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The Role of Free Cash Flow, Bankruptcy Prediction and The Audit Committee in Earnings Management

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ABSTRACT
The research aims to analyze and obtain evidence regarding the influence of free cash flow, bankruptcy prediction and audit committees on earnings management. The type of research used is descriptive quantitative. The population of this study is the Financial Sector Industry which is listed on the Indonesia Stock Exchange for the 2018-2021 period. The sample selection technique uses the methodpurposive sampling. The amount of data obtained was 39 companies from 156 data. The data analysis method used is descriptive statistics, panel data regression test, classical assumption test, and multiple linear regression, t statistical test and F statistical test using the Microsoft Office Excel Program and Eviews 12 Statistics Program. The results of this study indicate that Free Cash Flow has an effect significant to Earnings Management, while Bankruptcy Prediction and Audit Committee have no effect on Earnings Management. Meanwhile, Free Cash Flow, Bankruptcy Prediction, and Audit Committee jointly (simultaneously) affect Earnings Management

Keywords: Audit Committee, Bankruptcy Prediction, Earnings Management, Free Cash Flow.

INTRODUCTION
In today's globalization competition, companies and organizations must be able to compete and be able to adapt due to economic developments nationally and globally. The occurrence of very tough competition between companies and countries has resulted in every company having to have qualified managerial strength in dealing with competition from other companies (Nailufar, 2018) cited again (Sri & Margita, 2020). A company that cannot survive in global competition will experience financial difficulties which can have a negative impact on corporate bankruptcy (Sri & Margita, 2020). A company certainly requires the information needed for the progress of the company.

One important element in the financial statements used to measure management performance is profit. Profit management is the task of company management because it contributes to formulating policies (Kodriyah, 2017). Earnings management is an action carried out by managers by manipulating financial reports with the aim of benefiting themselves (the manager) and company profits.

Earnings management is a deliberate management effort to manipulate financial statements within the limits permitted by accounting principles. Earnings management is interpreted into an information perspective and also develops into an opportunist perspective. Basically, earnings management is a method used by managers in using existing accounting standards and procedures. Managers in this case can take personal advantage or attract the attention of investors in a great way. Cases of earnings management practices do not only occur abroad but also at home.

The case of PT Asuransi Jiwasraya (Persero) The Jiwasraya scandal became very popular in the mass media. Jiwasraya first announced its default in October 2018. In that announcement, Jiwasraya was unable to pay off customer policy claims of IDR 802 billion. The Supreme Audit Agency (BPK) also released calculations of state losses (PKN) as a result of the Jiwasraya mega scandal. As a result, the total PKN calculated by the BPK reached IDR 16.81 trillion. This amount consists of Rp. 4.65 trillion in stock investment and Rp. 12.16 trillion in state losses due to

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investment in mutual funds. The amount is slightly different from the initial projection of the Attorney General's Office (Kejagung) of IDR 17 trillion. Then the latest default case at this time, namely PT Asuransi Jiwa Kresna (Kresna Life) Kresna Life, failed to pay for two of its insurance products. The two products are Kresna Link Investa (K-LITA) and Protecto Investa Kresna (PIK). OJK found a number of violations committed by Kresna Life, especially on K-LITA products. Where are the K-Lita Kresna products, the investment benefits offered since June 10 2019 are quite high, above the average bank deposit and some even have investment benefits reaching a fixed rate of 9.75% per year. In February 2020, to prevent the risk of difficulties in paying claims on larger maturing policies and protect the interests of policyholders, OJK ordered Kresna Life to stop KLITA products. According to OJK, the Kresna Group life insurance company has violated the provisions related to the implementation of the recommendations on the results of the previous inspection. OJK letter number S-342/NB.2/2020-dated 3 August 2020 is a predetermined sanction. (Suryaningtyas, 2022)

The phenomenon of default by an insurance company indicates inadequate governance and also the application of risk management that is not optimal in preventing default by the insurance company. Implementation of risk management has a vital role in preventing bankruptcy of a company. One way to measure the performance of company management is by analyzing the profit information in the financial statements, so that profit is an important component for management to take opportunistic actions even though these actions could be detrimental to external parties. There are several factors that cause earnings management within the company, including free cash flow, bankruptcy prediction and audit committees.

The availability of free cash flow within the company is one of the factors that influence managers to carry out earnings management activities. Free cash flow is the remaining cash flow available after the company has set it aside for working capital and fixed asset investments. The purpose of a company in managing earnings is to make the company's condition good. High free cash flow allows companies to gain investor confidence and improve company value, which in turn has an impact on increasing shareholder value. Conversely, companies that have negative free cash flow will experience difficulties in paying off loans from banks/bonds. So this means that free cash flow in a company can be an incentive that motivates managers to carry out earnings management activities. (Mardianto & Jullystella, 2021)

As in the research by Mardianto & Jullystella (2021) which examined "analysis of the effect of free cash flow and auditor quality on earnings management" which found that free cash flow has a positive effect on earnings management, this is different from research from Bhaktiar et al., (2021) with the title "the effect of free cash flow, leverage, audit committee and company size on earnings management in companies in the consumer goods industry sector of the food and beverage sub-sector which are still listed on the IDX in 2015-2020" which states a result that partially Free cash has no significant effect on earnings management.

One of the important things for a company is to get a profit. The results of obtaining a good profit will be stated in a financial report. Profit can be used as a benchmark in assessing business continuity and the attractiveness of investors in investing their capital (Yunenda, 2021). However, it cannot be denied that competition in the business world within companies is getting tougher and if they cannot innovate and be stable to earn good profits they will experience bankruptcy.

According to Melissa & Banjarnahor (2020) companies will experience failure to the point of bankruptcy if the company is unable to compete with other companies. Bankruptcy is a condition or risk that must be faced by businessmen when running a business. Bankruptcy is a condition where a company experiences insufficient funds to carry out company activities, and is unable to pay off obligations resulting from activities carried out by the company. Bankruptcy prediction serves to provide direction and information for groups who have an interest in the company's financial performance, whether there will be unexpected problems and may occur as an appraiser and evaluation of a company's condition.

Bankruptcy prediction is a condition experienced by companies where the company has problems in financial difficulties. The company cannot pay its debts to creditors when they are due. This shows that companies experiencing financial distress (financial distress) tend to do earnings

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management. (Damayanti, 2021)

Several researchers who conducted Damayanti's research, (2021) stated that partially financial distress had a significant positive effect on Earnings Management, this happened because investors wanted companies to have stable profits so that they could encourage companies to carry out earnings management. However, this is different from research from Tannaya (2021) which states that financial distress has no effect on earnings management because companies experiencing financial distress will not always carry out earnings management in attracting or retaining investors.

The financial statements according to the company are considered correct, however, when checking by external auditors, there are differences in results (Barnas, 2021). Thus, the audit committee as the company's internal organ that performs the function of overseeing the company's financial reporting is an important factor in corporate governance. In addition to the important role of the audit committee, there is also the role of the public accounting firm as an external party which is also a factor in influencing the quality of financial reporting.

In addition to free cash flow and bankruptcy, there are also audit committees that can influence earnings management. The audit committee is a support for the board of commissioners whose duty is to assist in providing assurance that financial reports are presented fairly and in accordance with applicable accounting principles. The existence of an audit committee is an improvement in the quality of financial reporting which is expected to be carried out and suppresses manipulation so that the accounting process is able to produce quality reports so that the size of the audit committee is also taken into consideration in management research (Santosa & Rasyid, 2022). Study conducted by Mardianto & Jullystella (2021) which stated that free cash flow had a positive effect on earnings management, while research conducted by Bhaktiar et al., (2021) stated a result that partially free cash flow did not have a significant effect on earnings management.

Research conducted by Damayanti, (2021) which states that partially financial distress has a significant positive effect on Earnings Management, while research conducted by Tannaya (2021) states a result that financial distress has no effect on earnings management. Research conducted by Izzani., (2022) which states that the audit committee has a positive and significant influence on earnings management. whereas research conducted by research from Santosa et al (2021) states a result that shows that the audit committee has no effect on earnings management. Based on the background described above, the researcher is interested in conducting research to analyze the role of Free Cash Flow, Bankruptcy Prediction and Audit Committees in Profit Management (Research on the Financial Sector Industry listed on the Indonesia Stock Exchange for the 2018-2021 period)

LITERATURE STUDY

Agency Theory

Agency theory states that there is a relationship between the agent and the principal. In the agency relationship, there is an agreement between the principal relying on the agent to carry out orders and authorizing the agent to find the best decision for the principal (Solikhah, 2022).

According to Natasya and Purwanto (2020) agency theory assumes that principals only have minimal information about the company, and agents know more information about the company's performance and conditions. This condition encourages the emergence of an imbalance of information held between the principal and the agent. This information asymmetry causes managers and owners to cause managers to have the opportunity to take advantage of gaps in existing accounting standards to make deviations with certain accounting methods to carry out earnings management (Ayem and Ongirwalu, 2020).

According to Jensen and Meckling (1976) in Kristianto, (2020) the existence of agency problems raises agency costs which consist of: (1) The monitoring expenditure by the principle, namely the monitoring costs incurred by the principal to oversee the behavior of agents in managing the company; (2) The bounding expenditure by the agent (bounding cost), namely the costs incurred by the agent to ensure that the agent does not act to the detriment of the principal; and (3) The Residual Loss, namely the decrease in the level of utility of the principal and agent due to an agency relationship.

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Earning Management

Earnings management carried out by managers in recording the preparation of the company's financial statements causes the information contained in the financial statements to be inaccurate and do not reflect the true value. Efforts made by management in manipulating financial statements often illustrate that the company is in bad condition so that the auditor can issue a going concern opinion. Earnings quality reflects the continuation of earnings in the future. Earnings management carried out by managers has an impact on the quality of company earnings, so that profits shown in financial statements do not accurately reflect profits from business activities. Under these conditions, the auditor can issue a going concern opinion, on the basis of other conditions or events (M. Haris and Sudarno, (2011) in Dian & Kono, 2018).et both short-term and long-term obligations. The leverage ratio that is commonly used is the debt ratio, namely total debt divided by total assets. The lower the debt ratio, the better the condition of the company. This means that only a small part of the company's assets are financed with debt.

Zhafirah, et al. (2022) explained that earnings management is an attempt by company managers to influence information in financial reports with the aim of tricking stakeholders who want to know the company's performance and conditions. There is a motivation that encourages managers to behave opportunistically which is in line with the three main hypotheses in positive accounting theory (Positive Accounting Theory), namely the bonus plan hypothesis, the debt covenant hypothesis and the political cost hypothesis (Watts and Zimmerman, 1990). In the bonus plan hypothesis it is explained that the owner of the company promises the manager will receive a number of bonuses if the company's performance reaches a certain amount. This bonus promise is the reason for managers to manage and regulate company profits at a certain level according to what is required in order to receive bonuses.

According to the debt covenant hypothesis, it is stated that in the context of debt agreements, managers will manage and regulate company profits so that the company's debt obligations that should be settled in a certain year can be postponed for the following year. According to the political cost hypothesis, it is stated that earnings management is caused by regulations from the government, for example regulations in setting taxes. The size of the tax depends on the size of the company's profits. The greater the company's profit, the greater the tax that will be collected by the government. This condition stimulates managers to manage and regulate company profits so that the amount of tax paid is not too high.

According to Eka, Gunawan & Annisa (2018), the application of an accounting policy is a factor that influences earnings management, this factor is related to management's decision to apply an accounting policy that must be applied by companies, namely between reporting it earlier than the set time or delaying it until when the policy takes effect. The basic reason for the emergence of Earnings Management is that the market price of a company's shares is significantly influenced by profit, risk and speculation.

Free Cash Flow

In the Statement of Financial Accounting Standards (PSAK) No. 2 of 2012, defining cash flow from operating activities is obtained from the company's main activities that generate income. Those cash flows usually come from activities that establish profit and loss. While capital expenditure is cash flow used for investment in a period, capital expenditure is usually recorded as the purchase of fixed assets, maintenance, and others. Expenditure or investment income for fixed assets that do not affect the addition of fixed assets are not considered as capital expenditure. Even though it is called free cash flow, the management cannot immediately use this money freely, because it is the remaining money that can be used as a business development tool, if the company is reluctant to take funds from debt and other sources of funds. If after calculating the cash flow and generating free cash flow that is negative, then this should be a concern of the company because it indicates that the company's income is unable to support the expansion or development of the company's business. To cover this, companies usually cover it by means of loans or bonds.

If the condition of free cash flow is negative for more than one operating period, this does not necessarily indicate bad company finances, because it could also be due to company expansion

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which absorbs very large funds, which is why it is important to check with CALK.

Ross et.al. (Bhaktiar et al., 2021) in defining free cash flow as company cash that can be distributed to creditors or shareholders that are not used for working capital or investment in fixed assets. Free cash flow is used for the use of acquisitions and capital expenditures with a growth orientation, debt repayment and payment to shareholders in the form of dividends. The greater the free cash flow available in a company, the healthier the company is because it has cash available for growth, paying debts and paying dividends. Growth and financial flexibility depend on the availability of free cash flow.

Free cash flow has the benefit of getting around the market and increasing the value of the company with dividends distributed by the company to investors. If the company makes capital expenditures, the free cash flow will show clearly which companies still have the capability in the future and which do not. Free cash flow is said to have information content if free cash flow gives a signal to shareholders (Rosdini, 2009) in (Dian & Kono, 2018). Free cash flow can be calculated from the cash flow statement. If the free cash flow from the company is positive ($FCF \geq 0$) then the company's finances are in good condition. Negative free cash flow ($FCF \leq 0$) indicates the company issues shares to increase capital. This will result in reduced earnings per share of the company.

Bankruptcy Prediction

One of the most important things that must be decided by the auditor is whether the company can maintain its viability (going concern). The modified financial statements regarding going concern indicate that in the auditor's judgment there is a risk that the company cannot survive in its business. Bankruptcy itself is usually interpreted as a situation where the company fails or is no longer able to fulfill its obligations because the company experiences a lack of funds to run or continue its business (Eko and Ivan, (2013) in Yunenda, 2020).

Bankruptcy can also be interpreted as financial difficulties that are so severe that the company is no longer able to carry out its operations properly. Meanwhile, financial distress is financial difficulty that may initiate bankruptcy. Bankruptcy is also often called company liquidation or company closure (Edward, (2013) in Barnas, 2021).

One of the bankruptcy prediction models used in predicting the bankruptcy of a company is the Altman model (1968), Altman's Z score is also known as the Altman Bankrupty Prediction Model Z-score. The understanding is that this model provides a formula for assessing when a company will go bankrupt. By using a formula that is filled in (interlated) with financial ratios, it will be known that certain numbers are available as material for predicting when a company is likely to go bankrupt. Over time and adjustments to various types of companies. (Amina:2020)

As successfully quoted from Kamal (2012) in Aminah, (2020) the meaning of the Z-Score is a score that is determined from a standard count times financial ratios that indicate the degree of opportunity for corporate bankruptcy. The Z-Score formula for predicting bankruptcy from Altman is a multivariate formula used to measure the financial health of a company. Altman found five types of financial ratios that can be combined to see the difference between bankrupt and non-bankrupt companies.

Predicting bankruptcy which is generally known as a measurement of financial distress. Altman (1968) developed a bankruptcy prediction model known as the Altman Z-Score. Altman Z-score is the result of a score that is determined from a calculation that will indicate the probability of how big the bankruptcy level of the company is. Fred (1999:264) in Khusnudin, (2022) insolvency or bankruptcy (inability to pay or bankruptcy) which is a condition in which the liabilities (liabilities) of a person or company to creditors exceed their assets. Inability to pay occurs after a period when a person's expenditure exceeds his income, or the costs of a company exceed the revenue from the sale of a loss. So that the person or company cannot repay all of its cumulative obligations with existing assets. Bankruptcy prediction is a forecast or forecast where a company cannot repay all of its cumulative obligations with existing assets.

Shalihin (2010: 169) (Khusnudin, 2022) the causes of bankruptcy vary greatly from one company to another. Several other structural problems that often burden companies include:

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a.Imbalance of expertise in top management.
b. The top leader who dominates the company's operations often ignores the advice of his partners.
c. Board of directors who are less active or do not know anything.
d. The financial function in company management is not running properly
e. Lack of top leadership responsibility.

The main characteristic which is a sign that a company is in a state of financial distress stems from the company's inability to pay loan debts, or the projected inability of future cash flows to meet the company's obligations. Cash flow difficulties from the description can be caused by several things, one of which was caused by the decreased demand for the products offered, for example because the public's purchasing power for goods/services dropped dramatically during a pandemic, cash inflows as a source of company income also decreased which resulted in the level of liquidity appearing as a predictor that could trigger the company's condition to become increasingly bankrupt (Fitriyani, 2022).

METHOD

This study uses quantitative methods with secondary research data. Secondary data was taken using the documentation method for financial sector companies through the Indonesian Stock Exchange website (www.idx.co.id) in 2018-2021.

Population

The population is the entire element that will be used as a generalization area. The population element is the entire subject to be measured, which is the unit under study. The population in this study are 156 companies in the Financial Industry Sector that are listed on the Indonesia Stock Exchange for the 2028-2021 period.

Sample

According to Sugiyono (2018) the sampling technique is a sampling technique to determine the sample to be used in research, there are several techniques that can be used. The two sampling techniques include probability sampling and non-probability sampling. (Sugiyono, 2018) explains the definition of probability sampling is a sampling technique that provides equal opportunities for each element (member) of the population to be selected as a member of the sample. Meanwhile, non-probability sampling is a sampling technique that does not provide equal opportunities for each element or member of the population to be selected as a sample. The technique of determining the sample (sampling technique) used in this study is the non-probability sampling method with the data collection technique using a purposive sampling approach. Purposive sampling according to Sugiyono, (2018) is a sampling technique with certain considerations. The sample required in this study used purposive sampling with judgment sampling. Judgment sampling is used to obtain samples according to certain criteria in order to obtain specific information needed by researchers. The sample in this study is the financial reports of the financial industry sector which are listed on the Indonesia Stock Exchange for 2018-2021 and have predetermined criteria that support the research.

Data analysis technique

Data analysis technique is a way to group data based on variables, tabulate data based on variables, present data for each variable studied, perform calculations to answer the problem formulation, and perform hypothesis testing. This data analysis aims to determine the role of each independent variable in influencing the dependent variable. And the research data will be calculated using the statistical software program Eviews (Econometric Views) series 12 and the Microsoft Office Excel application. The stages of data analysis that will be carried out for testing are descriptive statistical analysis, Panel Data Estimation Method, Classical Assumption Test, Panel Data Linear Regression Equation Method and Hypothesis Testing.

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RESULTS AND DISCUSSION

Results

Descriptive Statistical Analysis

This analysis is a descriptive technique that provides information about the data owned and does not intend to test the hypothesis. Statistical analysis is used to determine the description or description of each variable involved in the study. The measurements used in this research are the mean, maximum, minimum and standard deviation.

Descriptive statistics

Table 1. Descriptive Statistics

	EM	FCF	BP	AC
Mean	-0.034646	0.065019	1.248397	3.724359
Median	-0.011500	0.035000	0.705000	3.000000
Maximum	0.589000	0.528000	5.960000	9.000000
Minimum	-0.488000	-0.292000	0.177000	2.000000
Std. Dev	0.162437	0.132983	1.309496	1.341995
Skewness	-0.079052	0.863288	2.071871	1.813280
Kurtosis	4.370087	3.863309	6.980895	6.264945
Jarque-Bera	12.36389	24.22138	214.6178	154.7768
Probability	0.002066	0.000006	0.000000	0.000000
Sum	-5.404700	10.14300	194.7500	581.0000
Sum Sq. Dev.	4.089816	2.741087	265.7909	279.1474
Observations	156	156	156	156

Source: Data Processed, 2023

Note:

EM = Earning Management
FCF = Free Cash Flow
BP = Bankruptcy Prediction
AC = Audit Committee

Based on the table above it can be concluded that the dependent variable is as follows:

1. Profit Management

Profit Management (Y) has a maximum value of 0.589000 experienced by PT. State Savings Bank Tbk in 2018 and a minimum value of -0.488000 experienced by PT. Bank Capital Indonesia Tbk in 2021. The average value (mean) of Profit Management is -0.034646 with a standard deviation of 0.162437.

2. Free Cash Flow

The independent variable Operating Cash Flow (X1) has a maximum value of 0.528000 experienced by PT. Wahana Ottomitra Multiartha Tbk. in 2020 and a minimum value of -0.292000 experienced by Asuransi Bina Dana Arta Tbk. in 2019. The average value (mean) of Operating Cash Flows is 0.065019 with a standard deviation of 0.132983.

3. Bankruptcy prediction

The independent variable Bankruptcy Prediction (X2) has a maximum value of 5.960000 experienced by PT. Panin Financial Tbk in 2021. The minimum value of 0.177000 is experienced by PT. Bank Permata Tbk in 2018. The average value (mean) of bankruptcy prediction is 1.248397 with a standard deviation of 1.309496.

4. Audit Committee

The independent variable Audit Committee (X3) has a maximum value of 9.000000 experienced by PT. Bank OCBC NISP Tbk in 2019. The minimum value of 2.000000 was experienced by PT.

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Ramayana Insurance Tbk and PT. Bank Capital Indonesia Tbk from 2018 to 2021. The average (mean) value of the Audit Committee is 3.724359 with a standard deviation of 1.341995.

Panel Data Regression Equations

The processing results of linear regression analysis and the equations used in this study are as follows:

Table 2. Panel Data Regression Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.024729	0.026587	-0.930106	0.3538
X1	-0.776473	0.038872	-19.97511	0.0000
X2	0.007970	0.004921	1.619591	0.1074
X3	0.007231	0.007091	1.019842	0.3094
	Weighted Statistics			
Root MSE	0.128955	R-squared		0.734240
Mean dependent var	-0.050512	Adjusted R-squared		0.728995
S.D. dependent var	0.253372	S.E. of regression		0.130641
Sum squared resid	2.594182	F-statistic		139.9815
Durbin-Watson stat	1.914625	Prob(F-statistic)		0.000000
	Unweighted Statistics			
R-squared	0.342760	Mean dependent var		-0.034646
Sum squared resid	2.687990	Durbin-Watson stat		1.856430

Source: Data Processed (2023)

Hypothesis testing

The coefficient of determination test

The coefficient of determination test is useful for measuring how far the model's ability to explain the variation of the dependent variable and to explain how far the ability of a regression model to explain the independent (independent) variable affects the dependent (dependent) variable. The value of the coefficient of determination can be measured from the Adjusted R-Squared value, the value of which is in the numbers 0 to 1, the greater the value of the coefficient, the better the model, and vice versa. The Adjusted R-Squared value is 0.728995, which means that the variation in changes in the rise and fall of Profit Management can be explained by Operating Cash Flow (X1), Bankruptcy Prediction (X2) and Audit Committee (X3) of 73.42%. While the remaining 26.58% is explained by other variables not examined in this study.

F test

The F test is carried out to explain whether all the independent variables used together have an influence on the dependent variable or not. If the significant value obtained is less than or less than 0.05, it can be said that all independent variables have an influence on the dependent variable. The F-count value is 139.9815 and a significant value is 0.0000. Meanwhile, to find the F-table with the number of samples (n) = 156, the number of variables (k) = 4, the significant level $\alpha = 0.05$, df1 = k - 1 or 4 - 1 = 3 and df2 = n - k or 156 – 3 = 153 obtained an F-table value of 2.66 So that the F-count (139.9815 > 2.66) and systematically obtained a significant value of 0.0000 <0.05 a significant level of 0.05 so it can be concluded that the independent variables used in this study which consists of Operating Cash Flow (X1), Bankruptcy Prediction (X2) and Audit Committee (X3) which together have influence on Earnings Management.

t test

The t test was conducted to find out how the independent variables individually explain the dependent variable. Basically the t test shows how far the explanatory variables are individually. This test is carried out using a significance level (α) of 0.05. If the probability value obtained is smaller than the significant value (0.05) then it can be concluded that the independent variable has an effect on the dependent variable, and vice versa. To find out the t table using the formula (df =

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k-n) where K is the number of variables and n the number of respondents (Df = 4 – 156) Df = 152 and a t table of 1.98 is obtained. Here are the results of the t test for each variable in the study done:
1. The probability value of the Free Cash Flow variable (X1) is 0.0000 which is where the value is smaller than the significant value of 0.05 (0.0000> 0.05) and also the ttable value is 1.98 in this case tcount > ttable (-19,975 >1.98). Thus it can be concluded that the variable Operating Cash Flow (X1) has an effect on Profit Management in financial sector companies listed on the Indonesia Stock Exchange for the 2018-2021 period.
2. The probability value of the Bankruptcy Prediction variable (X2) is 0.1074 which is smaller than the significant value of 0.05 (0.1074> 0.05), and also the ttable value is 1.98 in this case tcount <ttable (1.619< 1.98). Thus it can be concluded that the Bankruptcy Prediction variable (X2) has no effect on Profit Management in financial sector companies listed on the Indonesia Stock Exchange for the 2018-2021 period.
The resulting probability value of the Audit Committee variable (X3) is 0.3094 which is greater than the significant value of 0.05 (0.3094> 0.05), and also the ttable value is 1.98 in this case tcount <ttable (1.0198< 1.98). Thus it can be concluded that the Audit Committee variable (X3) has no effect on Profit Management in financial sector companies listed on the Indonesia Stock Exchange for the 2018-2021 period.

Discussion

The Role of Free Cash Flow, Bankruptcy Prediction and Committees Audit on Earnings Management

Based on the research in the table above, the results show that Free Cash Flow, Bankruptcy Prediction and Audit Committee simultaneously affect Earnings Management. The availability of free cash flow within a company is one of the factors that influences managers to carry out earnings management activities (Mardianto & Jullystella, 2021). Bankruptcy prediction is a condition experienced by companies where the company has problems in financial difficulties. The company cannot pay its debts to creditors when they are due.

Thus, companies in these conditions experience financial distress and tend to do earnings management. (Damayanti, 2021). The audit committee is a support for the board of commissioners whose task is to assist in providing assurance that financial reports are presented fairly and in accordance with applicable accounting principles so that the existence of an audit committee is an improvement in the quality of financial reporting that is expected to be carried out and suppresses manipulation so that the accounting process able to produce quality reports so that the size of the audit committee is also taken into consideration in management to carry out earnings management (Santosa & Rasyid, 2022).

The Role of Free Cash Flow on Earnings Management

Free cash flow is the actual cash flow that can be distributed to investors after the company has made all the necessary investments and working capital to maintain its operational continuity. The availability of free cash flow within a company is one of the factors that influence managers to carry out earnings management activities.

This is because there is residual cash flow available after the company has set it aside for working capital investments and fixed assets that require earnings management activities. (Mardianto & Jullystella, 2021). Based on the test on Cash Flow has a significant influence on Earnings Management. If the company has a high free cash flow, then earnings management practices are getting lower. This means that it indicates that the company has sufficient cash reserves to meet its operational activities and this is in line with research results (Fadhilah and Kartika, 2022).

The Role of Bankruptcy Prediction on Earnings Management

Bankruptcy prediction is a condition experienced by companies where the company has problems in financial difficulties. The company cannot pay its debts to creditors when they are due. Thus, companies in these conditions experience financial distress and tend to do earnings management. (Damayanti, 2021).

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Based on the test results on Bankruptcy Prediction, the results showed no effect and no significant effect on Earnings Management. Where companies with a high probability of bankruptcy tend not to take earnings management actions due to strict supervision from external parties on the sustainability of their business. In addition, companies usually behave more conservatively and think that earnings management actions taken are less useful and will not affect company performance and companies that are not experiencing financial distress will tend to reduce earnings management compared to companies that are experiencing financial distress which will tend to improve earnings management. . this is in line with research conducted by (Rini Novianti, Sonny Santosa, 2018) in which in this study bankruptcy prediction had no effect on earnings management. And this is also supported by research (Attami and Salsabila Nadhifa 2022) where the higher the bankruptcy prediction by the company does not affect management in carrying out earnings management.

The Role of the Audit Committee on Earnings Management
The audit committee is a support for the board of commissioners whose task is to assist in providing assurance that financial reports are presented fairly and in accordance with applicable accounting principles so that the existence of an audit committee is an improvement in the quality of financial reporting that is expected to be carried out and suppresses manipulation so that the accounting process able to produce quality reports so that the size of the audit committee is also taken into consideration in management to carry out earnings management. (Santosa & Rashid, 2022).
Based on testing on the Audit Committee, it has no influence and is not significant on Earnings Management where the audit committee has not been able to prove that it can reduce the possibility of earnings management practices. there are still many companies that form audit committees only as a formality, as a result many audit committee members who are recruited do not have knowledge in accounting and finance so they fail to reduce the occurrence of manipulation of earnings management by management. This research is in line with research conducted by (Damayanti 2021) where the results have no effect between the Audit Committee and Profit Management. And also supported by research from (Intan Permata Sari and Agus Purwanto 2018) which explains that the company only forms an audit committee within the company which is only limited to complying with regulations without focusing on the focused field.

CONCLUSION

Based on the results and discussion of the research that has been done, the conclusions of this study are as follows: Free Cash Flow, Bankruptcy Prediction and Audit Committee have a significant effect on Earnings Management. Cash Flow has a significant influence on Earnings Management. If the company has a high free cash flow, then earnings management practices are getting lower. This means that the company has sufficient cash reserves to meet its operational activities. Bankruptcy prediction results show no significant effect on Earnings Management. Where companies with a high probability of bankruptcy tend not to take earnings management actions due to strict supervision from external parties on the sustainability of their business. The audit committee has no influence and is not significant on earnings management where the audit committee has not been able to prove that it can reduce the possibility of earnings management practices. There are still many companies that form audit committees only as a formality, as a result, many audit committee members who are recruited do not have knowledge in accounting and finance so they fail to reduce the occurrence of manipulation of earnings management by management.

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