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Earnings Management: An Analysis of Monitoring Mechanism, Financial Distress, and External Audit Quality (Empirical Study on Property, Real Estate, & Building Construction Companies Registered in Indonesia Stock Exchange Period 2018 – 2020)

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ABSTRACT

This study aims to examine the effect of supervisory mechanisms, financial distress, and external audit quality on earnings management. This study uses a sample of property, real estate, & building construction sector companies listed on the Indonesia Stock Exchange for the 2018 – 2020 period. The sampling technique used is purposive sampling. The sample used in this study amounted to 26 companies. The data analysis technique in this research is descriptive statistical test and PLS-SEM test which includes outer model test and inner model test. The software used to support data processing in this research is SmartPLS 3.3.9. The results of hypothesis testing indicate that financial distress has an effect on earnings management, while the supervisory mechanism and external audit quality have no effect on earnings management.

INTRODUCTION

Financial statements are a source of information for external parties in assessing the company's performance. A company periodically prepares financial reports for interested parties such as shareholders, investors and the government. The function of financial statements is to provide information regarding the financial position, performance, and changes in financial position (cash flows) of an entity that is useful for a large number of users in making economic decisions. One of the important parameters in the financial statements used to measure management performance is profit (Chairunesia, 2018).

Earnings information can be used as a guide in making investments that help investors or other parties in assessing the company's earnings power in the future. This tendency to pay attention to earnings is realized by management, especially managers whose performance is based on this information, thus encouraging the emergence of behavioral deviations, one of which is earnings management (Sulistyanto, 2014).

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Earnings management is often considered negative by many parties because in general earnings management causes the appearance of financial statement information (financial reporting) does not reflect the actual situation. The importance of finance is what makes management motivated to carry out windows dressing such as earnings management actions to obtain the desired goal even though it causes losses to other parties (Sulistyanto, 2014).

The existence of motivation such as bonus motivation, debt, taxes, share sales, change of directors, and political motivation lead to earnings management. Earnings management practices carried out by managers cannot be separated from the factors that affect a manager's freedom in applying techniques to increase or decrease company profits. Earnings management arises as a result of agency problems that occur because there is a mismatch of interests between shareholders and company management but the practice of earnings management cannot occur if the desired profit is not much different from the actual profit. This shows that profit is something that is highly considered by investors in determining the decision to invest or not so that managers try to convey information that can increase the value of the company and the quality of management in the eyes of investors (Sulistyanto, 2014).

Corruption is one of the most common indications of fraud in Indonesia which has the potential to cause losses of Rp. 1 billion/case (Trihargo, 2019). Corruption can be indicated as one of the earnings management practices because it involves the manipulation of financial data such as the case of earnings management in Indonesia in companies in Indonesia such as PT. Waskita Karya, Tbk (WSKT). The Corruption Eradication Commission (KPK) suspects that the former Head of Finance and Risk Division II PT Waskita Karya with the initials YAS manipulated financial data related to fictitious subcontractor projects. The impact of this corruption has cost the state up to Rp 202.29 billion so that former high-ranking PT. Waskita Karya, Tbk was sentenced to a criminal sentence of 4 – 7 years (Guritno, 2021).

This phenomenon makes earnings management always identified with opportunistic behavior, where in this case the management acts for the benefit of their personal interests and harms other parties such as investors. This earnings management action can provide an overview of the behavior of a manager in reporting his business activities so that certain motivations appear that encourage them to manage the reported financial data. Earnings management itself is a serious problem faced by practitioners and academics. The reason is that earnings management seems to have become a corporate culture that is practiced by all companies in the world (Sulistyanto, 2014).

Companies need to increase supervision both internally and externally in order to reduce losses due to opportunistic earnings management. External supervision can involve creditors, institutional parties, and even public accountants. The creditor will ensure that the company is able to repay the loan. The creditor's interest in the company also gives rise to a separate external oversight mechanism. In addition, the presence of institutional parties provides a big role for the company. The existence of institutional parties in company ownership motivates management to work more efficiently. This is because the supervisory and decision-making functions invite investors to become components of the company which also wants the company's profit level to increase. The increase in supervision is to avoid the behavior of company managers to carry out their actions in fulfilling their own interests, so opportunistic actions can be avoided (Jannah, 2021). Research conducted by Arifin & Dectriana (2016) shows that institutional ownership has an effect on earnings management, while research by Anggreni & Adiwijaya (2020) states that institutional ownership has no significant effect on earnings management.

Audit services play an important role in improving corporate governance and the fairness of the company's financial statements. The need for public accounting services in the future will be even greater since the enactment of a number of regulations that require transparent and accountable financial reports coupled with the increasing number of large companies that continue to grow in global business, including in Indonesia. The number of KAPs in Indonesia according to OJK as of February 2019 was 612 KAPs spread across Indonesia (OJK,2019).

Users of audited financial statements place great trust in the financial statement opinions given by public accountants. This requires public accountants to pay attention to the quality of the audit they produce. Audit quality is defined as the probability of an auditor finding and reporting an error or fraud that occurs in a client's accounting system. Audit quality aims to improve the results of audit performance on the client's financial statements in checking for material misstatements in the financial statements (Tandiontong, 2015). Audit quality itself is influenced by many factors, some of which include audit fees, audit tenure, and KAP's reputation.

Another factor that causes earnings management to occur is weak corporate governance or what is often called Good Corporate Governance. The weak practice of Good Corporate Governance in Indonesia leads to a deficiency in decision-making in companies and corporate actions (Effendi, 2016). Companies that have weak good corporate governance practices when faced with a crisis will certainly experience a more serious impact.

Good Corporate Governance can be a monitoring mechanism for companies. One of the monitoring mechanisms within the company is leverage. The existence of loans from outside the company also presents creditors as supervisors for company managers, so that managers will be more motivated to optimize the use of debt as well as possible. The use of debt that is too high will endanger the company because the company will be included in the category of extreme leverage (extreme debt), namely the company is trapped in a large level of debt and is difficult to release the debt burden (Fahmi, 2017).

According to the debt covenant hypothesis, it is said that if the company is getting closer to the direction of violating the debt requirements based on accounting values, then the company's management will be more inclined to use accounting procedures, namely moving future period profits to the current period. Research conducted by Arifin & Dectriana (2016) and Agustia (2013) states that leverage has an effect on earnings management. This study contradicts the results of Dimarcia & Krisnadewi (2016) research which states that leverage has no effect on earnings management.

The property & real estate sector experienced the highest market decline due to the financial crisis caused by the pandemic in early 2020. The property & real estate sector is the sector with the largest decline in market capitalization reaching -38.84% (Otoritas Jasa Keuangan, 2020). This sector is the sector that is most severely affected compared to other sectors, causing a potential decline in profits to a more potential bankruptcy threat, so this study will examine the impact on the finances of companies that are members of the property & real estate sector.

Companies that experience a decline in financial performance indicate that the company's financial condition is experiencing problems. According to Oktaviani (2020) the financial problems encountered by the company cannot be separated from the intense competition between companies which makes the costs to be incurred by the company become larger, this will certainly affect the company's performance. If the company cannot compete in the midst of the existing competition, there will be losses in the company which can then cause the company to experience financial distress or financial difficulties. The property & real estate business is experiencing financial distress as experienced by two (2) property & real estate companies listed on the Indonesia Stock Exchange, namely PT Agung Podomoro Tbk (APLN) and PT Alam Sutera Realty Tbk (ASRI). The two high-end property companies have their ratings cut by the global rating agency Fitch Ratings in line with increasing debt risk. The two property management companies also defaulted, then restructured their debts, and recently filed for bankruptcy and postponement of debt repayment obligations (PKPU) (Wareza, 2020).

This study refers to the research of Ghazali (2015) which examines the effect of opportunistic behavior, monitoring mechanism, and financial distress on earnings management in companies listed on the Malaysia Exchange for the period 2010 – 2012. The results showed that Opportunistic behavior did not have a significant effect on earnings management. Monitoring mechanism proxied by leverage and financial distress proxied by Altman Z-score shows a significant effect on earnings management. The results of this study can draw a conclusion that company managers will carry out earnings management when the company is financially healthy and company profits are high. The use of earnings management disguises a company's operating performance and reduces the reliability and accuracy of reported earnings information. This then creates problems for policy makers and regulators because biased information provided to investors will have a negative impact on the decision-making process, which in turn has a negative impact on the smooth functioning of financial markets. This concern has prompted policy makers and regulators to develop and enact laws and regulations to ensure the accuracy and reliability of reported information to protect the interests of stakeholders who rely on reported information to make economic decisions (Ghazali, 2015). This study further examines the impact of supervisory mechanisms, financial distress, and external audit quality on earnings management, especially in Property, Real Estate, & Building Construction companies listed on the Indonesia Stock Exchange. This study has several research differences. First, Ghazali's research (2015) found that the opportunistic behavior variable had no effect on earnings management, so this variable was excluded from the research model. The control mechanism variable in the research of Ghazali et al. (2015) is only indicated through leverage as the company's external supervisor, but in this study an indicator of institutional ownership was added. The existence of institutional parties in company ownership triggers management to work more efficiently. The presence of institutional parties also provides increased supervision so that it can prevent the behavior of company managers from carrying out their actions in fulfilling their own interests, so opportunistic actions can be avoided (Jannah et al., 2021). Second, this research also adds an external audit quality variable referring to research (Nawaiseh, 2016). The presence of an external audit also increases supervision of manager activities through auditing financial statements. Third, the measurement of financial distress in this study refers to Indriyanti's research (2019) which compares seven financial distress measurement models that are often used in accounting research. The results of Indriyanti's research (2019) found that Grover's financial distress prediction model had an accuracy of 96.6% more than other models, such as the Altman model of 86.6%; Taffler and Zmijewski 85%; the Springate model 70%, the Ohlson model 46.6%, and the Fulmer model 40%. Research on earnings management is still important to do because with this research it is hoped that later it will provide information for investors to invest and for the company to be able to strengthen the mechanism of Good Corporate Governance in order to detect, minimize and eliminate earnings management practices that occur because with that later Domestic and foreign investors will be interested in investing in companies that have good governance (Arifin & Destriana, 2016).

From the background of this research, the researcher is interested in conducting a study entitled "The Effect of Supervision Mechanisms, Financial Distress, and External Audit Quality on Earnings Management (Empirical Study on Property, Real Estate, & Building Construction Companies Listed on the Indonesia Stock Exchange for the 2018 Period) – 2020)".

The purpose of this study was to examine the effect of the control mechanism, financial distress, and external audit quality on profit management. This study uses a sample of property, real estate, & building construction sector companies listed on the Indonesia Stock Exchange for the 2018 – 2020 period.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Company

The company was initially managed by its shareholders. The role played by shareholders is not limited to the owner, but also performs the obligations and responsibilities as a company manager. As the size and complexity of the company grows, the separation of company ownership and management gradually becomes a company characteristic. Ownership of the company is not only owned by institutional shareholders but also dispersed. This shows that share ownership is not only owned by one individual, one company, or one group (Fahmi, 2017).

1.1.1 Earning Management

Earnings management is an action taken by management to increase or decrease the reported profit of the division it is responsible for, which is not related to the increase or decrease in the company's profitability over a long period of time (Sulistyanto, 2014). It is interesting that earnings management should be investigated because it can be an indication of the behavior of managers in reporting their business activities in a period, namely there is the possibility of a special motivation that triggers them to manage the reported financial data. A deliberate process and regulates the reporting of earnings in a special level is also called earnings management. Managers' efforts in optimizing the value of the company lead to efforts to optimize personal welfare. Based on this, why profit is considered to be a description of a manager's opportunistic behavior by manipulating his financial statements (Fashioning Accounting Reports), namely reporting profits or performance based on the interests he achieves. In accordance with agency theory, which states that the separation of ownership and management of the company can trigger each party to seek to optimize their respective welfare (Octoviany & Herawaty, 2019).

2.1.2 Financial Distress

Financial distress as a stage of a decline in financial conditions that occurred before the occurrence of bankruptcy or liquidation (Fahmi, 2017). Financial distress is financial or liquidity difficulties as the beginning of bankruptcy due to a decline in financial condition. According to Altman, financial distress can be caused by economic failure and financial failure. Under normal conditions, financial distress is mostly caused by management weaknesses (Endri & Yerianto, 2019).

2.1.3 Ownership structure

The company was initially managed by its shareholders. The role played by shareholders is not limited to the owner, but also performs the obligations and responsibilities as a company manager. As the size and complexity of the company grows, the separation of company ownership and management gradually becomes a characteristic of the company. Ownership of the company is not only owned by institutional shareholders but also dispersed. This shows that share ownership is not only owned by one individual, one company, or one group.

2.1.4 Leverage

Leverage is a ratio that measures how much the company is financed with debt (Fahmi, 2017). If the debt used is too large, it is very risky for the company because the company will fall into the category of extreme leverage, namely the company is trapped in a large debt level and is difficult to escape from the debt burden. The company should balance the amount of debt that deserves to be taken and from which sources can be used to pay off debt. The leverage ratio also shows the relationship between the company's debt on capital or assets owned by the company. This leverage ratio can find out how the company's funding ratio from debt to capital (equity). A good company should have a capital composition that is greater than debt (Harahap, 2016).

2.1.5 Audit Quality

DeAngelo (1981) defines audit quality as the auditor's ability to detect errors in financial statements and report them to users of those financial statements. The opportunity to detect errors depends on the competence of the auditor, while the courage of the auditor to report errors in the financial statements depends on the independence of the auditor. Competence is measured by the ability of the auditor, for example the level of experience, specialization and others, while independence is measured by the extent to which the auditor can act independently in conducting the audit process and providing an opinion (Anggraita et al., 2016).

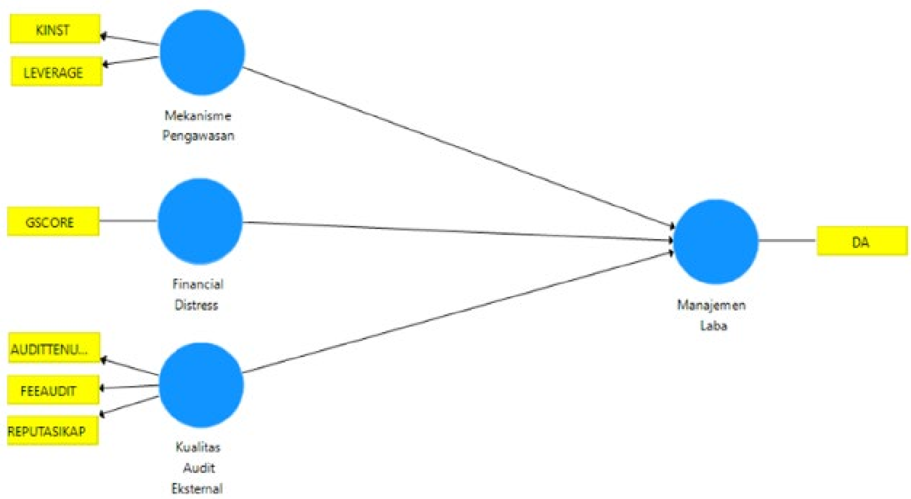
Audit quality is the probability of an auditor detecting and disclosing if there is a violation in his client's accounting system. An auditor can be said to be qualified if he is able to find and dare to reveal elements of errors in the financial statements. Edosa et al., (2013) stated that the quality of the auditor can be seen if it can be found any misstatements in the company's financial statements (Pramaswaradana & Astika, 2017).

2.1.6. Research Limitations

This study has limitations on the amount and availability of company data used. There are 98 property, real estate, & building construction companies listed on the Indonesia Stock Exchange. However, the number of companies that can be sampled is only 26 companies. This is due to one of the indicators for measuring the quality of external audits, namely audit fees which are not widely published by go public companies. Information related to the nominal value of the audit fee is not included in the type of information that must be disclosed (mandatory), but voluntary, so it is not widely disclosed in the annual report and causes research data to be eliminated quite a lot.

This study also does not consider the impact of the Covid-19 pandemic that occurred in 2020. The Covid-19 pandemic that was detected in Indonesia in early March 2020 certainly affected the company's financial health during 2020. This will more or less certainly have an effect on the earnings management actions of companies in Indonesia, especially companies in the property, real estate, & building construction sectors

2.2 Research Model and Hypotheses



Sources : Output SmartPLS 3.0 (2022)

Figure 1. Research Model

The hypothesis proposed in this study is as follows:

H1 : The supervisory mechanism affects earnings management.
H2 : Financial distress affects earnings management.
H3 : External audit quality affects earnings management.

3 METHOD

The object of this research is divided into two types, namely the independent variable and the dependent variable. The independent variables consist of supervisory mechanisms (proxied by leverage and institutional ownership), financial distress (proxied by G-score), and external audit quality (proxied by audit fees, audit tenure, and KAP reputation). The dependent variable of this study is earnings management (proxied by discretionary accruals). The subjects of this research are property, real estate, & building construction companies listed on the Indonesia Stock Exchange as many as 98 companies.

This research method uses the historical method because it uses historical financial data for property, real estate, & building construction companies listed on the Indonesia Stock Exchange for the period 2018 – 2020. The research approach used in this research is quantitative. Quantitative research is research that aims to test and verify theory, positioning theory deductively as the basis for determining and solving research problems (Indriantoro & Supomo, 2018).

This research is a comparative causal research which is an ex post facto type of research. Ex post facto research is a study conducted to examine events that have already occurred and then to determine the factors that led to the occurrence of these events (Sugiyono, 2017).

Data analysis in this study includes descriptive statistical tests and PLS-SEM tests which include outer model tests and inner model tests. The software used to support data processing in this study is SmartPLS 3.3.9. The last is Partial Least Square (PLS) analysis with several stages, namely designing a structural model (Inner Model), designing a measurement model (Outer Model), making path diagrams, converting path diagrams into a system of equations, performing model estimation, goodness of fit or model evaluation. , model interpretation and moderating effect test.

4. FINDINGS

Table 1. Statistic Descriptive

	N	Min	Max	Mean	Std. Deviation
KINST	78	0,000	90,40	61,015	24,084
LEVERAGE	78	0,044	5,80	0,908	0,933
G-SCORE	78	-0,600	1,50	0,577	0,418
AUDIT TENURE	78	1,000	3,00	1,872	0,822
FEE AUDIT	78	18,600	23,00	20,351	1,010
DA	78	-0,176	0,137	-0,007	0,044

Source: Data processed by researchers, 2022

The following are the details of the descriptive data that has been processed:

a. Institutional ownership variable (KINST) has a minimum value of 0.000; maximum value 90.40; the average value of institutional ownership is 61.015 and the standard deviation is 24.084. The average value shows how high the institutional ownership of Property, Real Estate, & Building Construction Companies Listed on the Indonesia Stock Exchange for the 2018 – 2020 period as a whole. Companies that have a minimum institutional ownership of 0.000 are PT. Adhi Karya (Persero) Tbk in 2018-2020. PT. Adhi Karya (Persero) Most of its shares are owned by the government. Companies that have a maximum institutional ownership of 90.40 are PT. Paramita Bangun Sarana Tbk in 2020. The number of companies with institutional ownership below the average is 11 companies and companies with institutional ownership above the average are 15 companies.

b. Leverage variable has a minimum value of 0.000; maximum value 5.80; Leverage average value is 0.908 and standard deviation is 0.933. The average value shows how high the Leverage of Property, Real Estate, & Building Construction companies listed on the Indonesia Stock Exchange for the 2018 – 2020 period as a whole. Companies that have a minimum Leverage of 0.044 are PT. Agung Semesta Sejahtera Tbk in 2020. The company that has a maximum Leverage of 5.80 is PT. Adhi Karya (Persero), Tbk in 2020. The number of companies that have company Leverage below the average are 16 companies and companies that have Leverage above the average are 10 companies.

c. The G-score variable has a minimum value of -0.60; maximum value 1.50; the average G-score is 0.577 and the standard deviation is 0.418. The average value shows how high the G-score of Property, Real Estate, & Building Construction companies listed on the Indonesia Stock Exchange for the 2018 – 2020 period as a whole. Companies that have a minimum G-score of -0.60 are PT. Modernland Realty Tbk in 2020. The company that has a maximum G-score of 1.50 is PT. Lippo Karawaci, Tbk in 2020. The number of companies that have a company G-score below the average is 14 companies and companies that have a G-score above the average are 12 companies.

d. The audit fee variable has a minimum value of 18.60; maximum value 23.00; the average value of the audit fee is 20.351 and the standard deviation is 1.010. The average value shows how high the audit fees for Property, Real Estate, & Building Construction companies listed on the Indonesia Stock Exchange for the 2018 – 2020 period as a whole. Companies that have a minimum audit fee of 18.60 are PT. Metro Realty Tbk in 2018 – 2020. This company was audited by KAP Maksum, Suyamto, and Hirdjan (Non big 4). Companies that have a maximum audit fee of 23.00 are PT. Summarecon Agung, Tbk in 2018. The company was audited by KAP Purwantono, Sungkoro, and Surja (KAP affiliate Ernst & Young). The number of companies that have audit fees below the average are 14 companies and companies that have audit fees above the average are 12 companies.

e. Earnings management variable (DA) has a minimum value of -0.176; maximum value 0.137; the average value of earnings management is -0.007 and the standard deviation is 0.044. The average value shows how high the level of profit management of Property, Real Estate, & Building Construction companies listed on the Indonesia Stock Exchange for the 2018 – 2020 period as a whole. Companies that have a minimum earnings management of -0.176 are PT. Nusa Konstruksi Enjiniring Tbk in 2018. Companies that have a maximum earnings management of 0.137 are PT. Lippo Karawaci, Tbk in 2020. The number of companies that have earnings management below zero (decreasing profits) are 15 companies and companies that have earnings management above zero (increasing profits) are 11 companies.

Table 2. Hypothesis Testing Results

Hypothesis	Eksogen Variable	Endogen Variable	t-stat	Sig.	Exp.
H_1	Monitoring Mechanism (X_1)	Earnings Management	0,453	0,651	H_1 rejected
H_2	*Financial Distress* (X_2)		4,610	0,000	H_2 accepted
H_3	External Audit Quality (X_3)		1,513	0,130	H_3 rejected

Based on table 2 it can be seen that the results of hypothesis testing are as follows:
1. The effect of the supervisory mechanism on earnings management (H1).
Statistical hypothesis:
H0 : The supervisory mechanism has no effect on earnings management.
Ha : The supervisory mechanism has an effect on earnings management.
The t-statistic value of the supervisory mechanism on earnings management is 0.453 < t-table 1.96 and sig. 0.651 > 0.05 (α = 5%), so H0 is accepted and Ha is rejected. This means that the supervisory mechanism has no effect on earnings management (H1 is rejected).

2. The effect of financial distress on earnings management (H2)
Statistical hypothesis :
H0: Financial distress has no effect on earnings management.
Ha : Financial distress has an effect on earnings management.
The t-statistic value of Financial distress on earnings management is 4.610 > t-table 1.96 and sig. 0.000 < 0.05 (α = 5%), so H0 is rejected and Ha is accepted. This means that financial distress has an effect on earnings management (H2 is accepted).

3. The effect of external audit quality on earnings management (H3).
Statistical hypothesis :
H0: External audit quality has no effect on earnings management.
Ha : External audit quality has an effect on earnings management.
The t-statistic value of external audit quality on earnings management is 1.513 < t-table 1.96 and sig. 0.130 > 0.05 (α = 5%), so H0 is accepted and Ha is rejected. This means that the quality of external audit has no effect on earnings management (H3 is rejected).

4.1 Effect of Monitoring Mechanism on Earnings Management

This study measures the supervisory mechanism using two indicators, namely leverage and institutional ownership, and measures earnings management using discretionary accruals. The results of hypothesis testing indicate that the supervisory mechanism has no effect on earnings management. sig value. 0.651 > 0.05 as presented in table 2 shows insignificant results. Therefore, H1 which states that the supervisory mechanism affects earnings management is rejected (H1 is rejected). This means that the high / low supervisory mechanism does not affect the rise / fall of earnings management carried out by managers.

Supervision by the company's external parties has proven to be not effective enough in supervising and preventing the occurrence of earnings management carried out by the company. External supervision carried out by creditors and institutional parties has not been able to reduce losses due to opportunistic earnings management.

These results are in line with the research of Dimarcia & Krisnadewi (2016) and Anggreni & Adiwijaya (2020) which found that the supervisory mechanism (leverage and institutional ownership) had no effect on earnings management. Companies that have safe leverage (leverage < 1, (Kasmir, 2016)) indicate that the company has the ability to pay debts used to finance company assets, so managers are not interested or motivated to practice earnings management. Companies generally carry out earnings management to meet creditors' expectations that the company has good performance so that the company will not default. However, this study shows results that are not in accordance with the debt covenant hypothesis. This can be caused by the level of leverage of the company that is the sample in this study an average of 0.908. This leverage level is still in a good or safe condition. Companies with healthy leverage will not be burdened with too large an interest expense that can harm the company's finances, so the company does not feel the need to carry out earnings management.

4.2. Effect of Financial Distress on Earnings Management

This study measures financial distress using the Grover model and measures earnings management using discretionary accruals. The results of hypothesis testing indicate that financial distress has an effect on earnings management. sig value. 0.000 < 0.05 as presented in table 2 shows a significant result. Therefore, H2 which states that financial distress affects earnings management is accepted (H2 is accepted). This means that if the company experiences financial distress, the company has a tendency to improve earnings management.

Financial distress is the stage of declining financial conditions before going bankrupt. Bankruptcy itself occurs when a company fails to pay all of its maturing obligations (Rusci et al., 2021). When a company experiences financial distress, generally the company will improve earnings management. These results are in line with the research of Howe & Houston (2016), Chairunesia et al. (2018), and Damayanti & Kawedar (2019) which found that earnings management behavior increased along with the increase in financial distress. The main role in the survival of the company is that management must maintain the business in a sustainable manner by avoiding the possibility of financial distress, one of which is by disguising financial distress through earnings management..

4.3. Effect of External Audit Quality on Earnings Management

This study measures the quality of external audit using three indicators, namely audit tenure, audit fees, and KAP reputation, as well as measuring earnings management using discretionary accruals. The results of hypothesis testing indicate that the quality of external audit has no effect on earnings management. sig value. 0.130 > 0.05 as presented in table 2 shows insignificant results. Therefore, H3 which states that external audit quality affects earnings management is rejected (H3 is rejected). This means that the high/low quality of external audit does not affect the rise/fall of earnings management by managers.

External audit quality in this study is measured through several indicators such as audit tenure, audit fees, and KAP reputation. These three indicators are proven to have no effect on the company's earnings management actions. This explains that the length of the audit engagement does not cause companies to reduce earnings management behavior, expensive audit fees also do not cause companies to reduce earnings management behavior, and the Big Four KAP is also not a guarantee that the audited financial statements will be free from management manipulation profit.

The research data shows that the average length of audit tenure in this study is 1,872 (2 years). This shows that most of the audit engagements between clients and auditors have just entered the first and second years. This data shows that the auditor's understanding of the company's condition is still at an early stage, so that the auditor does not yet have a deep and detailed understanding of the company's information and accounting systems. This data shows that the auditor's understanding of the company's condition is still at an early stage, so that the auditor does not yet have a deep and detailed understanding of the company's information and accounting systems. This can be one of the factors that causes audit quality not to experience significant changes because the length of the audit engagement is still relatively new and the auditor's understanding of the company's condition is still in the early stages. These results are in line with the research of Sasmita et al. (2021), Pratiwi et al. (2021), and Fitriany et al. (2016) who found that audit tenure (external audit quality) had no effect on discretionary accruals (earnings management). The results of this study explain that audit tenure has not been able to improve audit quality until the auditor has the opportunity to have an assignment time of at least 10 years so that it can improve audit quality at the client company. In the early years of the assignment, such as the first three years, audit quality is still low. This is because the auditors do not understand their clients in depth, so that the company's earnings management practices cannot be detected by the auditors at the beginning of the audit engagement period.

5. CONCLUSION & SUGGESTION

5.1 Conclusion

Earnings management is often considered negative by many parties because in general, earnings management causes the appearance of financial statement information (financial reporting) does not reflect the actual situation. The importance of finance is what makes management motivated to carry out windows dressing such as earnings management actions to obtain the desired goal even though it causes losses to other parties. This study is intended to empirically examine the effect of supervisory mechanisms, financial distress, and external audit quality on earnings management in Property, Real Estate, & Building Construction companies listed on the Indonesia Stock Exchange for the 2018-2020 period. Data processing using PLS-SEM test with SmartPLS 3.3.9 software. Based on the results of testing the hypothesis proposed in this study, it resulted in the following conclusions:

1. The supervisory mechanism has no effect on earnings management.
2. Financial Distress affects earnings management.
3. External audit quality has no effect on earnings management.

5.2 . Suggestion

Based on the various limitations of this study resulted in several suggestions that are expected to be used in further research, including:

1. For the government, it is expected to be able to formulate a regulation that can increase the protection of investors in Indonesia from losses arising from asymmetry of information in financial statements, for example the regulation on auditor rotation
2. Managers are expected to minimize opportunistic earnings management actions so as not to obscure important information needed by investors and other parties..
3. For *stakeholders*, are expected to be able to assess the level of financial health of the company before making a decision, especially related to investment. The level of financial soundness of the company has an impact on the manager's strategy in carrying out earnings management
4. For further researchers, it is possible to expand the research sample and extend the research period so that further research can add to the effects of the Covid-19 pandemic in influencing the variables of supervisory mechanisms, financial distress, and the quality of external audits on earnings management..

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3ÕÎÙÏÔÏȟ $ȢȋςπρφȢ *Metodologi penelitian akuntansi*Ȣ "ÁÎÄÕÎÇȡ 04Ȣ 2ÅÆÉËÁ !ÄÉÔÁ ÍÁȢ

3ÕÙÏÎÏȟ %Ȣ ȋςπρχȢ "ÅÂÁÇÁÉ -ÏÄÅÌ 0ÅÎÇÕËÕÒÁÎ %ÁÒÎÉÎÇÓ -ÁÎÁÇÅÍÅÎÔȡ -ÁÎÁ ÙÁÎÇ 0ÁÌÉÎÇ !ËÕÒÁÔȢ *Sustainable Competitive Advantage-7 (Sca-7) Feb Unsoed*ȟ 7ȋ3ÅÐÔÅÍÂÅÒȢȟ σπσȤσςτȢ ÈÔÔÐÓȡȾȾ×××ȢÒÅÓÅÁÒÃÈÇÁÔÅȢÎÅÔȾÐÒÏÆÉÌÅȾ%ËÏ̩3ÕÙÏÎÏςȾÐÕÂÌÉÃÁÔÉÏÎȾσςρτωππψς̩"ÅÂÁÇÁÉ̩-ÏÄÅÌ̩0ÅÎÇÕËÕÒÁÎ̩%ÁÒÎÉÎÇÓ̩-ÁÎÁÇÅÍÅÎÔ̩-ÁÎÁ̩ÙÁÎÇ̩0ÁÌÉÎÇ̩!ËÕÒÁÔȾÌÉÎËÓȾυÁςχωσÃÄÅφÆÃÃÅψÅψφφÅχωςÄȾ"ÅÂÁÇÁÉȤ-ÏÄÅÌȤ0ÅÎÇÕËÕÒÁÎȤ%ÁÒÎÉÎÇÓȤ-ÁÎÁÇÅÍÅÎÔȤ-ÁÎÁȤÙÁÎÇȤ0ÁÌÉÎÇȤ!ËÕÒÁÔȢÐÄÆ

4ÁÎÄÉÏÎÔÏÎÇȟ -ȢȋςπρυȢ +ÕÁÌÉÔÁÓ !ÕÄÉÔ ÄÁÎ 0ÅÎÇÕËÕÒÁÎÎÙÁ)3".ȡ ωχωȤσυχφȤπωȤωȢ)Î *Alfabeta*Ȣ

4ÒÉÈÁÒÇÏȟ 'ȢȋςπρωȢ 3ÕÒÖÅÉ &ÒÁÕÄ)ÎÄÏÎÅÓÉÁ ςπρωȢ *Association of Certified Fraud Examiners*ȟ 53ȋωȢȟ ρφψωȤρφωωȢ

6ÉÏÎÉÔÁȟ Q ,ÕÓ ÍÁÉÄÁȟ (Ȣ ȋςπρωȢ *Analisis Pengaruh Kinerja Keuangan dan Good Corporate Governance Terhadap Financial Distress (Studi Kasus pada perusahaan manufaktur yang terdapat di BEI 2014-2017)*Ȣ

7ÁÒÅÚÁȟ -Ȣ ȋςπςπȢ *Alert Bisnis Properti_ Gagal Bayar, Rating Turun & Pailit!*

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9ÅÈȟ 9ȢȤ(Ȣ ȋςπρρȢ 4ÈÅ %ÆÆÅÃÔÉÖÅÎÅÓÓ ÏÆ 4ÈÅ 7 ÈÉÓÔÌÅÂÌÏ×ÅÒ 0ÒÏÔÅÃÔÉÏÎȢ *Dissertation of Doctor of Juridical Science, University of Kansas*Ȣ