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Internal Control Implementation and Earning Management: A Mediation Effect Testing

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Abstract

There must be clear evidence about whether internal control mediates earnings management in the relationship between financial distress and tax planning. This research analysed the direct effect of financial distress and tax planning on earnings management and the indirect effect of financial distress and tax planning on earnings management through internal control. A sample of 126 secondary observation data from 21 samples of SOCs companies and non-financial SOCs subsidiaries listed on the Indonesia Stock Exchange for the 2016-2021 period was used. The test results showed that financial distress had a direct impact on internal control and earnings management, while tax planning did not have a direct impact. The study's findings also do not indicate that internal control can mediate the relationship between financial distress and tax planning on earnings management. Further research is needed to add other variables that can, directly and indirectly, affect earnings management.

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Introduction

Economically, it is projected that by 2030, Indonesia will occupy the fourth position in the world's largest economy (Winters & Executive, 2020). One of the sources of state revenue in supporting the Indonesian economy is sourced from the business carried out by state-owned enterprises (SOCs). The government takes advantage of SOCs companies to regulate and implement national economic policies, as well as for the welfare of the people (Koto, 2021). Apart from being responsible to the government and all the people of Indonesia, SOCs companies are highlighted as a measure of SOCs performance by looking at the financial statements, especially in the profit section of SOCs companies. Overall, SOCs profits for 2016-2021 have increased and decreased yearly (BUMN, 2021). In 2016, SOCs profits were recorded at IDR 166 trillion, increasing until 2018, when SOCs profits were recorded at IDR 203 trillion. Then, it experienced a decline in 2019, IDR 152 trillion, until at the end of 2021, SOCs profits amounted to IDR 124 trillion. The increase and decrease in profits yearly must be a concern because opportunistic management sometimes takes advantage of profit values for specific purposes by manipulating profits (Savitri, 2014). Companies with higher profits are more likely to engage in earnings management (Reskino & Imam, 2016).

Discuss earnings management in the past few years. Cases have been found in SOCs companies, such as the case of PT Kimia Farma (2001), which presented profits separately. Overstated as big IDR 132 billion, but after being checked by The Ministry of SOCs and the Capital Market Supervisory Agency (Bapepam, now OJK), the company profit is only IDR 99.56 billion. The latest case is the case of earnings management in Garuda Indonesia (2018), where the company should report a loss of IDR 2.53 trillion. The cases show that in the class of SOCs, companies are responsible to the government and the people of Indonesia, and more circles may highlight them. There are still cases of earnings management, meaning that earnings management leads to actions fraud and cannot be separated from SOCs companies with a good control system. This is what prompted this research to be carried out.

This study seeks to explore why earnings management occurs. The previous literature, Ats'tsaqafiyah and Reskino (2022), Czakowska (2020), Nurcahyono dan Sinarasri (2023), Reskino and Bilkis (2022), and Reskino and Kurniasih (2023) defined earnings management from two perspectives based on the results of earnings management itself as an act of fraud or not an act of fraud. In more detail, earnings management refers to fraud if managers use it for personal gain while simultaneously sacrificing the interests of shareholders. Meanwhile, on the contrary, earnings management is not considered fraud. Managers are wiser to take advantage of regulatory vacuums following the provisions of applicable accounting standards (Nia et al., 2015). Furthermore, if we look at this definition in the previous literature, earnings management research focuses more on the motives and actions of managers influencing earnings management. The main objective of this study is to trace various good conditions related to the motives of managers, represented by tax planning variables, and other earnings management drivers related to the condition of companies, represented by financial distress.

Previous research stated that earnings management could be influenced by several factors, including tax motivation in this case related to tax planning and the company's financial distress (Gunawan & Putra, 2021). Earnings management that leads to action fraud conditions will exacerbate the internal control of weak companies (Abor & Fiador, 2013). In dealing with these problems, companies with financial distress usually take several steps, including accounting methods, changing accounting estimates, or shifting the period of costs and income (An et al., 2022).

As for previous studies, they have yet to pay attention to the indirect relationship related to the influence of financial distress and tax planning on earnings management. Where researchers try to use internal control as a mediating variable related to the indirect relationship between the variables studied, internal control has a goal as a tool that can strengthen financial reports (Y. Li et al., 2020). Furthermore, internal control can reduce the risk of accidental errors in financial reporting and business risks

(Sihono & Khairiyahtussolihah, 2022). So from that explanation, internal control is expected to be a mediating variable.

The theoretical implication of this research is to provide evidence regarding what factors can encourage management to take earnings management actions. In this case, research tries to look for factors directly and indirectly. Where, internal control was chosen as a mediating variable because if internal control is implemented properly, it will prevent management from carrying out earnings management, whereas if internal control in a company is bad, it will encourage earnings management. Meanwhile, the practical implications of this research are to help academics and investors to increase information, knowledge and pay more attention to issues related to earnings management in a company. So, there is no wrong decision to make if you want to invest in a company, especially in state-owned companies and state-owned subsidiaries listed on the Indonesian Stock Exchange.

Hypothesis Development

Agency Theory

In principle, Jensen and Meckling (1976) define agency theory as a theory that explains the relationship between the principal (owner) and the agent (management) in a contract under the principal, where the agent carries out tasks delegated by the principal. In practice, differences in interests between principals and agents often occur which give rise to conflicts of interest. Furthermore, conflicts of interest will give rise to information asymmetry, where agents have more internal company information than principals Chairunesia et al. (2018) and Christiani and Nugrahanti (2014), where agents are compelled to take deviant actions. Besides that, This information asymmetry can be used by agents for opportunistic actions, one of which is earnings management (Christiani & Nugrahanti, 2014; Khairunnisa et al., 2020).

Financial Distress and Internal Control

Financial distress is characterized by liquidity and balance sheet problems, which can be considered unhealthy (Coughlin et al., 2021). In that regard, internal control is necessary to ensure regulatory compliance, prevent the wastage of resources, and ensure quality financial reports (Hadi & Afriyenti, 2022). In short, internal control would prevent the company from being in financial distress (Li et al., 2020). According to agency theory, companies in financial distress will cause problems due to information asymmetry and differences in interests (Irawan & Apriwenni, 2021). Where, with good internal control, information asymmetry due to the company's condition in financial distress will be minimized with good internal control.

Previous research concluded that financial distress affects internal control (Doyle et al., 2007; Li et al., 2012). However, the company experienced financial distress and less investment in internal control systems (Ashbaugh-Skaife, 2007). Moreover, in actual cases, the company is in financial distress and has an excess focus on the company's ability to survive (Imelda and Jessica, 2021).

H1: *Financial distress has influenced internal control*

Tax Planning and Internal Controls

Tax planning is a business process to increase profits, but caution is required (Prihanto, 2020). According to Bimo et al (2019), tax planning refers to action tax avoidance, where the action is considered illegal. To overcome that, internal control an effective is deemed capable of preventing tax planning actions that lead to unlawful acts. Internal control also assists management in tax planning by applicable regulations and does not cause corporate losses in the future (Bimo et al., 2019). In practice, tax planning excessive use can refer to tax avoidance practices (tax avoidance). Previous studies have concluded that internal control has influenced overtax avoidance (Bimo et al., 2019; Gleason et al., 2017; Huang & Chang, 2016).

H2: *Tax planning has influenced internal control*

Internal Control and Earnings Management

Internal control is crucial to achieving company goals effectively and efficiently. The bigger the company, the more important the meaning of internal control is (Megawati and Reskino, 2023). The lack of corporate

governance related to accounting scandals causes a loss of investor confidence (Xu & Kim, 2021). Accounting scandals, in this case, are related to earnings management, which leads to behaviour fraud itself plays an essential role in managing earnings reporting. Therefore, the system's high-quality internal control provides security in high-quality financial reports (Ridanti & Suryaningrum, 2021). Earnings management actions have a destructive effect on accounting information as well as a negative impact on the overall company management, so it is necessary to monitor and control earnings management and improve the quality of accounting information that is reliable and reflects business conditions as company goals will be realized (Xu & Kim, 2021). Previous research by Chen et al. (2018), Makhdalena (2011), and Xu and Kim (2021) states that internal control negatively affects earnings management. Previous research concluded that internal control does not affect accrual earnings management (Hadi & Afriyenti, 2022).
H3: *Internal control has influenced earnings management*

Financial Distress and Earnings Management
Financial distress is when the company is in financial trouble or has problems related to creditors (Damayanti & Kawedar, 2018). This happened mainly due to deteriorating performance, where companies experiencing a financial recession make it possible to take advantage of incentives from earnings management (Sari & Meiranto, 2017). Then, it will impact delisting companies and influence managers in decision-making regarding earnings management policies (Li et al., 2020). Management in the company is required to reap profits even though, on the other hand, they also have high expenses (Ridanti & Suryaningrum, 2021). Previous research has tested the intermediate effect of financial distress and earnings management, which has the result that there is a significant effect between financial distress and earnings management (Ariesanti, 2015; Chairunesia et al., 2018; Damayanti & Kawedar, 2018; Nazalia and Triyanto, 2018; Saputri & Achmad, 2017; Sari & Meiranto, 2017). At the same time, previous research by Irawan and Apriwenni (2021) stated that financial distress is related to earnings management.
H4: *Financial distress has influenced earnings management*

Tax Planning and Manajemen Laba
The company's financial reports provide the information investors need (Rosharlianti & Hidayat, 2019). One of the information presented is in the form of tax information. Taxation is a driving force for management to manage earnings to minimize tax payments through a series of tax planning processes. This is due to the difference in interests between the company and the government as a tax collector. Namely, the company wants to pay taxes to a minimum, while the government wants to receive tax payments from companies as much as possible. Then, when tax planning is high companies, the possibility of companies practising earnings management is also high (Bradshaw et al., 2019). Companies with tax planning which has a significant impact on decreasing profits due to tax obligations (Bunaca & Nuryadi, 2019). Research by Mujiyati et al (2021) in the discussion of tax planning significantly affects earnings management. This indicates that higher or lower tax planning enables the tendency of companies to carry out earnings management.
H5: *Tax planning has influenced earnings management*

Internal Control as the Mediating Variable between Financial Distress and Earnings Management
A company with financial distress conditions shows the company's financial condition, which continues to decline to enable the company's management to be in bad condition. Opportunistic management in financial distress conditions may manipulate profits (Sari & Meiranto, 2017). However, management's actions amid financial distress to manipulate profit will be minimized by the existence of internal *control*. This is appropriate; previous research by Imelda and Jessica (2021) and Li et al. (2020) stated that results of internal control can moderate the relationship between financial dis*tress* and earnings management. This occurs because monitoring of management behaviour during the preparation of financial statements limits management's ability to manage earnings.
H6: *Internal control able to mediate the relationship between financial distress on earnings management*

Internal Control as the Mediating Variable between Planning and Earnings Management

Companies try to reduce tax payments through a series of processes called tax planning. Previous studies have concluded that the results between tax planning and earnings management have a significant influence (Sumomba & Hutomo, 2012). Tax planning is carried out to increase profit reporting because the tax burden itself becomes an operational cost that will reduce profit reporting (Caroline et al., 2023). Tax planning aggressively refers to tax avoidance actions based on agency theory (Gaaya et al., 2017). In his research, Doyle et al (2007) stated that internal control also ensures that management does not violate applicable regulations. The explanation above shows that tax planning influences profit management through mediation internal control. This explained that the company did tax planning by engaging in earnings management behaviour that leads to action fraud and would be avoided as internal control reasonable.

H7: *Internal control able to mediate the relationship between tax planning on earnings management*

Methods

Population dan Sample

All state-owned companies and subsidiaries of state-owned companies listed on the Indonesia Stock Exchange (IDX) for the 2016-2021 period there are 35 companies as a population. Meanwhile, 21 state-owned companies and their subsidiaries are listed on the Indonesia Stock Exchange as a sample obtained from the results' purposive *sampling.* The purposive sampling criteria are (1) State-owned companies listed on the Indonesia Stock Exchange (IDX) consistently during the 2016 to 2021 period. (2) Non-financial SOCs companies or banks listed on the Indonesia Stock Exchange for 2016-2021. (3) The issuing company annual *report* and financial statements as a whole, complete and undamaged for the 2016-2021 period.

Table 1. Measurement of Variable

No	Variable	Measurement
1	Earning Management	1. $CFO_t/A_{t-1} = \alpha_0 + \alpha_1 (1/A_{t-1}) + \beta_1 (S_t/A_{t-1}) + \beta_2 (\Delta S_t/A_{t-1}) + \varepsilon_t$ 2. $PROD_t/ A_{t-1} = \alpha_0 + \alpha_1(1/A_{t-1}) + \beta_1(S_t/A_{t-1}) + \beta_2(\Delta S_t/A_{t-1}) + \beta_3(\Delta S_t-1/A_{t-1}) + \varepsilon_t$ 3. $DISEXP_t/ A_{t-1} = \alpha_0 + \alpha_1(1/A_{t-1}) + \beta_1(S_{t-1}/A_{t-1}) + \varepsilon_t$ 4. ((ACFO+ADISEXP) (-1)) + APROD)
2	Internal Control	Hadi and Afriyenti (2022) $COSO = \frac{n}{17}$
3	Financial Distress	Z-Score Z = 1.2X1 + 1.4X2 + 3.3X3 + 0.6X4 + 1.0X5
4	Tax Planning	**ETR** $Effective\ Tax\ Rate\ (ETR) = \frac{Beban\ Pajak}{Pendapatan\ Sebelum\ Pajak\ (EBIT)}$ (Bradshaw et al., 2019; S. Chen et al., 2010; Cita & Supadmi, 2019; Powers et al., 2016) **CETR** $Cash\ \ effective\ tax\ rate\ (CETR)\ = \frac{Pembayaran\ pajak\ penghasilan}{EBIT}$

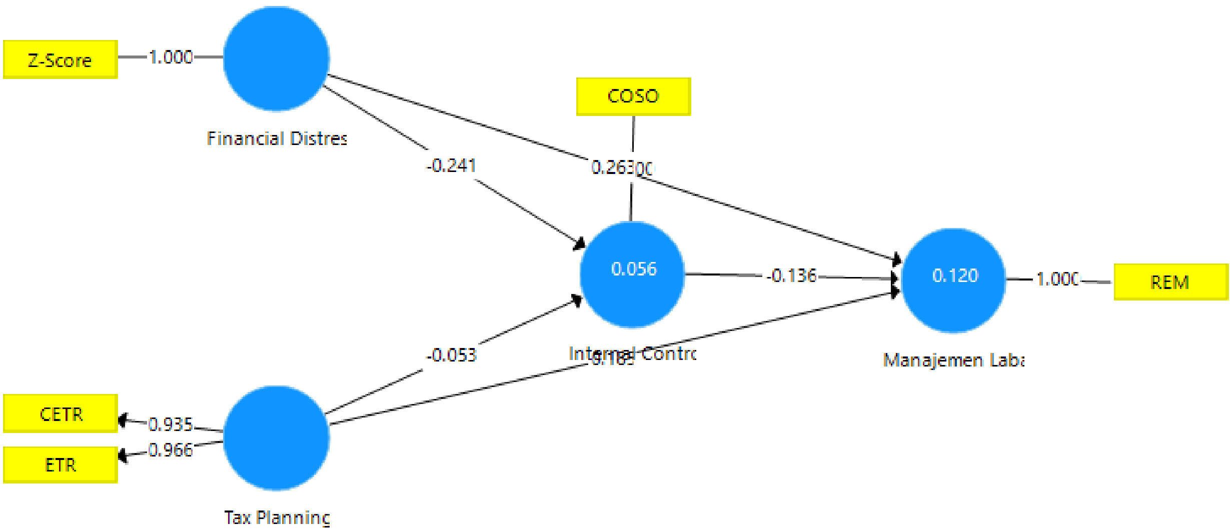

Figure 1. Path Chart

Data Analysis Method

Partial least square (PLS) was used to analyze the data in this study. Use Partial least squares. Method Partial least square is used because several points are advantages, namely (J F Hair, Black, W C Babin, 2010) first, it does not require a large sample size; secondly, it works well even though the data is not normal because of the deep algorithm partial least square able to overcome it; third, it can be done in explanatory research. The steps in the test are as follows: (1) descriptive statistical analysis; (2) testing outer model/measurement models evaluation; (3) testing inner model/structural models evaluation; (4) hypothesis testing and mediating effects. The hypothesis testing approach uses mediation and uses the method of bootstrapping to obtain t-statistical values and p-values. Due to the use of the method, bootstrapping has a higher statistical power result (Hair et al., 2021).

Result and Discussion

Result

The descriptive statistical analysis results with a total of 126 research objects provide quite good results. Earnings management has a minimum value of 0.225 and a maximum value of 1.347, with a mean of 0.5333. The standard deviation value of earnings management is 0.181. This means the earnings management variable has better results because it has a higher mean value than the standard deviation value.

Table 2. Descriptive Analysis Results

Variable	N	Min	Max	Mean	Std. Dev.
Earnings management	126	0,225	1,437	0,533	0,181
Internal Control	126	0,412	0,941	0,739	0,153
Financial Distress	126	-2,523	7,754	1,150	1,073
Tax Planning 1	126	-1,277	5,283	0,272	0,574
Tax Planning 2	126	-0,65	5,28	0,286	0,586

Source: Results of secondary data processing

The internal control variable has a minimum value of 0.412 and a maximum value of 0.941 with a mean value of 0.739. The internal control standard deviation value is 0.153. This means the internal control variable has good results because the mean value is higher than the standard deviation. Likewise, with the variable financial distress, financial distress has a minimum value of -2.523 and a maximum value of 7.754 with a mean value of 1.150. The deviation value of financial distress is 1.073. The financial distress variable has good results because the mean value is higher than the standard deviation.

Meanwhile, variable tax planning 1 has a minimum value of -1.277 and a maximum value of 5.283, with a mean value of 0.272. The standard deviation value of internal control is 0.574. This means the internal control variable has poor results because the mean value is lower than the standard deviation. Likewise, Tax Planning 2 has a minimum value of -0.65 and a maximum value of 5.28, with a mean value of 0.286. The standard deviation value of internal control is 0.586. This means the internal control variable has poor results because the mean value is lower than the standard deviation.

Measurement Models Evaluation

Table 3. Constructs, Indicators, and Factor Loading

Construct	Indicator	M	SD	*Outer Loading*
Financial Distress (CR = 1,00 and AVE = 1,00)	*Z-Score*	1,150	1,073	1,000
Tax Planning (CR = 0,95 and AVE = 0,90)	ETR	0,272	0,562	0,935
	CETR	0,286	0,586	0,966
Internal Control (CR = 1,00 and AVE =1,00)	COSO	0,739	0,153	1,000
Earnings Management (CR = 1,00 and AVE =1,00)	REM	0,533	0,181	1,000

Notes: Based on the sample bootstraps 5,000. CR: composite reliability; AVE: average variance extracted; M: mean; and SD: standard deviation

Source: Results of SmartPLS 3.0 data processing

Standard evaluation criteria are used to evaluate measurement models (Hair et al., 2019). The construct is operationalized as a reflective measure, and the model is evaluated by measurement loading *factor*, construct reliability, and discriminant validity. Confirmatory factor analysis gave a relatively good fit (chi-square = 30.546, SRMR = 0.023). Table 3 shows each indicator's constructs, indicators, *mean*, SD, and factor *loading*. In addition, this study also pays attention to the convergent validity value of constructs based on discriminant validity average *variance extracted* (AVE), as shown in Table 3. Moreover, (J F Hair, Black, W C Babin, 2010) criteria and heterotrait-monotrait ratio were used in this study to assess discriminant validity. Table 4 shows both approaches in assessing discriminant validity.

Table 4. Discriminant Validity Coefficient Value and f-Square

Variable	FD	IC	ML	**TP**
Financial Distress	1,000	**0,090**	**0,860**	
Internal Control	-0,231 *(0,231)*	1,000	**0,12**	
Earnings Management	0,259 (*0,259)*	-0,198 *(0,198)*	1,000	
Tax Planning	-0,195 *(0,209)*	-0,006 *(0,006)* **0,004**	0,135 *(0,139)* **0,01**	0,951

Notes: Writing italic in parentheses show HTMT values , and numbers without italic shows fornell lacker. As well as, bold numbers show the value-of-square for the inner measurement *model*.

Source: Results of SmartPLS 3.0 data processing

Table 3 shows that the value outer loading > 0.70 met the criteria. The same goes for composite value reliability > 0.70, which indicates that reliability in this study has been fulfilled (Yamin, 2021). In addition, Table 2 also displays the AVE value for each variable > 0.5. Evaluation of the measurement model based on convergent validity has been fulfilled (Yamin, 2021). Checks to confirm that all constructs are more strongly associated with the size of each construct than the others, thus indicating good convergent and discriminant validity. All four constructs (earnings management, internal control, financial distress, and tax planning) are modeled as a reflective latent construct with its sub-constructs. Given that the reflective factorial structure of the model also assesses the outer weights, namely t-values and collinearity statistics. For the best test, it is necessary to know the VIF value to test multicollinearity, where in this study, the overall VIF value was <5 and fulfilled multicollinearity (Hair et al., 2019).

Table 5. Outer Values VIF

Construct	Indicator	*VIF*
Financial Distress	*Z-Score*	1,000
Tax Planning	ETR	2,936
	CETR	2,936
Internal Control	COSO	1,000
Earnings Management	REM	1,000
Notes: VIF value must be below 5		

Source: Results of SmartPLS 3.0 data processing

Structural Model Evaluation

In order to find out whether the regression coefficients of the structural equation model are statistically significant and allow observation using multiple sampling, besides estimating the significance of the effect on each regression coefficient between latent constructs, it is necessary to use the technique bootstrapping. The writer can do structural model testing by looking at the results of R Square, f Square, Q Square, fit models, PLSpredict, and hypotheses. With the option of 5000 iterations in running bootstrapping, each relationship's path values, t-statistic values , and p values are obtained, as shown in Table 7.

Table 6. Predictive Validity Score of PLS-Predict and Q-Square

	Q^2	PLS-SEM		LM	
		RMSE	**MAE**	**RMSE**	**MAE**
IC	0,080	154297323,934	129969204,978	156316089,395	131419599,945
ML	0,488	222277804,602	141909361,558	223110896,480	143335254,113

Notes: RMSE: Root mean squared error MAE: Mean absolute error; PLS: Partial least squares path model; LM: Linear regression model.

Source: Results of SmartPLS 3.0 data processing

R Square describes the magnitude of the variation in endogenous variables, which are explained by endogenous/exogenous variables (Yamin, 2021). This study has a variable R Square results from internal control display value 0.083, which means variable financial distress and tax planning simultaneously able to explain variables internal control 8.3%. In contrast, 91.7% is explained by variables not hypothesized in this study. While the results of earnings management R Square shows a value of 0.511, meaning variable financial distress and tax planning can explain the earnings management variable by 51%. In comparison, the remaining 49% is explained by other variables not hypothesized in this study.

Criteria value f Square, according to Hair Jr et al (2021) in the small category, the effect size is 0.02; in the moderate category, 0.15; and in the large category, namely 0.35. Based on Table 4, the effect of FD on earnings management is 0.86, which is included in the large category. As for the variable Q Square measurement, internal control is included in the weak category, namely 0.080, in contrast to the earnings management variable, which is included in the large category, namely 0.488. Likewise, the PLS prediction test in this study (Table 6) was fulfilled, and the model was considered good because it had PLS-SEM RMSE and MAE values that were lower than the RMSE and MAE LM values.

Test the Hypothesis With Bootstrapping

Table 7. R – Square Value and Regression Analysis Results

Path	Earnings management variable	Variable Internal *control*
FD	0,692 (9,125; 0,000)	-0,294 (2,984; 0,003)
TP	-0,018 ((0,452; 0,651)	0,061 (0,974; 0,330)
IC	-0,080 (1,361; 0,174)	
FD via IC	(1,261; 0,207)	
TP via IC	(0,657; 0,511)	
R^2	0,511	0,083
Adj R^2	0,499	0,068

Note: Based on 5000 bootstrap iterations. Standardized analysis results ("t" and "p" values in parentheses) are presented.

Source: Results of SmartPLS 3.0 data processing

The table above shows that there is a direct effect of financial distress on internal control t-statistical value (2.984> 1.96) and P-value (0.003<0.05). Then, there is the direct influence of financial distress on earnings management t-statistic value (9.125> 1.96) and P-value (0.000<0.05). Meanwhile, other variables show no effect because they show t-statistics <1.96 and P-value> 0.05. Furthermore, internal control cannot mediate the relationship between financial distress and tax planning to earnings management for intervening testing because it shows a value t-statistic < 1.96 and P-Value > 0.05.

Discussion

The results of testing the hypothesis through the bootstrapping method in SmartPLS 3.0 display various hypothesis results. The first hypothesis (H1) accepted is that financial distress influences internal control. Where The test succeeded in obtaining the t-statistic, namely 2,984, the result is higher than t-table 1.96. Companies with financial distress conditions own internal control goods (Li et al., 2020). This study aligns with Doyle et al. (2007) and Li et al. (2012), which state that financial distress affects internal control. This happened because the company was financially distressed to recover one of its efforts to repair internal controls. If tracing State-Owned Enterprises (SOCs) and SOCs subsidiaries listed on the Indonesia Stock Exchange (IDX) as research objects have a responsibility to the government and also the people of Indonesia, this one of the things that need to be maintained is that SOCs companies do not enter in condition financial distress which will reduce the existence of the company through internal control. Accordingly, based on government regulation number 23 of 2022, the establishment, supervision, management, supervision, and dissolution of SOCs companies as development agents will continue to be closely monitored.

The second hypothesis (H2) is rejected. Tax planning does not influence internal control. The hypothesis is rejected based on the t-statistic value obtained from the test showing 0.974. This value is less than the t-table value of 1.96. Tax is considered a burden that will reduce a person's economy, where if the burden does not exist, the money paid will be diverted to other fulfilment (Reskino et al., 2014). In this regard, when viewed from the company's point of view, the tax burden is a cost that will reduce the company's profits. Tax planning is a step to increase profit reports (Rahma et al., 2022). This study measures the effectiveness of companies in managing the tax burden by comparing the tax burden divided by the total profit before tax. Companies with an ETR of less than or equal to 25% have a high efficiency level in managing their tax burden.

The average value tax planning in the study showed 27%, meaning that the sample companies, namely SOCs companies and SOCs subsidiaries studied in this study, still needed efficient tax management. These results are inversely proportional to the average value of internal control by 74%, meaning that the sample companies already have internal control. Therefore, companies with internal control of what is good do not necessarily do tax planning effectively.

The third hypothesis (H3) is rejected. Internal control does not influence earnings management. Where the test obtained the t-statistic, namely 1,361, these results are lower than the t-table of 1.96. Previous research by Hadi and Afriyenti (2022) states that internal control has no effect on earnings management, and internal control quality does not reduce management's intention in earnings management practices. Internal control is a series of processes that aim to assure the effectiveness and efficiency of operations, the reliability of the preparation of financial reports, compliance with applicable laws and regulations, guarantee the quality of financial reports, and prevent the wastage of resources of a company that is run by the board of commissioners, members of management and all company members. However, this study provides evidence that good internal control management has yet to be able to ensure supervision of earnings management actions that lead to illegal actions.

The fourth hypothesis (H4) is accepted. Financial distress influences earnings management. The hypothesis is obtained from the testing results with t-statistic values, namely 9,125. The result is higher than the t-table of 1.96. This is following previous research conducted by Ariesanti (2015), Chairunesia et al. (2018), Damayanti and Kawedar (2018), Jacoby et al. (2019), Li et al. (2020), Nazalia and Triyanto (2018), Saputri and Achmad (2017), Sari and Meiranto (2017) which state that the variable financial distress effect on earnings management. According to Chairunesia et al. (2018), there are two main reasons why companies carry out earnings management over time that is, by reducing profits to losses and saving these gains for future periods. Then, increase profits to show that the company's performance remains strong even in times of crisis.

The fifth hypothesis (H5) is rejected, that tax planning does not influence earnings management. These results are based on the t-statistic value of 0.425, indicating that the value is below the t-table value of 1.96. These results are in accordance with agency theory, where the information asymmetry between agents and principals encourages company management in financial distress conditions to take earnings management actions. This research follows research by Achyani & Lestari (2019), Aditama & Purwaningsih (2014), and Santi & Wardani (2018), which state that there is no influence between tax planning on earnings management. Because the samples used by manufacturing companies, manufacturing companies tend not to do tax planning for the benefit of the principal because the manufacturing company itself consists of several departments, each of which has an interest in obtaining bonuses through good performance instead of doing tax planning (Santi & Wardani, 2018). The sample in this study is state-owned companies listed on the Indonesia Stock Exchange, which consist of companies engaged in various fields, one of which is manufacturing, which has the same possibility.

Tax planning in this study cannot prove its effect on earnings management. Due to several conditions, tax planning becomes legal if it follows tax regulations, including the latest Law No. 7 of 2021 concerning harmonising tax regulations. The law regulates several points, including reducing corporate income tax to 22% from 25%, which is done to encourage industrial progress and investors and adapt to global conditions. From the changes in taxation, it can also be seen that tax regulations are continuing to update, adjusting to business, economic, and industrial conditions, allowing companies not to do so. Tax planning leads to earnings management action.

The sixth hypothesis (H6) is rejected. Internal control could not mediate the relationship between financial distress and earnings management where the test succeeded in obtaining the t-statistic, namely 1,261. The result is lower than the t-table of 1.96. This research does not follow previous research by Li et al. (2020), which states that financial distress has an intermediate effect on real earnings management through internal control. Companies with financial distress conditions that have made repairs on internal control do fewer earnings management than companies that have not improved internal controls. The study results indicate that state-owned companies with good internal control and financial distress conditions cannot perform earnings management. These conditions, if retraced, related to the image of SOCs companies and the responsibilities of SOCs companies to all Indonesian people, not just shareholders. So, as much as possible, the management in state-owned companies behave professionally and keep the company from being in a state of disrepair, financial distress, and earnings management.

The seventh hypothesis (H7) is rejected. Internal control could not mediate the relationship between tax planning and earnings management. Where the test obtained the t-statistic of 0,657, the result is lower than the t-table of 1.96. Even though mediated by internal control, tax planning still does not influence earnings management. Tax planning is usually done regarding earnings management by reducing profits so that tax payments are minimal. However, this action is risky because it will impact the company's image in the future, especially SOCS companies and SOCs subsidiaries as objects in this study. This study found that state-owned companies with more than 50% share ownership by the government have a responsibility to the government. The results of this study are supported by the arguments of Gleason et al (2017) that management will experience a branched focus when managing earnings and tax planning, which cannot be carried out simultaneously in the current year's financial statements. Besides that, internal control in a company whose function is to prevent, detect, and deal with earnings management and tax planning actions that lead to illegal actions may no longer be effective if there are individuals who abuse their authority.

Conclusions and Recommendations

This research provides empirical evidence that state-owned companies and their subsidiaries have implemented all the indicators in the COSO 2013 framework. However, it is hoped that companies will implement overall internal controls to prevent earnings management actions that lead to illegal actions. In addition, this study also found that tax planning, as measured using the effective tax rate (ETR), has an average value of 27%. This value is above 25%, meaning the state-owned companies and their subsidiaries studied in this study still need efficient tax management. The research findings conclude that financial distress directly impacts internal control and earnings management, while tax planning has nothing to do with internal control or earnings management. This study shows that the condition of the company or involvement with the financial pressure variable influences earnings management, as in line with previous studies.

In addition, this research is implicitly expected to provide an overview to companies, investors, and academics regarding the causes of earnings management actions, including this study focusing on internal control conditions, financial distress, and tax planning motives. Despite the study's results, researchers could not prove that internal control can mediate the indirect relationship between financial distress and tax planning, which is a study limitation. Further research is needed to add other variables that can affect earnings management both directly and indirectly, such as good corporate governance (Luthan et al., 2016), corporate social responsibility (Ben Amar & Chakroun, 2018), financial performance dan stock issuance (Dang et al., 2017).

Furthermore, future research is expected to dispose of objects with earnings management conditions that lead to fraudulent actions or do not lead to fraudulent actions. Earnings management that leads to acts of fraud can use the basis of the latest fraud theory, namely the heptagon fraud theory developed by (Reskino, 2022). In addition, further research is also expected to be able to replicate the object of research not only in state-owned companies but also in other companies. The results of this study also have limitations, including the research period, which is 2016-2021; it is hoped that future research will provide a more extended research period.

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