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THE EFFECT OF RELATED PARTY TRANSACTIONS, TAX PLANNING, AND LEVERAGE MODERATED BY INDEPENDENT COMMISSIONERS ON EARNINGS MANAGEMENT

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ABSTRACT

Managers carry out earnings management with various motives to get the desired profit level so that the company's financial statements do not reflect the actual situation. The purpose of this study is to determine the effect of related party transactions, tax planning, and leverage on earnings management, as well as the role of independent commissioners in moderating this effect. This study tested manufacturing sector companies listed on the Indonesia Stock Exchange during 2016-2019 with a total sample of 220 samples using a purposive sampling method. The type of data used is secondary data obtained from www.idx.co.id. This study uses two panel data regression models, namely models with and without moderation. The results of this study indicate that related party transactions have a negative effect on earnings management, while tax planning and leverage have no effect on earnings management. Furthermore, independent commissioners can moderate the effect of related party transactions, tax planning, and leverage on earnings management.

KEYWORDS *Earnings Management, Independent Commissioners, Leverage, Related Party Transaction, Tax Planning*

INTRODUCTION

Financial report are a form of management's responsibility that serve to provide information to users for decision-making purposes regarding a company's financial condition, including financial position, financial performance, and cash flows. Financial statements are also used as a communication medium by the

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company for internal parties such as management, as well as external parties with an interest, such as investors, creditors, the government, and others.

One of the components in financial statements that is the main focus for users as an analytical tool to assess and evaluate the company's achievements over a certain period is the income statement. The profit element in the income statement is often used in investment decision-making by investors and credit decisions by creditors. This is because profit represents a measure of a company's financial performance and has predictive value.

Investors tend to invest their money in companies with high profits and growth, which motivates companies to manipulate their financial performance (Dang *et al.*, 2017). Similarly, creditors tend to lend their funds to companies with high profits to minimize the risk of loss due to debt contract violations. Management, on the other hand, strives to show good performance in managing the company's resources and operations by generating maximum profit. Therefore, to meet these expectations, managers will engage in earnings management by modifying the company's financial statements to achieve the desired profit levels. Moreover, based on the growth data of Single Investor Identification (SID), the number of investors in the capital market as of December 2020 reached 3.88 million, a fourfold increase from 2016, which only had 894,000. This shows the rapid growth of the number of investors in Indonesia, hence management will be increasingly motivated to engage in earnings management to embellish the financial statements, which are one of the sources of information for investors in making investment decisions.

Related party transactions are one of the factors that influence earnings management. A related party transaction is a transfer of resources, services, or obligations between the reporting entity and a related party, regardless of whether a price is charged (PSAK No. 7). The parent company's financial statements must disclose transactions with related parties or special parties. The Indonesian Accounting Association (IAI) acknowledges that related party transactions will affect the company's financial position and performance. These transactions can be carried out by parties with special relationships that would not occur with unrelated parties. They can also be conducted at different prices compared to similar transactions between unrelated parties. Companies can engage in earnings management through related party transactions to achieve the desired profit levels. The existence of related party transactions indicates the potential for conflicts of interest that provide greater incentives for the expropriation of minority shareholders' rights by controlling shareholders. This motivates controlling shareholders to manage earnings to cover up such expropriation (Hasnan et al., 2016). Additionally, globalization has increased the volume of global trade due to the development of technology, numerous global and regional cooperations, and so on. Interestingly, 60-70 percent of global trade transactions are conducted between affiliated parties (Darussalam, 2017). Furthermore, Darussalam (2017) revealed that companies with affiliated transactions typically engage in tax avoidance by utilizing related party transaction accounts by lowering the prices in related party sales transactions to shift profits to affiliated parties, thereby reducing the company's taxable income. This strategy is also known as transfer pricing in taxation terms.

Another determinant that can affect earnings management activities is tax planning. Taxes are official contributions that must be paid to the state by taxpayers, including business entities. Managers consider taxes as a burden, thus they manage and regulate earnings to reduce the tax burden and achieve the desired profits (Lubis & Suryani, 2018). Tax planning is one function of tax management aimed at estimating the amount of tax to be paid along with the methods used to avoid taxes. Tax planning can be done through tax avoidance and tax evasion. Tax planning and earnings management are interrelated because they share the same goal of achieving desired profits by manipulating the amount of profit (Astutik & Mildawati, 2016).

Furthermore, leverage is also a factor that can influence earnings management. Leverage is a ratio used to measure the extent to which a company's assets are financed by debt; it can also be said that this ratio aims to determine the company's ability to pay off all its obligations or debts (Kasmir, 2012). An increase in leverage will increase the risk faced by the company, leading the principal or company owner to desire higher profits to avoid the threat of liquidation. This triggers managers to engage in earnings management (Amalia et al., 2021).

Lastly, corporate governance is another factor that can influence a company's decision to practice earnings management. Corporate governance is a system of checks and balances from internal and external parties to ensure that the company conducts its activities accountably and provides accountability to all stakeholders (Solomon & Solomon, 2014). Previous research examining the influence of corporate governance on earnings management has proven that corporate governance can indeed reduce earnings management (Aditama et al., 2018). Corporate governance can make it difficult for managers to engage in deviant practices such as earnings management because all their actions are regulated and monitored. One of the corporate governance factors is independent commissioners. Independent commissioners are commissioners who come from outside parties not affiliated with any party and are tasked with ensuring the implementation of strategies previously set by the company and monitoring management in running the company. The research results of Busirin et al. (2015) show that the higher the number of independent commissioners, the lower the tendency for earnings manipulation due to their ability to prevent the company from manipulating earnings and to better oversee the earnings formation process.

This research aims to analyze the influence of related party transactions, tax planning, and leverage on earnings management, as well as the role of independent commissioners in moderating the influence of related party transactions, tax planning, and leverage on earnings management.

Literature Review

Agency Theory

Agency theory assumes that each individual has their own interests in maximizing their welfare. An agency relationship arises when shareholders, acting as principals who desire an increase in the company's value and dividend distribution, contract with managers, acting as agents who seek to maximize their own welfare through high bonuses. This contractual relationship can lead to conflicts if there is information asymmetry, which motivates agents to engage in inappropriate behavior. Agents can use earnings management practices by manipulating data in financial statements to meet the principals' expectations (Jensen & Meckling, 1976). To minimize information asymmetry, agency costs need to be incurred as a monitoring mechanism to ensure that the company is managed according to applicable regulations.

Positive Accounting Theory

This theory explains the factors that motivate managers in choosing the most appropriate accounting methods to face certain future conditions. Positive accounting theory has three hypotheses that form the basis for managers to engage in opportunistic behavior such as earnings management to increase profit and welfare: the bonus plan hypothesis, the debt covenant hypothesis, and the political cost hypothesis (Watts & Zimmerman, 1986).

Hypothesis Development

The Influence of Related Party Transactions on Earnings Management

Gordon and Henry (2005) state that related party transactions can be used by insiders, such as controlling shareholders or management, for their personal benefit by expropriating the wealth of minority shareholders. Insiders can use their authority to influence transaction terms to suit their interests. This creates an incentive for them to engage in earnings management so that these expropriations are not detected. La Porta et al. (1999) provide evidence that related party transactions are used as a tunneling mechanism by controlling shareholders to expropriate wealth from minority shareholders, particularly in emerging markets where legal protection for minority shareholders is relatively weak. Based on the above explanation, the following hypothesis can be formulated:
H1: Related party transactions have a positive effect on earnings management.

The Influence of Tax Planning on Earnings Management

Tax planning is an initial step in tax management. Tax management is a means of fulfilling tax obligations correctly while minimizing the amount of tax paid so that the company achieves the desired profit level. This motivates management to engage in earnings management practices to reduce the company's tax burden by lowering pre-tax profit (Astutik & Mildawati, 2016). Based on this explanation, the researcher proposes the following hypothesis:
H2: Tax planning has a positive effect on earnings management.

The Influence of Leverage on Earnings Management

An increase in leverage will increase the risk faced by the company, prompting principals or company owners to desire higher profits to avoid the threat of liquidation. This triggers managers to engage in earnings management (Amalia et al., 2021). Additionally, companies with high debt levels are at risk of default. To avoid this, companies implement policies to increase revenue, making earnings management one of the alternatives (Amalia et al., 2021; Nalarreason et al., 2019; Yendrawati & Asy'ari, 2017). Based on this explanation, the hypothesis in this research is:

H3: Leverage has a positive effect on earnings management.

The Moderating Role of Independent Commissioners on the Influence of Related Party Transactions on Earnings Management

Independent commissioners can act as mediators in resolving disputes between internal managers, control management policies, and provide feedback to management (Fama & Jensen, 1983). Thus, independent commissioners can ensure that the company's related party transactions do not involve conflicts of interest. Additionally, independent commissioners are tasked with ensuring the implementation of established corporate strategies and monitoring management in running the company. Independent commissioners can serve as a monitoring function for management and controlling shareholders to prevent discretionary actions to manage company earnings, including those using related party transactions, thereby improving the quality of earnings in financial statements. This is done to protect the interests of minority shareholders. Based on this explanation, the researcher proposes the following hypothesis:
H4: Independent commissioners can moderate the effect of related party transactions on earnings management.

The Moderating Role of Independent Commissioners on the Influence of Tax Planning on Earnings Management

Independent commissioners, along with the board of commissioners, will monitor the determination of corporate strategies both short-term and long-term, including tax strategies to provide maximum benefits for the company while remaining compliant with applicable regulations. High oversight by independent commissioners will make managers more cautious in making decisions in running the company. This can encourage managers to comply with tax laws and not engage in earnings manipulation to achieve low tax burdens. Therefore, with more independent commissioners, management performance will be more closely monitored, making management more transparent in making strategic tax decisions and minimizing tax avoidance. Based on this explanation, the researcher proposes the following hypothesis:
H5: Independent commissioners can moderate the effect of tax planning on earnings management.

The Moderating Role of Independent Commissioners on the Influence of Leverage on Earnings Management

The demand for the presence of independent commissioners in the composition of the board of commissioners in companies with high leverage ratios is greater than in companies with lower leverage (Indeswari, 2015). This is because companies approaching debt covenant violations, indicated by high leverage ratios, require investors to be more cautious to prevent debt covenant breaches. Additionally, companies with high leverage are threatened with liquidation, prompting stricter oversight. The presence of independent commissioners will enhance the monitoring function to operate optimally and free from specific interests, thereby limiting management's room to maneuver in making and implementing policies, especially those

related to corporate finances. Therefore, independent commissioners can hinder management's ability to engage in earnings management in highly leveraged companies.
H6: Independent commissioners can moderate the effect of leverage on earnings management.

RESEARCH METHOD

The method used in this research is descriptive with a quantitative approach. The study processes secondary data in the form of financial reports from manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the reporting period from 2016 to 2019. This data is obtained from the official IDX website at www.idx.co.id. Additionally, the research utilizes panel data. The sample is selected using purposive sampling with the following criteria:

Table 1. Sample Selection Criteria

Criteria	Number
All manufacturing companies listed on IDX	187
Companies listed in 2016 and thereafter	(45)
Companies experiencing losses	(52)
Companies presenting financial reports in currencies other than Rupiah	(10)
Companies lacking complete data for research	(25)
Number of sample companies	55
Number of observations over 4 years	220

Source: Processed by the researcher (2021)

Earnings Management

Earnings management is measured using the proxy of discretionary accruals based on the Modified Jones Model formula (Dechow *et al.*, 1995). The selection of this dependent variable proxy refers to previous research by Alhadab *et al.* (2020). The measurement is conducted in the following steps:

Step I: Calculate total accruals by finding the difference between net income and operating cash flows for each company in the observation year.

$$TA_{it} = NI_{it} - CFO_{it}$$

Step II: The total accruals are then entered into the following regression model to obtain normal accruals and residual values. The residual value represents the discretionary accruals used as a proxy for earnings management.

$$\frac{TA_{it}}{A_{it-1}} = \beta_1 \frac{1}{A_{it-1}} + \beta_2 \frac{(\Delta Rev_{it} - \Delta Rec_{it})}{A_{it-1}} + \beta_3 \frac{(PPE_{it})}{A_{it-1}} + \varepsilon$$

Description:
TA_{it} : *Total accruals* of the company *i* the year *t*
NI_{it} : The company's net profit *i* the year *t*

CFO_{it} : Cash flow from the company's operating activities *in* the year *t*
A_{it-1} : Total assets of the company *i* in the year *t-1*
ΔRev_{it} : The difference between the revenue of company *i* in year *t* and the revenue of company *i* in year *t-1*
PPE_{it} : Fixed assets (Property, plant, and equipment) of the company *in* the year *t*
ΔRec_{it} : The difference between the accounts receivable of company *i* in year *t* and the accounts receivable of company *i* in year *t-1*
β_{1-3} : Regression coefficients
ε : *Error*

Related Party Transactions

This research uses the logarithm of related party transactions sales (RPT Sales) to measure the impact of related party transactions. This measurement refers to the study by Marchini *et al.* (2018), which indicates that sales transactions with related parties are highly complex and represent one of the largest and most relevant items in financial statements, thus having a higher probability of being used for earnings management than other types of transactions.

$$RPT = Log\ (RPT\ Sales)$$

Tax Planning

Tax planning is measured using the proxy Tax Retention Rate (TRR), which indicates the effectiveness of tax planning (Astutik dan Mildawati, 2016).

$$TRR_{it} = \frac{Net\ Profit_{\ it}}{profit\ pre\ tax\ (EBIT_{it})}$$

Leverage

Leverage is a ratio used to understand the extent to which a company's assets are financed by debt (Asyiroh & Hartono, 2019). Leverage is measured using the *Debt to Total Asset Ratio* proxy, which is the ratio between total debt and total assets.

$$Leverage = \frac{Total\ Dept}{Total\ Assets}$$

Independent Commissioners

The measurement of independent commissioners is calculated as the proportion of independent commissioners to the total board of commissioners in a company (Busirin *et al.*, 2015; Klein, 2002; A. Putri *et al.*, 2016; Waweru & Prot, 2018; Yendrawati & Asy'ari, 2017).

$$Independent\ Commissioners = \frac{Number\ of\ Independent\ Commissioners}{Total\ Board\ of\ Commissioners}$$

Additionally, this research uses control variables such as company size and profitability. Company size is considered because larger companies tend to be more cautious in earnings management due to increased public scrutiny and oversight

(Prajitno & Vionita, 2020). Company size is measured using the logarithm of total assets, referring to previous research by Alhadab *et al.* (2020), Marchini *et al.* (2018).

$$Company\ Size = Ln\ (Total\ Aset)$$

Profitability is considered because lower profitability, indicating poor company performance, motivates companies to engage in earnings management to increase profits (Lazzem & Jilani, 2018). Profitability is measured using the Return on Assets (ROA) proxy, referring to research by Alhadab *et al.* (2020), Marchini *et al.* (2018), and Lazzem dan Jilani (2018).

$$ROA = \frac{Net\ profit\ before\ Tax}{Total\ Assets}$$

Data Analysis Method

The tests in this research use multiple linear regression analysis methods, divided into two models: a model without moderation and a model with moderation.

$$DA_{it} = \beta_0 + \beta_1 RPT_{it} + \beta_2 TRR_{it} + \beta_3 LEV_{it} + \beta_4 SIZE_{it} + \beta_5 ROA_{it} + \varepsilon \text{ ......(1)}$$

$$DA_{it} = \beta_0 + \beta_1 RPT_{it} + \beta_2 TRR_{it} + \beta_3 LEV_{it} + \beta_4 SIZE_{it} + \beta_5 ROA_{it} + \beta_6 KI_{it} + \beta_7 (RPT_{it} \times KI_{it}) + \beta_8 (TRR_{it} \times KI_{it}) + \beta_9 (LEV_{it} \times KI_{it}) + \varepsilon \text{ ....(2)}$$

RESULT AND DISCUSSION

Digital Transformation

In summary, the descriptive statistics of each variable are presented in Table **1**.

Table 1. Descriptive Statistical Analysis

Variable	Obs.	Mean	Median	Maximum	Minimum	Std. Dev
DA	220	-4.70E-18	-0.005339	0.224244	-0.190523	0.061904
RPT	220	11.25325	11.30417	13.50978	7.537479	1.211025
TRR	220	0.789695	0.745465	11.17136	-1.017788	0.821065
LEV	220	0.418406	0.409256	0.807311	0.076894	0.176507
KI	220	0.401851	0.375000	0.666667	0.200000	0.100172
SIZE	220	28.94741	28.58600	33.49453	26.31928	1.454603
ROA	220	0.084178	0.056862	0.526704	0.000526	0.088395

Source : Processed from Eviews Output 9

Furthermore, based on the following Table 3, companies in this study tend to have discretionary accruals that are marked negatively (-) which is 53%. The value of discretionary accruals marked negative (-) indicates that the company tends to carry out profit management with a profit decreasing strategy. This strategy is generally practiced by managers if the company has too high a tax liability (Marques et al., 2011). In addition, Healy (1985) revealed that managers will minimize the company's profits when the profit is far above the maximum limit of bonus provision because the manager still gets the maximum amount of bonus and the manager can shift the profit for the next period.

Table 2. Profit Management

Year	**DA -**		**DA +**		**Total Observations**
	Total Obs.	%	Total Obs.	%	
2016	30	55%	25	45%	55
2017	27	49%	28	51%	55
2018	26	47%	29	53%	55
2019	33	60%	22	40%	55
Total	**116**	**53%**	**104**	**47%**	**220**

Source: Data processing results

Normality Test

The normality test in this study was carried out by the *jarque-bera* test. The data obtained showed that the probability value in both models was less than 0.05, which was 0.000065 in Model 1 and 0.000001 in Model 2. This shows that both the data on Model 1 and Model 2 have errors/residues that are not normally distributed. Violation of the assumption of normality leads to data invalidity when the number of samples is not more than 100 (Gujarati & Porter, 2009). However, because the samples used in this study amounted to more than 100, namely a total of 220 samples, the data of this study has been assumed to be normal.

Multicollinearity Test

Table 3. Model 1 Multicollinearity Test Correlation Matrix

	RPT	TRR	LEV	SIZE	ROA
RPT	1.000000	-0.010362	0.087233	0.511485	0.079605
TRR	-0.010362	1.000000	0.025719	-0.018718	-0.037148
LEV	0.087233	0.025719	1.000000	0.068543	-0.124464
SIZE	0.511485	-0.018718	0.068543	1.000000	0.211504
ROA	0.079605	-0.037148	-0.124464	0.211504	1.000000

Source : Processed from Eviews Output 9

Based on Table 4, there is no correlation between variables that has a value greater than 0.90 in Model 1. This shows that there is no multicollinearity problem in model 1. However, based on Table 5, there are several correlations between variables greater than 0.90 in Model 2, such as TRR with TRR*KI of 0.942 and KI with RPT*KI of 0.910. The problem of multicollinearity in model 2 is caused by the interaction variable which is a multiplication between the free variable and moderation. However, Sugiyono (2016) revealed that there is no problem in the formation of the role of moderation in the research model even though there is a problem of multicollinearity.

Heteroskesdasticity Test

Table 5. Glacier Test Results

Variable	Prob. Model 1	Prob. Model 2
RPT	0.2342	0.7240
TRR	0.1674	0.9946
LEV	0.0972	0.1496
SIZE	0.0389	0.0701
ROA	0.0270	0.0334
KI		0.9563
RPT_KI		0.8781
TRR_KI		0.9867
LEV_KI		0.3644

Source : Processed from Eviews Output 9

The heteroscedasticity test in this study uses the glacier test. The results of the significance probability value using the glacier test showed that there was a probability value below the confidence level of 0.05. On Model 1, the probability of SIZE is 0.0389 and ROA is 0.0270. Meanwhile, in Model 2, the probability value of ROA is 0.0334. This shows that both regression models contain heteroscedasticity, whereas a good regression model does not contain heteroscedasticity. Therefore, adjustments were made to the Fixed Effect Model to eliminate this heteroscedasticity by using the Feasible Generalized Least Square (FGLS) estimator, namely by selecting the cross-section weights option.

Autocorrelation Test

Table 6. Durbin-Watson Test Results

Information	Model Score 1	Model Score 2
Durbin-Watson stat (dw)	2,481856	2,572794
dl	1,73292	1,69477
du	1,82581	1,86482
4-dl	2,26708	2,30523
4-du	2,17419	2,13518

Source: Processed from Eviews Output 9

The tool used to detect autocorrelation in this study is the Durbin-Watson test. Based on Table 6, the durbin-watson values in Models 1 and 2 are greater than (4-dl) or DW > (4-dl) which means that there is a negative autocorrelation. To overcome this problem, one way to handle it is to add robust to the standard error (Woolridge, 2002). Robust is carried out through the SUR PCSE (Panel-Corrected Standard Error) estimation method in the Fixed Effect Model (Beck & Katz, 1995), namely by using the SUR cross-section panel (PCSE) option in the coef covariance method.

Panel Data Regression Test

There are two models of hypothesis testing in this study, namely Model 1 to test the influence of independent variables on dependent variables (one-tailed) and Model 2 to test the role of independent commissioners in moderating the influence of independent variables on dependent variables (two-tailed). Based on the results of the classical assumption test, the results of the panel data regression model are obtained as depicted in Table 7.

Table 7. Research Model Regression Test Results

Variable	Alleged Direction	Model 1		Model 2	
		Coefficient	Prob.	Coefficient	Prob.
C		-0,45744	0,16830	-1,15968	0,01400
RPT	+	-0,02775	0,00005	0,02418	0,13910
TRR	+	-0,00165	0,20935	-0,04129	0,00000
LEV	+	-0,00448	0,44945	0,19522	0,00030
SIZE		0,02529	0,08105	0,02660	0,16210
ROA		0,48489	0,00005	0,44558	0,00000
KI				1,67505	0,00000
RPT_KI	?			-0,12727	0,00000
TRR_KI	?			0,06838	0,00000
LEV_KI	?			-0,53280	0,00000
R-Squared		0,52544		0,69226	
Adj. R-Squared		0,35045		0,56799	
F-Statistic		3,00261		5,57028	
Prob. (F-Statistic)		0,00000		0,00000	

Source : Processed from Eviews Output 9

The results of hypothesis testing show the regression equation as follows:

$$DA_{it} = -0{,}45744 - 0{,}02775\, RPT_{it} - 0{,}00165\, TRR_{it} - 0{,}00448\, LEV_{it} + 0{,}02529\, SIZE_{it} + 0{,}48489\, ROA_{it} \quad \ldots\ldots (1)$$

$$DA_{it} = -1{,}15968 + 0{,}02418\, RPT_{it} - 0{,}04129\, TRR_{it} + 0{,}19522\, LEV_{it} + 0{,}02660\, SIZE_{it} + 0{,}44558\, ROA_{it} + 1{,}67505\, KI_{it} - 0{,}12727\, (RPT_{it} \times KI_{it}) + 0{,}06838\, (TRR_{it} \times KI_{it}) - 0{,}53280\, (LEV_{it} \times KI_{it}) \quad \ldots\ldots (2)$$

Coefficient of Determination Test (R2)

Table 8 shows that the Adjusted R-Squared value is 0.35045 for Model 1 and 0.56799 for Model 2. This means that the variation in earnings management can be explained by Model 1 and Model 2 by 35.05% and 56.80%, respectively. The remaining 64.95% and 43.20% are explained by factors outside the research model.

F-Statistic Test

Based on the regression results in Table 8, the probability value of the F-statistic for Model 1 is 0.00000 and for Model 2 is also 0.00000. The probability values of the F-statistics for both regression models are less than α (0.05), so H1 is accepted, indicating that all the independent variables in this study simultaneously affect earnings management.

t-Statistic Test

The t-statistic test shows how far each independent variable individually explains the variation in the dependent variable. The results based on Table 8 are as follows:

a. The regression coefficient for RPT is negative at 0.02775 and has a significance value smaller than α (0.05), which is 0.00005. This means that RPT has a significant negative effect on DA. The conclusion is that hypothesis 1 is rejected.
b. The regression coefficient for TRR is negative at 0.00165 and has a significance value greater than α (0.05), which is 0.20935. This means that TRR does not have a significant effect on DA. The conclusion is that hypothesis 2 is rejected.
c. The regression coefficient for LEV is negative at 0.00448 and has a significance value greater than α (0.05), which is 0.44945. This means that LEV does not have a significant effect on DA. The conclusion is that hypothesis 3 is rejected.
d. The regression coefficient for RPTKI is negative at 0.12727 and has a significance value smaller than α (0.05), which is 0.00000. This means that KI is proven to moderate the effect of RPT on DA. The conclusion is that hypothesis 4 is accepted.
e. The regression coefficient for TRRKI is positive at 0.06838 and has a significance value smaller than α (0.05), which is 0.00000. This means that KI is proven to moderate the effect of TRR on DA. The conclusion is that hypothesis 5 is accepted.
f. The regression coefficient for LEV*KI is negative at 0.53280 and has a significance value smaller than α (0.05), which is 0.00000. This means that KI is proven to moderate the effect of LEV on DA. The conclusion is that hypothesis 6 is accepted.

The Impact of Related Party Transactions on Earnings Management

Based on the test results, it is found that the first hypothesis (H1) is rejected, and it is concluded that related party transactions have a negative and significant effect on earnings management. This is shown by the t-statistic test result, which has a coefficient value of -0.02775 and a probability value of 0.00005.

This result aligns with the study by Alhadab et al. (2020), which demonstrated that the effect of related party transactions on accrual earnings management shows a negative direction. However, this result contradicts previous studies that proved related party transactions have a positive and significant effect on earnings management (Hasnan et al., 2016; Marchini et al., 2018; Rahmat et al., 2020; Shin et al., 2021). This study's results do not confirm agency theory in the hypothesis but rather confirm the efficient transaction hypothesis, which states that the benefits of related party transactions can arise from the low transaction costs borne by the company, making the company's operations more economical (Gordon & Henry, 2005). These low transaction costs reduce the company's burden and increase profits. The increased profit can reduce managers' motivation to engage in earnings management.

On the other hand, a company with low related party transaction sales values does not necessarily mean the company is not engaging in earnings management. Instead, it can be used as a tool for income-decreasing strategies for various purposes, one of which is tax motivation, so the company has low taxable income, reducing the tax burden. This is possible because the value of related party transactions has a high discretionary nature, allowing managers to set sales transaction prices to related parties, commonly known as transfer pricing in taxation terms. Transfer pricing is often used by companies as a tax avoidance method, one way being by setting low prices on related party sales transactions to shift profits to affiliates, thereby reducing taxable income. This is supported by the study of Ardianto and Rachmawati (2016), which demonstrated that the higher the transfer pricing value, the lower the tax burden because the company sells to affiliates at lower prices.

The development of accounting systems in a global environment encourages the enhancement of accounting standards and regulations that require more detailed disclosure of related party transactions. This will reduce the frequency of using RPT for earnings management purposes. The level of RPT disclosure will promote efficient RPT over abusive RPT (Utama, 2015). Furthermore, Maigoshi et al. (2016) stated that increased regulations requiring RPT disclosure make real earnings management more dominant in many cases as a substitute or complement to accrual earnings management. Their study revealed that both methods of earnings management can be easily conducted with the help of RPT. This aligns with the study by El-Helaly (2016), which stated that companies engaging in related party transactions prefer managing earnings through real activity manipulation rather than accruals.

In Indonesia, many regulations stipulate that related party transactions must be disclosed and presented in detail and separately by companies in their financial statements to reduce earnings management practices using related party transactions as it would endanger the company. These regulations aim to enhance effective oversight of RPT and prevent related party transactions that could harm minority shareholders. The accounting standard governing this disclosure is International Accounting Standards (IAS) 24, adopted in Indonesia as PSAK No. 7 (Revised 2015). Meanwhile, the Financial Services Authority (OJK) regulates this disclosure in Attachment No. IX.E.1 of the Decree of the Chairman of Bapepam-LK No. KEP-412/BL/2009 and Decree of the Chairman of Bapepam-LK No. KEP-347/BL/2012. Recently, OJK issued the latest regulation, POJK No. 42/POJK.04/2020, on Affiliated Transactions and Conflicts of Interest. These regulations also provide guidelines for companies on disclosing and reporting transactions with conflicts of interest, including RPT disclosures and reporting.

Furthermore, the Minister of Finance Regulation No. 213/PMK.03/2016 also regulates the obligation for taxpayers engaged in transactions with related parties to maintain and store additional documents and/or information. Article 2, paragraph (2a) states that taxpayers conducting Affiliated Transactions with gross circulation in the previous tax year exceeding Rp50,000,000,000.00 are required to maintain and store Transfer Pricing Documents. This documentation helps the Directorate General of Taxes (DJP) oversee compliance and inspect taxpayers' transfer pricing activities. Therefore, this may make managers more cautious in discretionary actions on related party transaction values as companies must disclose this information to tax authorities.

The Impact of Tax Planning on Earnings Management

Based on the test results, it is found that the second hypothesis (H2) is rejected, concluding that tax planning does not affect earnings management. This is indicated by the t-statistic test result, which has a coefficient value of -0.00165 and a probability value of 0.44945. This study's results are not consistent with other studies that have proven that tax planning has a positive and significant effect on earnings management (Astutik & Mildawati, 2016; Lubis & Suryani, 2018; Marques et al., 2011). However, the findings align with the studies by Achyani & Lestari (2019) and Wardani & Santi (2018).

This study uses a population of manufacturing companies listed on the Indonesia Stock Exchange (IDX). Manufacturing companies have a divisional organizational structure consisting of several divisions or departments, each with different management and interests. This leads management to prioritize its own interests, namely creating good performance to receive bonuses, thus engaging in earnings management to meet these interests (Wardani & Santi, 2018). Meanwhile, tax planning conducted by management is not for their own desire but for the interests of investors or company owners. Investors want tax planning to be done well so that the company's expenses are minimized since taxes reduce the company's profit. With higher profits, investors can receive higher dividends (Achyani & Lestari, 2019). Therefore, earnings management behavior tends to occur due to personal interests of the management rather than tax planning, which is a principal interest for shareholders or company owners, making tax planning efforts not influence management in engaging in earnings management.

It is also suspected that companies want to minimize tax burdens, but accrual earnings management is not the right way to achieve this goal, so tax planning does not affect accrual items in financial statements. Companies may prefer using other practices that are more difficult for tax authorities to detect to minimize the tax burden, such as engaging in real earnings management through the manipulation of real activities. Managers are more inclined to conduct earnings management through real activities rather than accruals because it is harder for auditors to detect (Ningsih, 2017). Additionally, companies may be more cautious about using accrual earnings management for tax planning. This is because if a tax auditor finds errors due to manipulation in the process of forming taxable income, the company will be at risk of tax penalties, damaging the company's good image.

The Impact of Leverage on Earnings Management

Based on the test results, it is found that the third hypothesis (H3) is rejected, concluding that leverage does not affect earnings management. This is indicated by the t-statistic test result, which has a coefficient value of -0.00448 and a probability value of 0.44945.

This study's findings are not consistent with previous studies that show leverage has a positive effect on earnings management (Amalia *et al.*, 2021; DeFond & Jiambalvo, 1994; Lazzem & Jilani, 2018; Nalarreason *et al.*, 2019; Yendrawati & Asy'ari, 2017). However, the results align with the findings of Asyiroh dan Hartono (2019) and Anagnostopoulou dan Tsekrekos (2017).

The level of leverage in a company does not influence earnings management behavior, meaning that the company's debt level does not drive it to engage in earnings management. The higher the ratio of total debt to total assets, the greater the risk of the company facing default. The company will have difficulty in fulfilling its debt obligations. According to the study's results, earnings management practices are not a tool that can be used to avoid the risk of default since earnings management cannot prevent the repayment obligations that must be met (Asyiroh & Hartono, 2019). Debt repayment remains mandatory and does not affect management's decisions regarding the company's earnings.

High leverage levels in a company indicate that it is close to violating debt covenants and faces the threat of liquidation, prompting tighter external oversight. This increased scrutiny causes the company to use other methods of earnings management, such as real earnings management (REM). This is supported by the study of Anagnostopoulou dan Tsekrekos (2017), which demonstrates that REM triggered by leverage is not easily detected by market participants compared to accrual earnings management (AEM), leading companies to prefer using REM to achieve their profit targets.

Moderation of Independent Commissioners on the Impact of Related Party Transactions on Earnings Management

Based on the test results, it is found that the fourth hypothesis (H4) is accepted, concluding that independent commissioners have been proven to moderate the effect of related party transactions (RPT) on earnings management. This is indicated by the t-statistic test result, which has a coefficient value of -0.12727 and a probability value of 0.00000.

The negative coefficient of the interaction variable between RPT and Independent Commissioners suggests that independent commissioners can weaken the effect of related party transactions on earnings management. This finding is consistent with the studies by Hasnan *et al.* (2016) dan Lo *et al.* (2010). Hasnan *et al.* (2016) revealed that the negative impact of RPT can be mitigated by good governance, specifically the level of board independence and audit quality. Lo *et al.* (2010) also found that independent directors enhance the board's oversight effect, thus reducing earnings management arising from transfer pricing manipulation via RPT sales.

This study's findings confirm agency theory, which posits that corporate governance can be applied by companies to resolve agency conflicts. The results also support the research by Klein (2002) and Busirin *et al.* (2015), which demonstrated that a higher number of independent commissioners reduces the tendency for earnings manipulation due to their better oversight capabilities in the earnings formation process. The quality of corporate governance diminishes the positive relationship between related party sales transactions and earnings management (Marchini et al., 2018). Independent commissioners, as a key aspect of corporate governance within a company, can reduce agency conflicts by serving as effective monitors for management and controlling management policies (Fama & Jensen, 1983). Consequently, independent commissioners can ensure that a company’s related party transactions do not involve conflicts of interest and can prevent discretionary actions by managers and controlling shareholders in managing the company's earnings.

The successful verification of this hypothesis is further supported by the findings of Pratista (2019), which showed that an increase in the number of independent commissioners within a company enhances the disclosure of related party transactions in accordance with PSAK No. 7 (2015 revision). The losses arising from the misuse of RPT are significant, making RPT disclosure a tool for financial statement users to detect adverse effects of RPT, such as wealth transfer (Pratista, 2019). The oversight by independent commissioners increases the level of RPT disclosure, which is believed to reduce earnings management.

Moderation of Independent Commissioners on the Effect of Tax Planning on Earnings Management

Based on the test results, it is found that the fifth hypothesis (H5) is accepted, concluding that independent commissioners have been proven to moderate the effect of tax planning on earnings management. This is indicated by the t-statistic test result, which has a coefficient value of 0.06838 and a probability value of 0.00000.

The positive coefficient of the interaction variable between Tax Planning and Independent Commissioners suggests that independent commissioners actually strengthen the effect of tax planning on earnings management. This finding contradicts agency theory, which states that earnings management practices arising from conflicts of interest between agents and principals due to information asymmetry can be mitigated by implementing corporate governance. The results also do not align with the study by Karinda (2018), which demonstrated that corporate governance practices within a company will limit management actions to engage in tax avoidance that could motivate earnings management. In this context, tax avoidance is one of the methods used by companies in tax planning.

The study's results indicate that independent commissioners actually reinforce earnings management behavior, supported by the findings of Waweru dan Prot (2018) and Al-Haddad dan Whittington (2019), who proved that board independence is positively and significantly associated with discretionary accruals. This suggests that independent boards might increase opportunistic earnings management actions rather than limit them. This evidence supports the hegemony theory that top management holds greater power in decision-making and may choose independent directors who are close associates. Therefore, these independent directors might not act as effective monitors and may not be active participants in board decision-making (Waweru & Prot, 2018). Additionally, regulations related to independent directors may not consider the characteristics of the organizational environment, leading to a proportion of independent directors too low to influence board decisions, or their experience and independence may be inadequate (Al-Haddad & Whittington, 2019).

Another reason supporting these findings is that independent directors may tend to increase tax management because they offer a broader perspective on overall company performance, ultimately providing investors with greater returns. Independent directors can provide useful knowledge to assist in the company's tax management, thereby improving company performance (Minnick & Noga, 2010). Furthermore, the study by Jamei dan Khedri (2016) supports this assertion by proving that tax management increases with a higher number of independent directors within a company. This increase in tax management is suspected to enhance the use of earnings management practices to minimize the taxes paid to the government.

Moderation of Independent Commissioners on the Effect of Leverage on Earnings Management

Based on the test results, it is found that the sixth hypothesis (H6) is accepted, concluding that independent commissioners have been proven to moderate the effect of leverage on earnings management. This is indicated by the t-statistic test result, which has a coefficient value of -0.53280 and a probability value of 0.00000.

The negative coefficient of the interaction variable between Leverage and Independent Commissioners suggests that independent commissioners are able to weaken the influence of leverage on earnings management. This finding is in line with the research results of Indeswari (2015) and Yendrawati dan Asy'ari (2017), which proved that independent commissioners can moderate the relationship between leverage and earnings management.

The results of this study confirm agency theory, which states that corporate governance can minimize conflicts of interest between agents and principals. The findings also support the studies by Klein (2002) and Busirin et al. (2015), which demonstrated that a higher number of independent commissioners reduces the tendency for earnings manipulation due to their ability to prevent the company from manipulating earnings. High-quality corporate governance will weaken the influence of leverage on earnings management, meaning that companies with good corporate governance can reduce managers' opportunistic behavior in earnings management (Y. K. W. Putri & Sujana, 2018).

In this study, one of the corporate governance mechanisms used is independent commissioners. Independent commissioners can reduce agency conflicts by acting as intermediaries and helping to align decision-making within the company. This protects shareholders from certain actions taken by management, such as earnings management driven by leverage (Yendrawati & Asy'ari, 2017). Independent commissioners also have the duty to monitor financial reports, thus preventing management from engaging in opportunistic behavior with leverage that leads to earnings management.

Independent commissioners possess integrity, expertise, and independence to align the interests of management with other stakeholders (Hasnan *et al.*, 2016).

Therefore, oversight by independent commissioners reduces the risk of the company nearing debt covenant violations that can lead to earnings management practices. Additionally, Indeswari (2015) revealed that the demand for the presence of independent commissioners is greater in companies with high leverage ratios than in those with lower leverage. This is because companies approaching debt covenant violations, indicated by high leverage ratios, require more cautious oversight to avoid breaching these covenants. The presence of independent commissioners optimizes the company's monitoring function, thus limiting management's discretion in policy-making, especially related to the company's finances. Consequently, independent commissioners can make it more difficult for management to engage in earnings management in highly leveraged companies.

CONCLUSION

From the data analysis conducted, this study found that, partially, related party transactions have a significant negative effect on earnings management, while tax planning and leverage do not affect earnings management. Additionally, independent commissioners can moderate the influence of related party transactions, tax planning, and leverage on earnings management.

Based on the research findings, it is recommended that management avoid earnings management practices that could harm stakeholders. Companies should also enhance the structure and role of independent commissioners to limit earnings management behavior. For the Financial Services Authority (OJK), it is advised to continue analyzing and evaluating policies implemented in the capital market. The enforcement of OJK policies should be accompanied by stricter law enforcement to ensure companies comply with regulations, especially regarding the disclosure of related party transactions (RPT) and the fulfillment of the proportion of independent commissioners within the company.

For the Directorate General of Taxes (DGT), it is suggested to expand the criteria for taxpayers who will undergo in-depth supervision related to indications of transfer pricing practices via RPT Sales, specifically for those with lower RPT Sales values, as lower values do not guarantee the absence of transfer pricing activities. Additionally, DGT can increase tax intensification by utilizing other data/information tools or directly observing business processes in the field, rather than solely relying on financial statement audits.

This study has limitations, including the use of a limited observation period from 2016-2019, sampling only manufacturing companies listed on the Indonesia Stock Exchange, thus not generalizing the findings to all companies. Moreover, the study's models have limited explanatory power for earnings management, with Model 1 and Model 2 explaining 35.05% and 56.80%, respectively. Therefore, future research is recommended to extend the sample period, include companies from other sectors or all sectors, and add more independent variables to the research model for more accurate results and better explanatory power regarding earnings management behaviour.

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