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THE EFFECTS OF AUDIT QUALITY, INSTITUTIONAL OWNERSHIP, AND LEVERAGE ON EARNINGS MANAGEMENT WITH TAX AVOIDANCE AS A MODERATING VARIABLE

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Abstract. The purpose of this study is to provide empirical evidence on the factors influencing earnings management in energy sector companies listed on the Indonesia Stock Exchange during the 2020–2022 period. The data used in this study was sourced from financial statements accessed through the official IDX website and company reports. The sampling method employed was purposive sampling, which resulted in 15 energy sector companies, yielding a total of 45 observations for the 2020–2022 period. Data processing was conducted using IBM SPSS software version 26 with multiple linear regression and moderated regression analysis methods. The results of the study indicate that audit quality has a negative effect, leverage has a positive effect, and institutional ownership has no effect on earnings management. Tax avoidance does not moderate the relationship between audit quality, institutional ownership, and leverage on earnings management. These findings highlight the importance of improving audit quality to reduce earnings management practices, particularly in the energy sector. Furthermore, the findings regarding the impact of leverage suggest that companies should consider the risks associated with high leverage, which may encourage managers to engage in earnings management.

Keywords: Audit Quality, Earnings Management, Institutional Ownership, Leverage, Tax Avoidance

I. INTRODUCTION

Financial statements are a vital source of information for investors, management, and other stakeholders in assessing a company's performance and condition. Therefore, financial statements must be presented reliably to support sound decision-making (Hadi & Tifani, 2020). However, conflicting interests between management and company owners may prompt management to engage in earnings management practices to present a better performance to investors (Meiryani et al., 2022).

The COVID-19 pandemic, which began to hit Indonesia in 2020, put pressure on economic activity and corporate performance. A weakening capital market, declining demand, and disruptions to operational activities caused many companies to experience a decline in profits (Fadly, 2021; Idris, 2020). These conditions increased pressure on management to maintain the company's performance, potentially encouraging earnings management practices. Angelina's (2022) study indicates that earnings management activities increased during the pandemic period compared to the pre-pandemic period.

This phenomenon is reflected in the case of PT Perusahaan Gas Negara (PGAS), which delayed the disclosure of material information regarding a decline in gas volume, thereby reducing transparency for investors (Hidayat et al., 2019). A similar case occurred at TotalEnergies Gas & Power North America (TGPNA), which was sanctioned for engaging in intentional harmful trading practices. This phenomenon underscores the importance of the quality of financial reporting and corporate oversight mechanisms in minimizing earnings management practices.

According to agency theory, conflicts of interest between principals and agents can lead to opportunistic behavior, including earnings management practices (Jensen & Meckling, 1976; Susanti & Margareta, 2019; Adyastuti & Khafid, 2022). To mitigate these conflicts, companies implement various governance mechanisms, such as audit quality and institutional ownership, which are expected to enhance the effectiveness of oversight over management actions (Hanisa & Rahmi, 2021; Sari et al., 2022). In addition, leverage is also believed to influence earnings management practices due to pressure on companies to meet contractual obligations (Simajuntak & Anugerah, 2019; Sari & Susilowati, 2021). Nevertheless, previous studies have shown inconsistent results regarding the effects of audit quality, institutional ownership, and leverage on earnings management (Felicya & Sutrisno, 2020; Sari & Susilowati, 2021; Pratika & Nurhayati, 2022; Savitri & Priantinah, 2019).

This study uses tax avoidance as a moderating variable to explain the relationship between audit quality, institutional ownership, and leverage on earnings management. Tax avoidance activities can increase the complexity of financial statements, thereby potentially affecting the effectiveness of corporate oversight mechanisms in detecting earnings management practices (Zealion Doho & Budi Santoso, 2020). Furthermore, tax avoidance can also affect the effectiveness of institutional investor oversight and increase pressure on companies with high leverage (Indira Yuni & Setiawan, 2019; Rahmadani et al., 2020). Thus, tax avoidance is hypothesized to either strengthen or weaken the relationship between audit quality, institutional ownership, and leverage on earnings management.

The energy sector was selected as the subject of this study because it demonstrated relatively improved performance during the 2020–2022 period, while most other sectors faced pressures due to the pandemic. These conditions make the energy sector an interesting subject for study in relation to earnings management practices. Therefore, this study aims to analyze the effects of audit quality, institutional ownership, and leverage on earnings management, with tax avoidance as a moderating variable, among energy sector companies listed on the Indonesia Stock Exchange.

II. LITERATURE REVIEW

A. Agency Theory

Agency theory explains the contractual relationship between the principal—the company's owner—and the agent—the party authorized to manage the company. Conflicts of interest between the two parties can lead to agency conflicts that encourage management to act opportunistically, including through earnings management practices (Jensen & Meckling, 1976). In the context of this study, audit quality, institutional ownership, leverage, and tax avoidance are mechanisms that can influence management's behavior in engaging in earnings management. External auditors serve as an independent oversight mechanism (Hadi & Tifani, 2020), institutional ownership can reduce information asymmetry through its monitoring

function (Sari et al., 2022), while leverage and tax avoidance can increase management's incentives to engage in earnings management due to contractual pressures or tax considerations (Simajuntak & Anugerah, 2019; Sari & Susilowati, 2021; Jelanti, 2020; Ayem & Nenden Ongirwalu, 2020).

B. Earnings Management

Earnings management refers to management's actions in selecting accounting policies or intervening in the financial reporting process to achieve specific objectives, either by increasing or decreasing reported earnings (Pratika & Nurhayati, 2022; Simajuntak & Anugerah, 2019). Such practices can be carried out through "upward earnings management" strategies to increase profits or "downward earnings management" strategies to decrease profits—for example, to reduce tax liabilities or meet specific objectives (Ayem & Nenden Ongirwalu, 2020).

C. Audit Quality

Audit quality is one of the oversight mechanisms that plays a role in enhancing the credibility of financial statements and limiting earnings management practices (Sari & Susilowati, 2021). Audit quality is generally associated with an auditor's ability to detect material misstatements, one measure of which is the size of the Public Accounting Firm (PAF), as noted by DeAngelo (1981). Previous studies have yielded differing results: Hadi and Tifani (2020) found that audit quality has a negative effect on earnings management, whereas Felicya and Sutrisno (2020) concluded that audit quality has no effect on earnings management.

D. Institutional Ownership

Institutional ownership refers to stock ownership by institutions—such as banks, insurance companies, or investment firms—that serve as a monitoring mechanism for management actions (Felicya & Sutrisno, 2020). The higher the level of institutional ownership, the more effective the monitoring function becomes, thereby reducing the likelihood of earnings management (Sari et al., 2022). However, previous studies have yielded mixed results, as Felicya and Sutrisno (2020) found that institutional ownership does not affect earnings management.

E. Leverage

Leverage describes the extent to which a company uses debt to finance its operating and investment activities (Pratika & Nurhayati, 2022; Adyastuti & Khafid, 2022). A high level of leverage can increase pressure on management to meet contractual obligations, thereby potentially encouraging earnings management practices. However, stricter oversight by creditors can also limit management's opportunities to manipulate earnings (Savitri & Priantinah, 2019; Purnama & Taufiq, 2021). Research by Ayudia and Hapsari (2021) indicates that leverage has a positive effect on the " " of earnings management, whereas Asyati and Farida (2020) found that leverage has no effect on earnings management.

F. Tax Avoidance

Tax avoidance is a company's effort to minimize its tax burden by exploiting loopholes in tax regulations that remain within legal boundaries (Rumapea et al., 2021). Based on agency theory, conflicting interests between companies and tax authorities can encourage companies

to engage in tax avoidance to reduce their tax burden and maintain financial performance (Ayem & Nenden Ongirwalu, 2020). Research by Dewi and Djohar (2023) shows that tax avoidance has a positive effect on earnings management, while Ayem and Nenden Ongirwalu (2020) found that tax avoidance has no effect on earnings management.

G. Research Framework

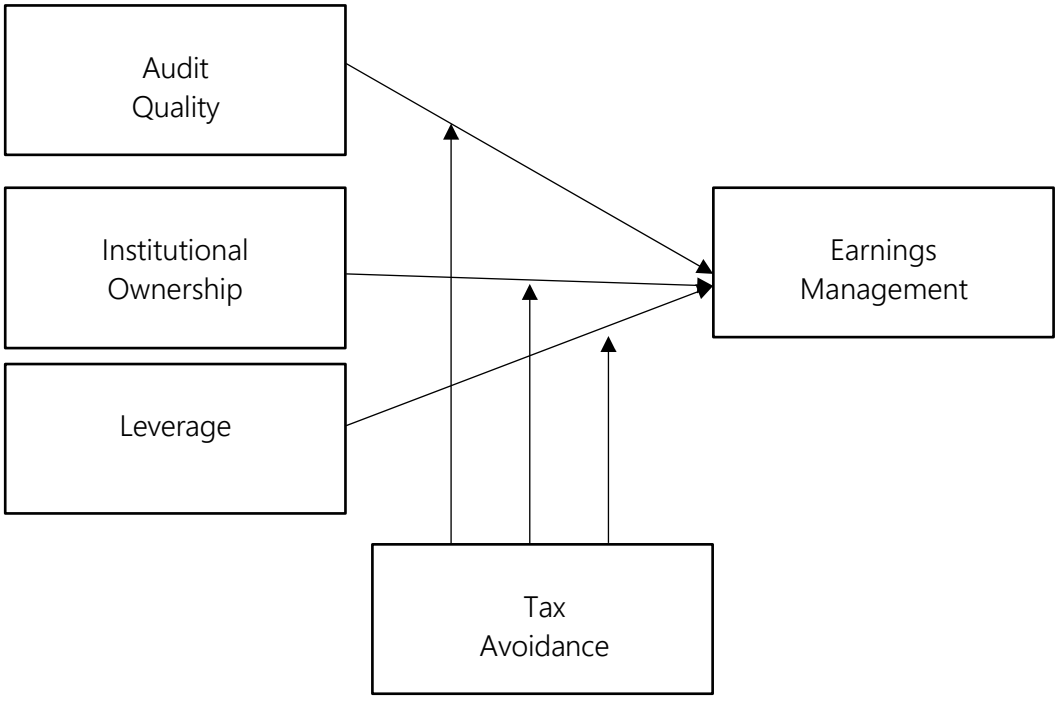

Figure 1 Research Framework

H. Hypothesis Development

The Effect of Audit Quality on Earnings Management

Based on agency theory, external auditors serve as a monitoring mechanism that can reduce conflicts of interest between management and shareholders (Jensen & Meckling, 1976). High-quality audits are expected to enhance the credibility of financial statements and detect earnings management practices more effectively (Hadi & Tifani, 2020; Susanti & Margareta, 2019). Thus, the higher the audit quality, the lower the tendency for a company to engage in earnings management.

H1: Audit quality has a negative effect on earnings management

The Effect of Institutional Ownership on Earnings Management

Agency theory explains that institutional ownership can reduce agency conflicts by enhancing oversight of management actions (Jensen & Meckling, 1976). Institutional investors possess sufficient resources and experience to monitor corporate policies and are thus expected to curb opportunistic behavior, including earnings management practices (Sari et al.,

2022; Asyati & Farida, 2020). Therefore, the higher the level of institutional ownership, the lower the firm's tendency to engage in earnings management.
H2: Institutional ownership has a negative effect on earnings management

The Effect of Leverage on Earnings Management

According to agency theory, high leverage increases pressure on management to meet contractual obligations to creditors, which can encourage earnings management practices (Jensen & Meckling, 1976). Under these conditions, management has an incentive to present better financial performance to avoid breaching debt covenants (Jelanti, 2020; Sari & Susilowati, 2021). Therefore, the higher the leverage, the greater the tendency for a company to engage in earnings management.
H3: Leverage has a positive effect on earnings management

The Effect of Audit Quality on Earnings Management Moderated by Tax Avoidance

High audit quality is expected to limit earnings management practices by improving the quality of financial statement audits. However, tax avoidance practices can increase the complexity of financial reporting, making it difficult for auditors to detect earnings management actions (Zealion Doho & Budi Santoso, 2020; Sari et al., 2023). Furthermore, loopholes in tax regulations can also reduce the effectiveness of audits in uncovering such practices (Ayem & Kati, 2022). Thus, tax avoidance is hypothesized to moderate the relationship between audit quality and earnings management.
H4: Tax avoidance moderates the effect of audit quality on earnings management

The Effect of Institutional Ownership on Earnings Management Moderated by Tax Avoidance

Institutional investors serve as a monitoring mechanism that can reduce earnings management practices (Jensen & Meckling, 1976). However, tax avoidance can increase the complexity of financial information, making it difficult for institutional investors to detect earnings management practices (Indira Yuni & Setiawan, 2019). Therefore, tax avoidance is hypothesized to moderate the relationship between institutional ownership and earnings management (Ayem & Kati, 2022).
H5: Tax avoidance moderates the effect of institutional ownership on earnings management.

The Effect of Leverage on Earnings Management Moderated by Tax Avoidance

High leverage increases pressure on management to meet debt obligations, thereby encouraging earnings management practices (Jensen & Meckling, 1976). Under such conditions, tax avoidance can be one of the strategies companies use to reduce their tax burden and maintain financial performance (Rahmadani et al., 2020). Therefore, tax avoidance is hypothesized to moderate the relationship between leverage and earnings management (Ayem & Kati, 2022).
H6: Tax avoidance moderates the effect of leverage on earnings management.

III. RESEARCH METHODOLOGY

A. Research Design

This study employs a quantitative approach using secondary data obtained from the financial statements and annual reports of energy sector companies listed on the Indonesia

Stock Exchange (IDX) for the 2020–2022 period. Data were obtained from the official website of the Indonesia Stock Exchange (www.idx.co.id) and the official websites of the respective companies.

B. Population and Sample

The study population consisted of all energy sector companies listed on the Indonesia Stock Exchange during the 2020–2022 period. The sample was selected using purposive sampling based on several criteria: companies that were listed before 2020, published financial statements and annual reports consecutively throughout the study period, used the U.S. dollar in their financial statements, and generated profits during the observation period. Based on these criteria, 15 companies with a total of 45 observations were selected. The observation period began in 2020 because that was the start of the COVID-19 pandemic in Indonesia.

Table 1. Sample Selection Criteria

Criteria	Number
Energy-sector companies listed on the IDX	87
Listed after 2020	(25)
Failed to publish financial statements and annual reports for consecutive years	(4)
Does not use the U.S. dollar as its currency	(19
Failure to generate a profit during the study period	(24)
Number of companies in the sample	15
Years of observation	3
Total observations	45

Source: Secondary Data Analysis (2024)

C. Data Source and Collection Method

This study uses secondary data collected through documentation. The data, consisting of financial statements and annual reports of companies in the energy sector, were obtained from the Indonesia Stock Exchange and the official websites of the respective companies.

D. Variable Measurement

Table 2. Proxies and Variable Measurements

Variable	Proxy	Measurement	Reference
Earnings Management (EM)	Modified Jones Model	Discretionary Accruals (DA)	Dechow et al. (1995); Hadi & Tifani (2020)
Audit Quality (AQ)	Firm Size	Dummy: Big Four = 1; Non-Big Four = 0	Hadi & Tifani (2020)
Institutional Ownership (IO)	Percentage of Institutional Share Ownership	Institutional Shares / Total Outstanding Shares	Sari et al. (2022)
Leverage (LEV)	Debt-to-Asset Ratio (DAR)	Total Debt / Total Assets	Purnama & Taufiq (2021)

Variable	Proxy	Measurement	Reference
Tax Avoidance (TA)	Effective Tax Rate (ETR)	Income Tax Expense / Pre-Tax Profit	Katry & Ria (2022); Wulandari & Purnomo (2021)

E. Data Analysis

Data analysis was conducted using IBM SPSS Statistics version 26. The analysis stages included descriptive statistics, classical assumption tests (tests for normality, multicollinearity, heteroscedasticity, and autocorrelation), and hypothesis testing using multiple linear regression analysis and Moderated Regression Analysis (MRA). Model fit was evaluated using the coefficient of determination (R^2), the F-test, and the t-test at a 5% significance level (Ghozali, 2021).

IV. RESULTS AND DISCUSSION

A. Descriptive Statistics

Descriptive statistics show that the study used 45 observations. The mean values were as follows: audit quality (AQ) at 0.6000, institutional ownership (IO) at 0.5582, leverage (LEV) at 0.4169, tax avoidance (TA) at 0.2475, and earnings management (EM) at 0.5386. The standard deviation values for each variable are relatively smaller than their mean values, indicating that the data distribution is quite good.

Table 3. Results of Descriptive Statistical Analysis

Variable	N	Minimum	Maximum	Mean	Std. Dev.
AQ	45	0.00	1.00	0.6000	0.49543
IO	45	0.14	0.90	0.5582	0.16958
LEV	45	0.09	0.75	0.4169	0.16560
TA	45	0.06	0.69	0.2475	0.11675
EM	45	0.14	0.96	0.5386	0.18850

Source: Data Processing (2024)

B. Classical Assumptions Test

Normality Test

Table 4. Results of the Normality Test

Parameter	Value
Unstandardized Residual	
N	45
Mean	0.0000000
Standard Deviation	0.14843309
Most Extreme Differences	
Absolute	0.114
Positive	0.114
Negative	-0.057
Test Statistic	0.114
Asymptotic Significance (2-tailed)	0.172

Source: Data Processing (2024)

After conducting a normality test using the parametric Kolmogorov-Smirnov (KS) test, as shown in Table 4, it can be seen that the p-value (asymptotic significance, 2-tailed) is 0.172. Therefore, based on the decision rule that the residuals are normally distributed if the p-value (asymptotic significance, 2-tailed) is >0.05, it can be concluded that the residuals are normally distributed.

Multicollinearity Test

Table 5. Results of the Multicollinearity Test

	Collinearity Tolerance	Statistics VIF
AQ	0.697	1.434
IO	0.635	1.574
LEV	0.830	1.205
TA	0.880	1.136

Source: Data Processing (2024)

Based on the results of the multicollinearity test in Table 5, there are no independent variables with a tolerance value below 0.10 or a VIF value above 10. Therefore, it can be concluded that there is no multicollinearity among the independent variables in the regression model.

Heteroscedasticity Test

Table 6. Results of the Heteroscedasticity Test

Model	Unstandardized B	Coefficients Std. Error	Standardized Beta Coefficients	t	Sig.
(Constant)	-2.828	2.177		-1,299	0.201
AQ	0.044	0.839	0.010	0.052	0.958
IO	-1.715	2.568	-0.128	-0.668	0.508
LEV	-3.895	2.300	-0.283	-1.693	0.098
TA	-0.164	3.168	-0.008	-0.052	0.959

Source: Data Processing (2024)

Based on the results of the statistical test for heteroscedasticity in Table 6, a decision can be made: if the significance level (p) is greater than 0.05, then there is no heteroscedasticity. The test was conducted using Park's test, which involves correlating the residual values of each independent variable; no evidence of heteroscedasticity was found because the significance values ranged from 0.98 to 0.959.

Autocorrelation Test

Table 7. Autocorrelation Test Results

	Unstandardized Residual
Test value[a]	- 0.00727
Cases < Test Value	22

	Unstandardized Residual
Cases ≥ Test Value	23
Total Cases	45
Number of Runs	17
Z	-1,807
Asymptotic Significance (2-tailed)	0.071

Source: Data Processing (2024)

For the statistical test of autocorrelation using the Run Test, the results are shown in Table 7. The autocorrelation test was conducted to determine whether the residual data appeared randomly; as shown in Table 7, the significance value for the Run Test is 0.071. Based on the decision criterion that if the significance value is greater than 0.05, then the regression model has no autocorrelation issues.

C. Hypothesis Testing

Multiple Linear Regression Analysis

Table 8. Results of the Multiple Linear Regression Test

Model	Unstandardized B	Coefficients Std. Error	Standardized Beta Coefficients	t	Sig.
(Constant)	0.385	0.128		3.014	0.004
AQ	-0.150	0.058	-0.394	-2.573	0.014
IO	0.122	0.172	0.109	0.708	0.483
LEV	0.421	0.160	0.370	2.635	0.012

Source: Data Processing (2024)

Y = 0.385 – 0.150 AQ + 0.122 IO + 0.421 LEV + ε. The constant (α) is positive at 0.385; that is, if all values of the independent variables are 0, the value of earnings management is 0.385. Each regression coefficient has an effect proportional to its magnitude, adding value for positive coefficients and subtracting value for negative coefficients on the dependent variable of earnings management, assuming all other variables are constant.

D. F-Test

Table 9. Results of the F-Test

	Sum of Squares	of df	Mean Square	F	Sig.
Regression	0.515	3	0.172	6.718	0.001[b]
Residual	1.048	41	0.026		
Total	1,563	44			

Source: Data Processing (2024)

Table 9 shows that the significance value of the Simultaneous Test (F-test) yields a value in the sig. column of 0.001, which is less than 0.05. Therefore, it can be concluded that the research model used is a good fit.

Based on Table 9, the calculated F-value is 6.718. Ghozali (2016) states that the independent variables have a simultaneous effect on the dependent variable if the calculated F-value is greater than the critical F-value. From Table 9, the calculated F-value (Fhitung) is greater than the critical F-value (Ftabel), with Ftabel being 2.833. Therefore, it can be concluded that the earnings management (EM) variable is simultaneously influenced by the audit quality (AQ), institutional ownership (IO), and leverage (Lev) variables.

E. T-Test

Table 10. Results of the T-Test

Model	Unstandardized B	Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)	0.385	0.128		3.014	0.004
AQ	-0.150	0.058	-0.394	-2.573	0.014
IO	0.122	0.172	0.109	0.708	0.483
LEV	0.421	0.160	0.370	2.635	0.012

Source: Data Processing (2024)

The Audit Quality (AQ) variable has a significance value of 0.014 and a beta value of -0.394, as shown in Table 10. The Audit Quality variable influences earnings management if its significance value is <0.05. The results of the data analysis in this study indicate that audit quality has a negative effect on earnings management, which means that the first hypothesis (H1) is accepted.

The Institutional Ownership (IO) variable has a significance value of 0.483 and a beta value of 0.109, as shown in Table 10. The Institutional Ownership variable influences earnings management if its significance value is <0.05. The results of the data analysis in this study indicate that institutional ownership does not affect earnings management, meaning that the second hypothesis (H2) is rejected.

The leverage (LEV) variable has a significance value of 0.012 and a beta value of 0.370, as shown in Table 10. The leverage variable influences earnings management if its significance value is <0.05. The results of the data analysis in this study indicate that leverage has a positive effect on earnings management, meaning that the first hypothesis (H3) is accepted.

F. Coefficient of Determination

Table 11. Results of the Coefficient of Determination Test

R	R-Square	Adjusted R-Square	R Standard Error of the Estimate
0.574a	0.330	0.280	0.15990

Source: Data Processing (2024)

The Adjusted R-Square value derived from the data shown in Table 11 is 0.280. This figure indicates that the variation in the independent variables explains 28% of the variance affecting the dependent variable. Therefore, it can be concluded that the variables audit quality (QA), institutional ownership (IO), and leverage (LEV) collectively account for 28% of the variation in earnings management (EM). Meanwhile, factors not included in the model account for the remaining 72%.

G. Moderation Regression Analysis

T-Test

Table 12. Partial Test Results (t) for MRA

	Unstandardized B	Coefficients Std. Error	Standardized Beta Coefficients	t	Sig.
(Constant)	0.306	0.329		0.929	0.359
AQ	-0.370	0.175	-0.973	-2.111	0.042
IO	0.647	0.446	0.582	1.452	0.155
LEV	-0.069	0.405	-0.060	-0.170	0.866
TA	-0.043	1.286	-0.027	-0.033	0.973
TA*AQ	0.921	0.671	0.624	1.374	0.178
TA*IO	-1.581	1.636	-0.515	-0.966	0.340
TA*LEV	2.029	1.602	0.834	1.266	0.213

Source: Data Processing (2024)

Based on Table 12, it can be seen that the moderation regression test yields a regression equation that can be expressed as follows:

$$Y = 0.306 – 0.370(X1) + 0.647(X2) – 0.069(X3) – 0.043(Z) + 0.921(X1*Z) – 1.581(X2*Z) + 2.029(X3*Z)$$

The result of the regression of the interaction variable between tax avoidance and audit quality (TA*AQ) and earnings management yields a t-value of 1.374 in the positive direction. The significance value of the interaction between tax avoidance and audit quality (TA*AQ) and earnings management is greater than 0.05, specifically 0.178 > 0.05. Based on these results, it can be concluded that Hypothesis 4 is rejected, as the t-value and significance t do not meet the decision criteria. Therefore, it can be concluded that tax avoidance does not moderate the relationship between audit quality and earnings management (H4), and Hypothesis 4 is rejected.

The results of the regression of the interaction variable between tax avoidance and institutional ownership (TA*IO) and earnings management show a t-value of -0.966 with a negative direction, and the significance value of the interaction variable between tax avoidance and institutional ownership (TA*IO) and earnings management is greater than 0.05, specifically 0.340 > 0.05. From these results, it can be concluded that Hypothesis 5 is rejected, because the t-value and significance level

R-Square Coefficient Test

Table 13. Results of the Hypothesis Test for the Coefficient (R^2)

R	R-Square	Adjusted R-Square	Standard Error of the Estimate
0.658a	0.433	0.326	0.15480

Source: Data Processing (2024)

The Adjusted R-Square value derived from the data shown in Table 13 is 0.326. This figure indicates that the variation in the independent variables explains 33% of the variance affecting the dependent variable. Therefore, it can be concluded that the variables Audit Quality (AQ), Institutional Ownership (IO), Leverage (LEV), Tax Avoidance (TA), TA*AQ, TA*IO, and TA*LEV collectively account for 33% of the variation in Earnings Management (EM). Meanwhile, factors not included in the model account for the remaining 67%.

H. Discussion

The Effect of Audit Quality on Earnings Management

The results of the study show that audit quality has a negative effect on earnings management (β = −0.394; p = 0.014), thus accepting H1. This finding indicates that companies audited by public accounting firms (PAFs) with higher reputations tend to have lower levels of earnings management. Independent auditors serve as a monitoring mechanism capable of curbing opportunistic management behavior, thereby enhancing the credibility of financial statements (Jensen & Meckling, 1976). This role became increasingly important during the COVID-19 pandemic, when companies in the energy sector faced market uncertainty and pressure to maintain financial performance. Auditors with high competence and reputation are expected to be better able to detect financial statement manipulation more effectively. The results of this study are consistent with those of Susanti and Margareta (2019) and Hadi and Tifani (2020), who found that audit quality has a negative effect on earnings management.

The Effect of Institutional Ownership and Earnings Management

The results indicate that institutional ownership does not affect earnings management (β = 0.109; p = 0.483), thus H2 is rejected. This finding suggests that the extent of stock ownership by institutional investors has not yet been able to enhance the effectiveness of oversight over management's opportunistic actions. One reason for this is that not all institutional investors possess the capability or are directly involved in overseeing the financial reporting process. Oversight is often carried out through professional analysts, which can reduce the effectiveness of monitoring. Additionally, during the COVID-19 pandemic, institutional investors were likely more focused on stock price stability and profitability than on monitoring earnings management practices in energy sector companies. These results are consistent with the research by Felicya and Sutrisno (2020), Ayudia and Hapsari (2021), and Kusumadewi and Edastami (2022), which found that institutional ownership has no effect on earnings management.

The Effect of Leverage on Earnings Management

Leverage has a positive effect on earnings management (β = 0.370; p = 0.012), thus H3 is accepted. These results indicate that the higher a company's leverage ratio, the greater the pressure management faces to meet obligations to creditors, thereby increasing the tendency to engage in earnings management. This finding is consistent with agency theory, which explains that conflicts between management and creditors can drive management to present better financial performance to avoid breaching debt covenants (Jensen & Meckling, 1976). During the COVID-19 pandemic, this pressure intensified due to demand uncertainty and energy price fluctuations, giving management a stronger incentive to maintain a positive perception among investors and creditors. These findings are consistent with the studies by Simajuntak and Anugerah (2019) and Sari and Susilowati (2021), which state that leverage increases a firm's tendency to engage in earnings management.

The Effect of Audit Quality on Earnings Management Moderated by Tax Avoidance

The analysis results show that tax avoidance does not moderate the relationship between audit quality and earnings management (β = 0.624; p = 0.178), so H4 is rejected. This finding indicates that the effectiveness of audit quality in limiting earnings management practices is not influenced by a company's level of tax avoidance. One possible reason is the difference in objectives between tax avoidance activities and the audit process. Tax avoidance focuses on optimizing the tax burden, whereas audit quality is oriented toward improving the quality and fairness of financial reporting. Thus, auditors with a high reputation remain capable of performing their oversight function even when a company employs tax avoidance strategies. These results are supported by the arguments of Rahmadani et al. (2020) and Komalasari et al. (2022) regarding the differing orientations of these two activities.

The Effect of Institutional Ownership on Earnings Management Moderated by Tax Avoidance

Tax avoidance does not moderate the relationship between institutional ownership and earnings management (β = −0.515; p = 0.340), so H5 is rejected. These results indicate that the level of tax avoidance does not alter the effectiveness of institutional investors' oversight of earnings management practices. In energy sector companies during the study period, institutional investors were presumed to be more focused on investment performance and profitability than on monitoring the companies' tax strategies. Furthermore, the difference in objectives between tax avoidance and institutional investor oversight resulted in these two mechanisms not reinforcing each other in curbing earnings management practices. These findings are consistent with the arguments presented by Antonius and Tampubolon (2019) as well as Komalasari et al. (2022).

The Effect of Leverage on Earnings Management Moderated by Tax Avoidance

The research results indicate that tax avoidance does not moderate the relationship between leverage and earnings management (β = 0.834; p = 0.213), thus H6 is rejected. This finding suggests that pressure stemming from leverage has a more direct influence on earnings management practices than through tax avoidance strategies. In the energy sector, the need to maintain the trust of creditors and investors takes precedence over efforts to minimize tax burdens. Consequently, companies are more inclined to maintain financial performance rather than employ tax avoidance strategies as a mechanism to alleviate the

pressure resulting from high leverage. These results support the research by Rahmadani et al. (2020) and Komalasari et al. (2022), which showed that tax avoidance does not strengthen the relationship between leverage and earnings management.

V. CONCLUSION

This study aims to analyze the effects of audit quality, institutional ownership, and leverage on earnings management and to test the role of tax avoidance as a moderating variable in energy sector companies listed on the Indonesia Stock Exchange for the 2020–2022 period. The results show that audit quality has a negative effect on earnings management, while leverage has a positive effect on earnings management. Conversely, institutional ownership was not found to have an effect on earnings management. Furthermore, tax avoidance does not moderate the relationship between audit quality, institutional ownership, or leverage and earnings management.

These findings indicate that audit quality remains an effective governance mechanism in curbing earnings management practices, while financial pressure reflected through leverage actually increases management's tendency to engage in such practices. On the other hand, institutional ownership has not been able to perform its oversight function effectively, and tax avoidance neither strengthens nor weakens the influence of the three independent variables on earnings management in energy sector companies during the study period.

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