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The mediating role of audit capacity stress in influencing factors of earnings management

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Abstract

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

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Introduction

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

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

Between 2020 and 2022, Indonesia's corporate and regulatory environment faced significant pressure due to global economic volatility, domestic financial instability, and ongoing institutional reforms. Rising interest rates, weakening investor confidence, and the tightening of audit regulations—such as updates to PSAK standards and revisions in audit oversight policies—created an increasingly complex landscape for public companies and their auditors. These challenges were particularly evident among firms listed on the Kompas100 index, which represent a substantial portion of market capitalization and are subject to high public scrutiny. As the demand for high-quality audits grew, many audit firms encountered internal constraints, including limited personnel capacity, shortened reporting deadlines, and elevated workload intensity. These conditions raised serious concerns about audit effectiveness and the potential for increased earnings management practices during periods of organizational or systemic strain.

Earnings management involves a company's management deliberately adjusting financial statement figures to present them more favorably to stakeholders such as investors, creditors, and market analysts. This practice can be used to either enhance or diminish a company's reported profits. Audit Capacity Stress refers to the mismatch between the volume of audit tasks and the time available to complete them. When audit capacity stress is high, the workload exceeds the auditor's ability to finish it within a reasonable timeframe. This can lead to several adverse effects, such as auditor fatigue, which impairs focus and error detection. Reduced audit quality may result as auditors make mistakes under high pressure, increasing the risk of undetected fraud due to incomplete reviews.

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

Financial distress occurs when a company fails to generate enough income to meet its financial obligations, resulting in insufficient cash flow to cover operating costs and debt payments. Economically, this condition can lead to significant consequences, such as considerable financial losses for investors and creditors (Damayanti & Kawedar, 2018). Audit fees are the costs incurred by a company for the audit services agreed upon with the auditor. In some cases, auditors are perceived to use the audit fee as a benchmark for the quality of their audit, meaning that a higher audit fee might lead auditors to work harder to provide a better audit opinion. To guarantee that the audit is carried out properly and preserves the integrity of the financial statements provided, the audit charge should, nevertheless, be appropriate and in line with the agreement (Louw & Indah, 2024).

Signaling theory, in the context of earnings management, posits that companies use their financial statements to signal their performance and future prospects to investors. By managing earnings, companies can send positive signals to investors, even when their actual performance may not be as strong as reported. While earnings management can create a more favorable impression of a company, it has several negative implications. It can render accounting information more challenging comparisons between companies more challenging, potentially impacting investment decisions. Auditors play a crucial role in detecting earnings management practices. However, certain practices can complicate this task. One such challenge occurs when company management pressures auditors to accept improper accounting practices, compromising auditors' independence and objectivity. According to agency theory, a conflict of interest exists between managers (agents) and owners (principals). This approach, in which business managers function as principals (clients) and auditors as agents, clarifies the connection between audit capacity stress and earnings management.

Because they think that auditors who are under a lot of stress are less likely to notice and question these techniques, managers may be more prone to participate in aggressive accounting practices. A heavy workload or a number of clients could also make it harder for them to participate in protracted arguments about dubious accounting. As a result, the study's conclusions imply that stress related to audit capability may be a risk factor for more aggressive corporate earnings management.

There are certain gaps in the corpus of recent literature. Previous study has yielded inconsistent results about the impact of audit firm reputation on earnings management. For instance, research by (Christiantie, 2013) and (Nabila, 2013) found no correlation between audit firms' reputation and earnings management practices. However, research by (Mulyono & Amin, 2017) suggests that auditor reputation has a negative impact on earnings management. Similarly, study by (Ghazali et al., 2015) reveals a negative association between financial strain and earnings management, whereas research by (Kono & Yuyetta, 2013) reports a positive and substantial relationship between the two. The variable of audit capacity stress, which has not been employed as a mediating variable in earlier research on earnings management, is also introduced in this study.

This study responds to this context by introducing audit capacity stress as a mediating variable that captures internal pressure within audit firms. While prior studies have examined the individual effects of financial distress, audit fees, and audit firm reputation on earnings management, few have explored how limitations in audit resources—such as staffing shortages or operational overload as an audit capacity stress—mediate these relationships. By focusing on this mechanism, the study offers a novel contribution to the literature on audit quality and earnings management in emerging markets. It highlights how internal operational constraints, rather than just external incentives, may undermine the ability of auditors to provide effective oversight, particularly in times of regulatory and economic transition.

Methods

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

Audit Firm Reputation (AFR). Audit Firm Reputation (AFR) refers to the perceived quality and credibility of the Public Accounting Firm (KAP). Reputation is classified in this study according to the audit firm's membership in the Big Four or non-Big Four status. This measurement approach is in accordance with previous research (Ahmad et al., 2016) and (Nabila, 2013). The reputation of the audit firm is measured using a nominal scale with dummy variables. Specifically: Value 1: For companies audited by a Big Four audit firm; Value 0: For companies audited by a non-Big Four audit firm.

Financial Distress (FD). When a business finds it difficult to cover its operating expenses and debts, it is said to be in financial difficulty. It shows the kind of financial challenges a business is having. The Altman Z-Score, a well accepted proxy for gauging financial health, is used to determine the degree of financial distress. Based on several financial parameters, the Altman Z-Score is a tool used to assess a company's risk of financial hardship. It can be computed as follows using the Altman Z-Score proxy, per (Karina & Julianto, 2022):

$$Altman\ Z\ Score = 1{,}2x1 + 1{,}4x2 + 3{,}3x3 + 0{,}6x4 + 1{,}0x5 \quad \text{..... (1)}$$

Where:

$$x1 = \frac{Working\ Capital}{Total\ Assets}$$

$$x2 = \frac{Retained\ Earnings}{Total\ Assets}$$

$$x3 = \frac{Earnings\ Before\ Interest\ and\ Taxes}{Total\ Assets}$$

$$x4 = \frac{Market\ Value\ of\ Equity}{Book\ Value\ of\ Total\ Liabilities}$$

$$x5 = \frac{Sales}{Total\ Assets}$$

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

$$Audit\ Fee = Ln\ (Professional\ Fee) \quad \text{..... (2)}$$

The dependent variable in this study is earnings management, or the falsification of earnings as stated in financial statements that are subject to examination by an outside auditor. The aim of this study is to evaluate the possibility of earnings management in sample firms using the Jones Modified Model. The study by (Opler & Titman, 1994) states that the computation of earnings management involves four steps. These are the steps involved in the calculation:

$$TAC = NIt - CFOt \quad \text{..... (3)}$$

$$\frac{TACt}{At-1} = \beta 1 \left(\frac{1}{At-1}\right) + \beta 2 \left(\frac{\Delta REVt}{At-1}\right) + \beta 3 \left(\frac{PPEt}{At-1}\right) + e$$

$$NDAt = \beta 1 \left(\frac{1}{At-1}\right) + \beta 2 \left(\frac{\Delta REVt}{At-1} - \frac{\Delta RECt}{At-1}\right) + \beta 3 \left(\frac{PPEt}{At-1}\right)$$

$$DAc = \frac{TACt}{At-2} - NDAt$$

Where:

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

Mediator variables are variables that mediate the relationship between an independent variable and a dependent variable. Rather than directly affecting the dependent variable, a mediator variable influences it through an indirect path. In this study, Audit Capacity Stress is used as a mediator variable to explain or modify the relationship between the independent variable and the dependent variable. According to (Hermatika & Triani, 2022), Audit Capacity Stress can be calculated using the following formula:

$$ACS = \frac{Total\ Client\ Audits\ in\ Year\ t}{Total\ Audit\ Parteners\ t} \quad \text{..... (4)}$$

Population and Sample

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

Data Collection Methods

Secondary data from financial reports on the official websites of businesses that have been listed on the Indonesia Stock Exchange between 2020 and 2022 was used in the study. Using SPSS Statistics 26 software, the data analysis approach used in this work comprises multiple linear regression analysis, descriptive statistical analysis, and Sobel test computations. Descriptive statistical analysis is used to summarize and describe the features of the collected data without making generalizations. Measures including the mean, standard deviation, variance, maximum and

lowest values, total, range, kurtosis, and skewness are used in this analysis to give a broad picture of the data. A statistical method for analyzing the relationship between one dependent variable and two or more independent variables is multiple linear regression analysis. By using the values of the independent variables, this approach aids in predicting the value of the dependent variable. The following is the formulation of the multiple linear regression equation:

$$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + e \quad \text{.....(5)}$$

$$Z = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + e2 \quad \text{.....(6)}$$

Where:

Y= Earnings Management, Z = Audit Capacity Stress, α= Constant, β = Coefficients, X_1 = Audit Firm Reputation, X_2 = Financial Distress, X_3 = Audit Fee, X_4 = Audit Capacity Stress, e = Standard error

Hypothesis Test

According to (Utami, 2019), in regression analysis, the coefficient of determination, or R^2, is an important metric. The R^2 test is used to calculate the percentage of the dependent variable's variance that can be predicted from the independent variables.

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

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

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

1. If the significance value is less than 0.05, the alternative hypothesis (H1) is accepted and the null hypothesis (H0) is rejected since there is a strong impact of the independent variable on the dependent variable.
2. If the significance value is greater than 0.05, the null hypothesis (H0) is not rejected and there appears to be no discernible impact of the independent variable on the dependent variable.

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

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

Where:

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

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

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

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

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

The conceptual framework of this study serves as the foundation for understanding the relationship between the key variables under investigation. It provides a structured explanation of how theoretical concepts and prior research inform the development of the study's hypotheses and objectives. By outlining the constructs and their presumed interconnections, the framework guides the research design and methodology, ensuring coherence and clarity in the analysis.

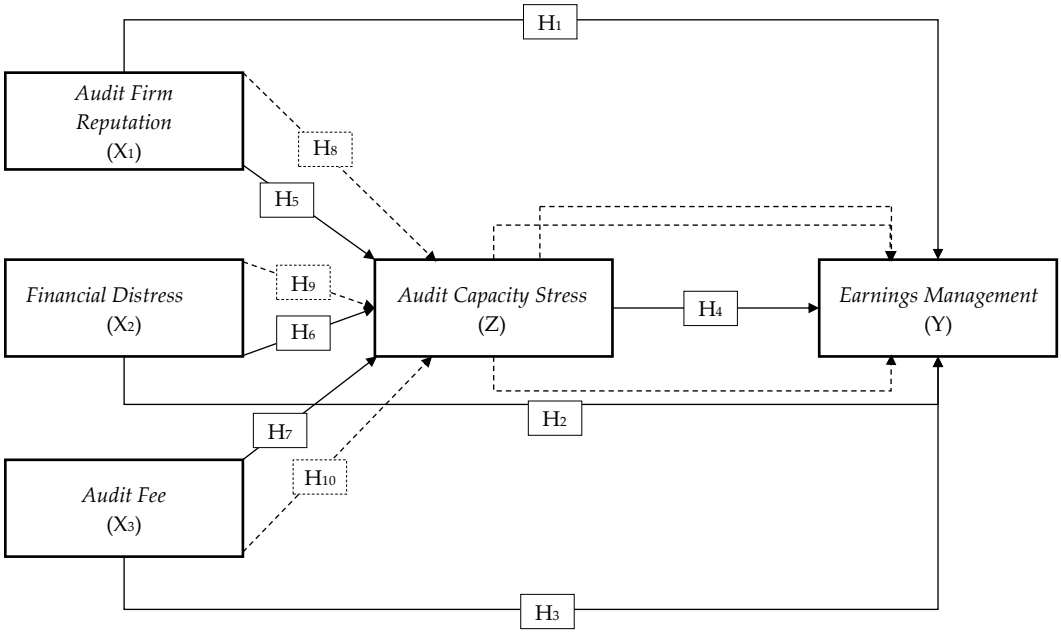

Figure 1. Conceptual Framework

Factors Affecting Earnings Management Practices

According to (Wiratno et al., 2023), audit firm reputation is closely related to audit quality. For example, Big Four auditors, for example, are thought to offer higher-quality audits because of their larger incentives concerning litigation risks and reputational issues. These high-quality audits can limit accrual-based earnings management practices because these firms are motivated to maintain their reputation and avoid legal consequences.

H_1: Audit Firm Reputation affects Earnings Management.

When a business is experiencing severe financial difficulties—for example, not being able to pay creditors on time or fulfilling contracts—it is said to be in financial distress (Ghazali et al., 2015). Management may be encouraged to manipulate earnings when a firm is going through a recession or financial difficulties in order to portray a better financial picture and prevent unfavorable outcomes.

H_2: Financial Distress affects Earnings Management.

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

H_3: Audit Fees affect Earnings Management.

Audit Capacity Stress, also known as audit capacity pressure, pertains to the balance between the volume of audit work and the time available to complete it. Research by (Sari &

Meiranto, 2017) suggests that audit capacity stress can impact earnings management by influencing practices such as sales manipulation, though it may not significantly affect production manipulation or discretionary spending.

H_4: Audit Capacity Stress affects Earnings Management.

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

H_5: Audit Firm Reputation affects Audit Capacity Stress.

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

H_6: Financial Distress affects Audit Capacity Stress.

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

H_7: Audit Fees affect Audit Capacity Stress.

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

H_8: Audit Capacity Stress mediates the relationship between Audit Firm Reputation and Earnings Management.

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

H_9: Audit Capacity Stress mediates the relationship between Financial Distress and Earnings Management.

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

H_{10}: Audit Capacity Stress mediates the relationship between Audit Fees and Earnings Management.

Result and Discussion

Research Sample

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

Table 1. Sample Criteria

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

Descriptive Statistics

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

Table 2. Descriptive Statistical Analysis

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

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

Classical Assumption Test

The Classical Assumption Test is employed in this study to assess whether the data have problems with normality, autocorrelation, multicollinearity, or heteroscedasticity (Himawan, 2022). When making decisions based on normally distributed data, this study employs the One-Sample Kolmogorov-Smirnov method to determine whether the data is normal if the Asym. Sig. 2 (2-tailed) is more than 0.050.

Table 3. Classical Assumption Test

Classical Assumption Test	Test Results	Description
Normality Test *One-Sample Kolmogorov-Smirnov*	Asymp. Sig. (2-tailed) 0.200 > 0.050	Data is normally distributed.
Multicollinearity Test *Inflation Factor (VIF)*	Tolerance > 0.10 AFR = 0.617; FD = 0.831; AF = 0.717; ACS = 0.882 VIF < 10 AFR = 1,621; FD = 1.203; AF = 1.395; ACS = 1.134	Does not experience multicollinearity disorder.
Autocorrelation Test *Lagrange Multiplier (LM Test)*	Sig. Residual lag 2 (RES_2) 0.067 > 0.050.	There is no autocorrelation disorder.

Heteroscedasticity Test *Rank Spearman*	Sig. Absolut residual (ABS_RES) > 0.050. AFR = 0.155; FD = 0.056; AF = 0.841; ACS = 0.383	There is no heteroscedasticity disorder.

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

Multiple Regression Linear Analysis

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

Table 4. Multiple Linear Regression Analysis Results

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

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

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

Hypothesis Test

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

Table 5. Test Results of the Coefficient of Determination (R2) to Earnings Management

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

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

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

Table 6. Test Result of the Coefficient of Determination (R2) to Audit Capacity Stress

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.343[a]	.118	.091	.6654477
a. Predictors: (Constant), AF, FD, AFR				

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

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

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

Table 7. Anova Test Results 1

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.861	3	1.954	4.412	.006[b]
	Residual	43.839	99	.443		
	Total	49.700	102			
a. Dependent Variable: ACS						
b. Predictors: (Constant), AF, FD, AFR						

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

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

Table 8. Anova Test Results 2

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.062	4	.016	88.370	.000[b]
	Residual	.017	98	.000		
	Total	.079	102			
a. Dependent Variable: EM						
b. Predictors: (Constant), ACS, FD, AF, AFR						

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

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

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

Table 9. T-test Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.496	1.247		4.407	.000
	AFR	.653	.201	.372	3.253	.002
	FD	-.091	.065	-.143	-1.396	.166
	AF	-.173	.059	-.316	-2.959	.004
a. Dependent Variable: ACS						

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

Table 10. T-test Results 2

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.013	.027		.468	.641
	AFR	-.011	.004	-.164	-2.729	.008
	FD	-.020	.001	-.793	-15.368	.000
	AF	.002	.001	.112	2.008	.047
	ACS	-.007	.002	-.168	-3.343	.001
a. Dependent Variable: EM						

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

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

Audit Firm Reputation (AFR): The hypothesis is supported since the significance value of Audit Firm Reputation (AFR) on Earnings Management (EM) is less than the 0.050 threshold, at 0.008. This indicates that AFR significantly affects EM. There may be a bad correlation between AFR and EM, as indicated by the unstandardized coefficient Beta for AFR of -0.011. This suggests that less profits management is linked to a public accounting firm's greater repute. Because credible auditors are more independent and have stronger oversight, they might discourage corporations from participating in earnings management. This result contrasts with earlier studies (Indrastuti & Djojo, 2021), (Christiantie, 2013), and (Nabila, 2013), which found no evidence of a meaningful relationship between auditor reputation and earnings management. It does, however, support research (Wiratno et al., 2023) that indicates a stronger auditor reputation reduces the possibility that businesses will engage in profits management.

Financial Distress (FD): The hypothesis is accepted because the significant value for FD on Earnings Management (EM) is 0.000, which is less than the 0.050 criterion. This indicates that EM is significantly impacted by financial distress. The unstandardized coefficient β for FD is -0.020, indicating that FD and EM have a negative connection. This suggests that lower levels of earnings management are linked to financial trouble. This finding is consistent with other studies by (Ghazali et al., 2015) and (Sari & Meiranto, 2017), which discovered that financial difficulty has a detrimental effect on earnings management. It disagrees, therefore, with the results of (Wiratno et al., 2023), which found a different connection between earnings management and financial difficulty.

Audit Fees (AF): AF's Earnings Management (EM) significance value is 0.047, below the 0.050 cutoff. This suggests that the premise is correct, audit fees have a major impact on managing earnings. For AF, the unstandardized coefficient β is positive and equal to 0.002. This positive coefficient implies that there is a correlation between increased earnings management and higher audit fees. This result contrasts with earlier studies (Himawan, 2022) and (Agustin & Triani, 2023), which found no discernible impact of audit costs on earnings management. It does, however, align with the findings of study by (Oscar & Harindahyani, 2019), which suggests that greater audit fees may strengthen the financial bond between the customer and the auditor and may therefore affect the degree of earnings management.

Stress on Audit Capacity (ACS): An unstandardized coefficient β value of -0.007, with a significance value of 0.001, is shown by the examination of the impact of audit capacity stress on earnings management (EM). This value is below the 0.050 criterionThis implies that the hypothesis—that audit capacity stress has a major negative impact on earnings management—is accurate. More precisely, higher levels of audit capacity stress are associated with lower levels of profitability management. This result is in line with research (Himawan, 2022), which indicates that audit capacity stress has a detrimental effect on earnings management. It is in conflict with study (Damayanti & Kawedar, 2018), which contends that companies with a high clientele should have an enough staff and resources; as a result, the auditor's competence to identify earnings management strategies should not be impacted by audit capacity stress.

Audit Firm Reputation (AFR): The analysis reveals that AFR has a significance value of 0.002, below the 0.050 cutoff. AFR's unstandardized coefficient β is 0.653, indicating a positive value. This implies that the hypothesis—that audit company reputation considerably lowers audit capacity stress—is accurate. More specifically, there is a correlation between higher audit capacity stress and the audit firm's repute. This conclusion is in line with research by (Knechel et al, 2007), which implies that there might be more pressure on auditors at well-known companies to produce perfect audit outcomes. This pressure is a result of the possible negative effects unsatisfactory audit outcomes could have on the firm's reputation.

Financial Distress (FD): The test findings indicate that Financial Distress has a significant value of 0.166, above the 0.050 cutoff. This suggests that the hypothesis is not supported, i.e., Financial Distress has no discernible impact on Audit Capacity Stress. To put it another way, auditors' stress levels related to audit capabilities are not greatly affected by a company's financial difficulties. This result is in line with studies by (Cahan & Zhang, 2006), which indicates that auditors can manage difficulties associated with financial difficulty without experiencing a considerable rise in stress when they follow stringent rules and a standardized audit process.

Audit Fee (AF): Less than the 0.050 criterion, the significant value for Audit Fee in relation to Audit Capacity Stress is 0.004. The Audit Fee's unstandardized coefficient β is -0.173, indicating a negative value. This suggests that the premise is correct, i.e., audit fees significantly reduce audit capacity stress. More specifically, lesser audit capacity stress is linked to higher audit fees. This result is consistent with research by (Francis, 2004), which indicates that audit companies can devote more time and resources to audits in order to charge higher audit fees. This extra assistance lessens the strain and anxiety auditor experience, which helps to mitigate the stress associated with audit capacity.

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

Table 11. Sobel Test Results

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

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

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

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

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

The findings highlight that companies audited by reputable firms tend to engage less in earnings management, suggesting that audit firm reputation can serve as a benchmark for selecting external auditors to enhance financial statement reliability. Despite audit fees being positively associated with earnings management, they also help reduce auditor workload stress, indicating that well-compensated audits may improve audit performance through better resource allocation. Financial distress was found to lower earnings management, which implies that tighter financial constraints may lead to more cautious reporting behavior. These results offer practical insights for corporate governance: stakeholders should consider audit reputation, fee structure, and auditor stress when making policy or oversight decisions to mitigate opportunistic earnings management.

Conclusion

Companies use earnings management as a tactic to manipulate the numbers seen in their financial accounts, frequently to show stockholders more appetizing profits. A company's decision to use earnings management is impacted by several factors, including the standing of the public accounting firm, financial hardships, audit fees, and audit capacity stress. Furthermore, manipulating profits can harm a company's reputation and tarnish financial markets. But lawful earnings management techniques, which smooth results over time, can also demonstrate a company's consistency and reliability. This study investigated how audit capacity stress, audit fees, and financial distress conditions influence earnings management practices, particularly in the context of Indonesia. The reputation of audit firms has a major detrimental impact on earnings management. A higher reputation among auditors reduces the likelihood that companies will use earnings management techniques. The management of earnings is negatively impacted by the financial crisis. A corporation may find it challenging to efficiently manage its earnings while it is experiencing financial challenges for several reasons. The management of earnings is significantly improved by audit fees. Increased earnings management is correlated with higher audit fees. There is a common misconception that rising audit fees translate into closer audit scrutiny. Audit Capacitying Proficiency Stress significantly impairs the management of profits. More specifically, lower levels of earnings management are correlated with increased audit capacity stress. Auditors may be less able to participate in or support earnings management when they are under a great deal of stress from a large workload and tight deadlines. The findings reveal that increased audit capacity stress and audit fees are significantly associated with higher levels of earnings management. These results indicate that external audit-related pressures can undermine audit effectiveness and, in turn, weaken the quality of financial reporting. -This leads to more thorough audits and less opportunities for financial manipulation. Audit capacity stress plays a critical mediating role in the relationship between audit-related factors and earnings management. Specifically, it is often higher in more prestigious audit firms, which tend to handle larger or more complex clients. While these firms have a reputation for thorough audits—often limiting opportunities for earnings manipulation—the high workload and performance expectations may increase stress, potentially reducing audit effectiveness if not properly managed. Interestingly, the level of audit capacity stress does not appear to be significantly affected by the client's financial distress, as auditors are expected to maintain independence and adhere to professional standards regardless of client conditions. Given these dynamics, audit capacity stress serves as a mediator between audit firm reputation and earnings management: while a reputable firm is expected to deliver higher audit quality, excessive stress can hinder that expectation and increase the likelihood of earnings management. Similarly, in the relationship between audit fees and earnings management, audit capacity stress may be the mechanism through which higher fees contribute to audit quality—by reducing stress and allowing auditors to perform more effectively. Therefore, the mediating role of audit capacity stress is justified both theoretically and empirically, as it helps explain how audit environment conditions influence the effectiveness of audit processes and, consequently, the degree of earnings management. The purpose of this study is to improve knowledge of earnings management techniques, how these practices affect the reliability of financial statements, and the variables that affect these techniques. This study contributes to the literature by identifying audit capacity stress as a key mediating mechanism that helps explain how and why external audit conditions can influence managerial behavior. From a practical perspective, the results highlight the importance of improving audit capacity through sufficient staffing, realistic deadlines, and adequate tools to maintain audit quality and reduce opportunities for financial misreporting. The results are expected to be a useful resource for future scholars, stimulating further investigation into the variables influencing corporate earnings management. Nevertheless, this study is limited by its focus on a specific national context and the use of cross-sectional data. Future

research could apply longitudinal designs, explore comparative studies across regulatory environments, or examine additional variables such as audit firm size or auditor independence. In conclusion, strengthening audit capacity is essential for reducing earnings management, especially when firms face financial pressures. These findings offer valuable implications for regulators, auditors, and corporate governance bodies in enhancing the credibility of financial reporting.Subsequent research endeavors may broaden the purview or utilize distinct approaches to furnish more discernments regarding earnings management.

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