Source: Results of Data Processing with Eviews 10 (2022)

From each variable obtain a Prob value. Obs*R-Squared of 0.000. These results conclude that the variable has heteroscedasticity problems because the Prob value. Obs*R-Squared is below < 0.05. The following table is the result of the autocorrelation test which can be seen in table 5 below.

Table 5. Autocorrelation Test Results

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	0.209119	Prob. F(2,221)	0.8115
Obs*R-squared	0.436336	Prob. Chi-Square(2)	0.8040

Source: Results of Data Processing with Eviews 10 (2022)

Obs*R-squared value with Prob. Chi-Square 0.8040 is greater than 0.05. So it was concluded that the data on the model in the research variables did not occur autocorrelation.

b. Best Model Selection Recommendations

The following is a summary result of the panel data regression model selection test.

Table 6. Panel Data Regression Model Selection Results

Test Name	Information	Results
Chow Test	CEM Vs FEM	*Fixed Effect Model*
Hausman Test	REM Vs FEM	*Fixed Effect Model*
Langrage Multiplier Test	CEM Vs REM	*Common effect model*

Source: Results Processed by Researchers (2022)

The results of the chow-test show that the best model is the fixed effect model compared to the common effect model. Furthermore, the results of the hausman-test show that the best model is the fixed effect model which is better than the random effect model, and based on the Langrage multiplier test it shows that the common effect model is better than the random effect model. Furthermore, based on the Chow-test and Hausman-test, it can be decided that the best testing model for the regression equation is to use the fixed effect model.

c. Panel Data Regression Analysis

Before conducting the panel data regression test, a classical assumption test was first performed to ensure that the regression coefficient did not occur, and the results obtained from the classical assumption test that there had been a violation of the classical assumptions from both the normality test and the heteroscedasticity test. Then the best panel data regression model in this study uses the fixed effect model and uses the HAC Newey-West Test method. The results of panel data regression testing model 1 (before moderation) and model 2 (after moderation) with the HAC Newey-West Test can be seen in the following table.

Table 7. Model 1 Regression Results (Before Moderation)

Dependent Variable: EM
Method: Least Squares
Date: 12/20/22 Time: 12:51
Sample: 1 231
Included observations: 231
HAC standard errors & covariance (Bartlett kernel, Newey-West fixed bandwidth = 5.0000)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.049895	0.044748	-1.115016	0.1330
FD	0.030176	0.002385	12.65500	0.0000
CFO	0.034503	0.198755	0.173598	0.4312
ROE	-0.140664	0.129417	-1.086906	0.1391
KA	-0.008144	0.013846	-0.588166	0.2785

R-squared	0.816501	Mean dependent var	0.047058
Adjusted R-squared	0.813253	S.D. dependent var	0.419051
S.E. of regression	0.181090	Akaike info criterion	-0.558241
Sum squared resid	7.411327	Schwarz criterion	-0.483730
Log likelihood	69.47684	Hannan-Quinn criter.	-0.528188
F-statistic	251.4035	Durbin-Watson stat	2.052211
Prob(F-statistic)	0.000000	Wald F-statistic	44.20165
Prob(Wald F-statistic)	0.000000		

Source: Results of Data Processing with Eviews 10 (2022)

The regression equation used in the research based on the above test is as follows:

EM = -0.049895 + 0.030176 FD + 0.034503 CFO - 0.140664 ROE -0.008144 + ε

From the model equation 1 above, it is known that the results of the regression test using the fixed effect model method with HAC show that financial distress and operating cash flow have a positive relationship with earnings management. Meanwhile, return on equity and audit committee have a negative relationship with earnings management.

Table 8. Model 2 Regression Results (After Moderation)

Dependent Variable: EM
Method: Least Squares
Date: 08/11/22 Time: 10:28
Sample: 1 231
Included observations: 231
HAC standard errors & covariance (Bartlett kernel, Newey-West fixed bandwidth = 5.0000)

Variable	Coefficient	Std. Error	t-Statistic	Prob. One Tailed
C	-0.051199	0.096446	-0.530862	0.2980
FD	0.031561	0.008141	3.876836	0.0001
CFO	-2.771435	1.256409	-2.205839	0.0142
ROE	2.197674	1.057359	2.078457	0.0194
KA	-0.007494	0.030382	-0.246667	0.4027
FD_KA	-0.000547	0.002276	-0.240283	0.4052
CFO_KA	0.937658	0.379897	2.468188	0.0072
ROE_KA	-0.779592	0.335280	-2.325200	0.0105

R-squared	0.817760	Mean dependent var	0.047058
Adjusted R-squared	0.812039	S.D. dependent var	0.419051
S.E. of regression	0.181677	Akaike info criterion	-0.539150
Sum squared resid	7.360494	Schwarz criterion	-0.419932
Log likelihood	70.27178	Hannan-Quinn criter.	-0.491065
F-statistic	142.9512	Durbin-Watson stat	2.029231
Prob(F-statistic)	0.000000	Wald F-statistic	409.4595
Prob(Wald F-statistic)	0.000000		

Source: Results of Data Processing with Eviews 10 (2022)

The regression model after using the moderating variable used in the study based on the above test is as follows:

EM = -0.051199 + 0.031561 FD - 2.771435 CFO + 2.197674 ROE - 0.007494 KA - 0.000547 FD_KA + 0.937658 CFO_KA - 0.779592 ROE_KA + ε

From the equation model above, it can be explained that based on the results of the regression test using the fixed effect model method with HAC, it shows that financial distress, return on equity, and audit committees in moderating operating cash flow have a positive relationship with earnings management. Meanwhile operating cash flow, audit committee in moderating financial distress, and audit committee in moderating return on equity, have a negative relationship with earnings management.

4.3 Hypothesis Testing

Based on the results of selecting the best panel data regression model, the researcher decided to use the fixed effect model in the regression model. The first hypothesis test in this study was the coefficient of determination test whose results are presented in the following table:

Table 9. Results of Determination Analysis (R^2)

	Variable Relations	***R-Squared***
Model 1 (Before Moderation)	*Financial distress, operating cash flow, and return on equity on earning management*	0,816501
Model 2 (After Moderation)	The audit committee moderates the effect of financial distress, operating cash flow, and return on equity on earnings management	0,817760

Source: Results of Data Processing with Eviews 10 (2022)

It is known that the R-Squared value in model 1 (before moderation) is 0.816501. So it means that financial distress, operating cash flow, and return on equity jointly affect earnings management by 81.6%, and the remaining 18.4% is influenced by other factors outside the research model. Furthermore, in model 2 (after moderation) the R-Squared value is 0.817760. This means that the audit committee variables in moderating the effect of financial distress, operating cash flow, and return on equity, jointly affect earnings management by 81.7%, and the remaining 18.3% is influenced by other factors outside the research model.

Furthermore, the results of the simultaneous test (F test) in this study are as follows:

Table 10. Statistical Test Results F

	F-statistic	***Prob(F-statistic)***
Financial Distress, Operating Cash Flow, and Return on Equity	142.9512	0.000000

Source: Results of Data Processing with Eviews 10 (2022)

Based on the F-Statistics value and the Prob(F-statistic) value in this study is 142.9512 with a probability value of 0.000000. The probability value of the F statistic is smaller than the significant value α = 5%, so it can be concluded that the independent variables in this study, namely financial distress, operating cash flow, and return on equity simultaneously have a significant effect on the dependent variable on earning management. The t-test hypothesis in this study is divided into two models, namely model 1 (before moderation) and model 2 (after moderation), which will be explained below.

Table 11. Statistical Test Results t Model 1 (Before Moderation)

Variable Relations	β	Sig. 1-tailed	Results
FD → ML	0.030176	0.0000	Has a positive effect, H1 is accepted
CFO → ML	0.034503	0,4311	No negative effect, H2 is rejected
ROE → ML	-0.140664	0,1391	Has a negative effect, H3 is rejected

Source: Results of Data Processing with Eviews 10 (2022)

- The first hypothesis; the results of the t test on the regression model, obtained a coefficient (β) with a positive direction of 0.030176 and a one tailed significance value of 0.0000 <0.05 (5% significance level). So, it can be concluded that the first hypothesis is accepted.

- Second hypothesis; the results of the t test on the regression model, obtained a coefficient (β) with a positive direction of 0.034503 and a one tailed significance value of 0.4311 > 0.05 (5% significance level). So, it can be concluded that the second hypothesis is rejected.

- The third hypothesis; the results of the t test on the regression model, obtained a coefficient (β) with a positive direction of -0.140664 and a one tailed significance value of 0.1391 > 0.05 (5% significance level). So, it can be concluded that the third hypothesis is rejected.

Table 12. Statistical Test Results t Model 2 (After Moderation)

Variable Relations	β	Sig. 1-tailed	Results
FD*KA → ML	-0.000547	0.4052	Unable to moderate, H4 is rejected
CFO*KA → ML	0.937658	0.0072	Capable of moderating and weakening, H5 is rejected
ROE*KA → ML	-0.779592	0.0105	Able to moderate and amplify, H6 is acceptable

Source: Results of Data Processing with Eviews 10 (2022)

- Fourth hypothesis; the results of the t test on the regression model, obtained a coefficient (β) with a negative direction of -0.000547 and a one tailed significance value of 0.4052 > 0.05 (5% significance level). So, it can be concluded that the fourth hypothesis is rejected.
- Fifth hypothesis; the results of the t test on the regression model, obtained a coefficient (β) with a positive direction of 0.937658 and a one tailed significance value of 0.0072 <0.05 (5% significance level). So, it can be concluded that the fifth hypothesis is rejected.
- Sixth hypothesis; t test results on the regression model, the coefficient (β) is obtained with a negative direction of -0.779592 and a one tailed significance value of 0.0105 <0.05 (5% significance level). So, it can be concluded that the sixth hypothesis is accepted.

4.4 Discussion

a. *Financial Distress has a positive effect on Earning Management*
   Based on the results of testing the first hypothesis, it shows that financial distress has a positive effect on earnings management in Manufacturing companies listed on the IDX for the 2018-2020 period. This result is in line with agency theory which explains that when a company experiences financial distress, it is highly likely that management will make earnings management efforts, because company managers will be motivated to cover up the actual condition of the company by doing earnings management. This can be done by company managers because they have more information than shareholders. The results of this study support the research of Hassanpour & Ardakani (2017) which found a positive effect of financial distress on earnings management.

b. Operating Cash Flow has a negative effect on Earning Management
   Based on the results of testing the second hypothesis, it shows that operating cash flow has no effect on earnings management in Manufacturing companies listed on the IDX for the period 2018 - 2020. Operating cash flow is used as an indicator of company performance, where low operating cash flow results in low performance. The use of operating cash flow as a component of predicting company performance. The results of research conducted by Hastuti et al. (2018) concluded that operating profit and cash flow can reflect company performance. The results of this study are in line with Phuong Ngo & Hong (2021) stating that net cash flow from operations has no effect on earnings management.

c. *Return On Equity has a negative effect on Earning Management*
Based on the results of testing the third hypothesis, it shows that return on equity has no effect on earnings management in manufacturing companies listed on the IDX for the period 2018 - 2020. This result is in line with research by Asmarani et al. (2019) which states that return on equity has no effect on earnings management. This indicates that management's success in maximizing returns to shareholders does not influence managers to take earnings management actions. This proves that the company's earnings management is not based on increasing the company's equity. The same results were also found by several previous studies by Aldona & Listari (2020) showing that ROE has no effect on earnings management.

d. The Audit Committee weakened the influence of Financial Distress on Earning Management
Based on the results of testing the fourth hypothesis, it shows that the audit committee is not able to moderate the effect of financial distress on earnings management in manufacturing companies listed on the IDX for the period 2018 – 2020. This could be due to the existence of an audit committee which only aims to comply with regulations, not to enforce implementation of good corporate governance. This finding is in line with Tannaya & Lasdi (2021)(Tannaya & Lasdi, 2021), he found that audit committees cannot moderate financial distress in earnings management.

e. The Audit Committee strengthens the influence of Operating Cash Flow on Earning Management
Based on the results of testing the fifth hypothesis, it shows that the audit committee is unable to moderate and weaken the effect of operating cash flow on earnings management in Manufacturing companies listed on the IDX for the period 2018 – 2020. These results explain that the existence of an audit committee is only aimed at compliance with regulations, not for enforce the implementation of good corporate governance. Wati & Juliesti (2021) concluded that companies that have larger operating cash flows indicate low earnings management in these companies. These results support the research findings of Yolanda et al. (2019) which show that audit committees have a significant and weakening influence in moderating CFOs with earnings management.

f. The Audit Committee strengthens the influence between Return on Equity and Earning Management
Based on the results of testing the sixth hypothesis, it shows that the audit committee is able to moderate and strengthen the effect of return on equity on earnings management in Manufacturing companies listed on the IDX for the period 2018 – 2020. The audit committee serves as a bridge between the company and external auditors who will examine the company's financial statements and compliance against the applicable regulations and standards before being verified by the external auditor. A high level of Return On Equity (ROE) indicates that the equity used by the company is maximized to get the maximum profit. Similar to the findings of Ferdianto, (2019), the audit committee as a moderating variable in the relationship between profitability and earnings management has a significant influence.

5. Conclusions and recommendations

5.1. Conclusion

Financial distress has a positive effect on earnings management in Manufacturing companies listed on the IDX for the 2018-2020 period. Meanwhile, operating cash flow and return on equity have no effect on earnings management in Manufacturing companies listed on the IDX for the 2018-2020 period. For the moderating variable, namely the committee the audit obtained was only able to moderate and strengthen the effect of return on equity on earnings management in Manufacturing companies listed on the IDX for the 2018-2020 period. However, the audit committee was unable to moderate and weaken the effect of financial distress and operating cash flow on earnings management in Manufacturing companies listed on IDX period 2018 – 2020.

5.2 Suggestion

This research can be used by investors related to information on the implementation of governance and earnings management activities within the company so that it can be used as one of the information in decision making. Then investors are advised to further review the financial condition related to the company's ability to manage current assets to finance its debts and obtain maximum profit in order to minimize the risk of earnings management practices. Finally, to be able to minimize earnings management, it is expected that the company can increase the results of operating cash flow and remain in this way the company can avoid earnings management practices.

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