

# Corporate Governance, Earnings Management and Integrity of Financial Statements: The Role of Audit Quality and Evidence from Indonesia.

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- **Abstract:** This study aims to investigate the effect of corporate governance (CG) and earnings management on the integrity of financial statements. In addition, this study also aims to examine the moderating effect of audit quality. Using moderated multiple linear regression on manufacturing companies listed on the Indonesian Stock Exchange from 2017 – 2019, the result showed that CG positively affects the integrity of financial statements. Meanwhile, this study failed to document that earnings management negatively affects the integrity of financial statements. The study documented that audit quality has a moderating effect on the relationship between EM and financial reporting integrity. The main contribution from this study is an alternative measurement developed for measuring Earnings Management (EM) activity by using EM Factor Score (EMFS), which derived from Confirmatory Factor Analysis (CFA) of three existing indicators of EM. The EMFS is statistically proven to be more comprehensive to detect managers' activity on earnings management. This study is expected to increase empirical evidence of the effect of corporate governance and earnings management on the integrity of financial statements. Also, the contribution of the study is to add empirical evidence regarding the role of audit quality in the integrity of financial statements.
- **Keywords:** Corporate governance (CG), Stock Exchange, Earnings Management (EM)