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REAL EARNINGS MANAGEMENT AND CASH HOLDING PERFORMANCE: AUDITOR INDUSTRY SPECIALIZATION AS MODERATING VARIABLE

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Abstract

This academic work intends to obtain empirical evidence about the signaling perspective on real earnings management to describe cash holdings. The theoretical contradictions of real earnings management reflect management's opportunistic attitude and optimistic attitude which signifies positive earnings. The research design is a quantitative study with a sample of 216 units of analysis. Secondary research data was obtained from the Indonesian stock exchange for 2019-2021. Multiple linear regression testing results prove that real earnings management gives a positive signal about cash holding. Auditor industry specialization which reflects audit quality is proven to strengthen the relationship between real earnings management and cash holding. This contributes to the realm of signal theory as an alternative explanation of the relationship between real earnings management and cash holding. In addition, the role of industry-specialized auditors is a driving force in strengthening positive signals that reflect alignment between management policies and cash-holding performance.

INTRODUCTION

Cash is strategic asset to consider of great importance. The greater cash and cash equivalents increase a company's financial flexibility to help react to market changes that affect investing and business accretion (Jiang et al., 2020). In a more competitive business environment, larger cash holding (CH) is prioritized over tax benefits. Utilization of cash can escalate the firm value if the right takes of cash and any misuse induce the company's destruction. Management must determine of CH level to such the marginal benefit of one ancillary unit of cash would compensate for its marginal cost of it. The optimum cash level is a performance indicator to maximize the company's value. CH-level resolve is an important financial resolution for the company. Maintaining cash helps companies keep away liquidity problems but the opportunity costs of CH well too can be high. Establishing the proper amount of CH leftover is an issue for the company. The trade-off in cash policy is the adequacy of internal capital for managers to fund all projects efficiently and not to divert excess internal sources of funds to finance projects, acquisitions, or consumption which opportunistically only benefits managers (Ifada et al., 2020). Large cash reserves allow managers to spend money on projects that provide large personal benefits and sacrifice the interests of investors.

The manager's success parameter that concerns the owner is earnings, so the manager will try to achieve the earnings target. Managers can implement earnings strategies by leveraging the flexibility of accounting standards, discretionary transactions and expenses, investments, and resource allocation to increase reported income in the current year (Abad et al., 2018). Along with the development of increasingly rigid and transparent accounting standards, there has been a shift in earnings strategy from accrual to real earnings management (REM). Currently, management tends to prefer real-based over accrual based because REM is relatively troublesome to detect, and receives little attention from analysts, auditors, investors, and other users of earnings information.

REM involves the manipulation of cash flows of investing, financing, or operating activities. Managers can use sundry business strategies to manage cash flow. Companies can apply various alternative sales practices to obtain abnormal sales, manage cash flow/income related to financing, and reduce discretionary costs to manipulate all business-related cash flows (Chouaibi et al., 2019). As one of the strategic assets, cash is considered very important. Larger cash and cash equivalents increase the company's financial flexibility to help react to market changes that affect investing and business acceleration. CH is a significant indicator for measuring a company's financial performance (Khuong et al., 2020), managers have the latitude to assign the level of CH. Managers prefer to keep cash to decrease the asymmetry of information and high-cost external financing.

Previous studies have examined extensively the factors that determine REM. These studies examined the consequences REM on CH. Financial statements are a medium for companies to reduce information asymmetry, where cash inflows and outflows are a major concern for investors as a basis for consideration and decision-making. The recent empirical study focuses on information asymmetry as information and signals related to financial statements, especially REM, and auditor industry specialization. Research focuses on REM because it manipulates earnings in ways that improve from normal practices of operating that directly impact the company's current and future cash flows. Meanwhile, accrual earnings management is a discretion permitted by accounting standards and without direct cash flow consequences (Abad et al., 2018). In addition, REM is difficult for external parties to detect because it is attached to operational activities.

The divergence technique of earnings management can induce different relations of consequences due to differences in information asymmetry and agency costs. Khuong et al., (2020) show that real activity management positively influences CH. This evidence describes that any significant reductions in production costs and increases in sales allow managers to disguise the firm's original performance, thereby increasing information asymmetry. The inverse intercourse between accrual earnings management and CH may verify that accruals can help degrade information discrepancies between companies and other stakeholders. And then, (Jiang et al., 2018) concluded REM has a positive influence on the following performance.

From the perspective of agency signaling, management actions are aligned with the interests of shareholders. Higher levels of cash are used as a medium to communicate projects decisive for example capital investments, fixed assets, staff training costs, research and development costs, and advertising. Company management is indicated to perform REM when there is a deviation from the normal level of activity. It is indicated that the company can achieve the profit target, managers tend to use profits to be able to achieve the target ((Khuong et al., 2020), Company management is indicated to perform REM when there is a deviation from the normal level of activity, information asymmetry provides flexibility for management in determining the company's income statement, so opens the door to manipulating financial reports through real activity adjustments.

The company's management is indicated to carry out REM when there is a deviation from the optimal level of activity. Deviations that occur in cash flows or profits are caused by company management diverting future cash flows or profits to improve current performance. However, REM is a practice that involves complex transactions of cash flow investing, financing, or even operating activities using various business techniques in cash management. Companies can implement various alternative sales practices to obtain abnormal sales, manage cash flow/income related to financing, and reduce discretionary costs to manipulate all business-related cash flows (Chouaibi et al., 2019).

Managers can take policies to maximize firm value and minimize agency costs in managing company. Earnings management policy by managers can be used to convey insider information about the current performance and prospects of the company as a form of signaling mechanism. Managers can send private signals to influence stocks through earnings management policies. Earnings management's is an informative goal of creating value maximization. In the context of REM, the signaling (or tangible benefit) reason proposes that abnormal activity is intended to satisfy zero or zero earnings. The foregoing period's profit can escalate the company's credibility and prestige with stockholders, reinforce intercourse with those stakeholders and enable preferable subsequent outcomes. Khuong et al., (2020) state that managers can manipulate real activities to escalate income to realized revenue targets. Aggressive real-activity management can help companies save cash. This indicates that when REM occurs, it gives a signal that the company is hoarding cash to reduce volatility risk. Companies that carry out REM are inclined to hold higher CH than companies that enforce normal business activities. Chang et al., (2018) also found that CH is positively influenced by stronger REM under conditions of more binding financial constraints. Contradictory research results were obtained by Kumar et al., (2023)

which proves that REM has a negative effect on company performance, both accounting performance and market performance. This proves that REM is a signal of opportunistic management behavior.

Opportunistically, information asymmetry causes company managers to take parties that tend to side with their interests rather than the interests of the owners. However, does every asymmetry always lead to opportunism? From the perspective of signal theory, the real earnings practice is information private of good company performance. Real earnings strategy does not rely on accounting practices and is inherent in the company's business activities, so it is relatively difficult to understand by auditors, investors, debtholders, and other parties who use financial statements. In this regard, an independent party is needed who can strengthen the signal quality of REMAIS' experience, craftsmanship, and competence both general and specific from industrial clients (Mukhlasin, 2018). The auditor industry specialization has more expertise to detect opportunistic behavior of earnings management from business complexity. The auditor industry specialization (AIS) reduces the opportunistic complexity of real activity business to create earnings manipulation so can REM align with CH.

The complexity of REM makes this practice difficult to detect. The existence of REM is inherent in the company's business and operational activities. Companies can apply a variety of alternative sales practices to obtain abnormal sales, manage financing-related cash flow/income, and reduce discretionary costs to manipulate all business-related cash flows (Chouaibi et al., 2019). As a positive signal that reflects company performance, the financial statements of companies that practice REM will provide quality information when the financial statements are audited by qualified auditors. Auditors who specialize in certain industries can identify and acknowledge rumors from related sectors, identify important parts of the operating industry, and know the specifics of how the industry operates which impacts various sectors throughout the industry..

REM practices will better reflect the company's positive performance when audited by competent, objective, and independent auditors, namely industry specialist auditors who tend to be of higher quality because they have industry-specific expertise. Specialized industrial auditors can detect management manipulation and opportunistic behavior so they are regarded as an effective mechanism for monitoring (Alzoubi, 2018), and provide high-quality audit services. Therefore, industry specialist auditors can strengthen the signal that REM is a positive signal that reflects company performance.

This research is important to be carried out with several considerations, first, theoretically, the REM effect on CH can be describe d in two different directions. The information-based efficiency perspective, from signal theory, explains that managers apply REM as private information of signal to capital market participants as solid financial performance to reduce the information asymmetry and signal company growth (Alhaddad et al., 2022; Ali & Kamardin, 2018; Habib et al., 2022). On the other hand, the opportunist perspective reveals that management who chooses REM will have an impact on poor performance. The opportunistic view suggests that under normal conditions of business activity, managers intentionally deviate from normal activities for personal gain, creating asymmetry of information, and triggering friction in detrimental selection problems and hazard of morality (Shin et al., 2018) that reflect poor performance. Second, there are contradictory research results as a signal of company performance. The positive influence is supported by Jiang et al. (2018). Meanwhile, Kumar et al., (2023) obtained contradictory results, namely that REM had a negative effect on company performance.

Theoretically, this research contributes to two things. First, REM contributes to the development of agency theory, particularly information asymmetry as a good signal of firm performance. This follows up on the research suggestion of Weidemann (2018) and Habib et al. 2022) recommend filling the gap in research on the impact of REM. Research on the effect of REM on CH is the first study conducted in Indonesia. Second, this study also develops a theoretical framework for AIS as a positive signal that strengthens the effect of REM on CH. Industry specialization of auditors as a moderating variable has never been conducted in previous research, especially REM and CH.

METHODS

This study uses a quantitative approach. Financial report secondary data is sourced from the Indonesia Stock Exchange website (IDX.co.id) downloaded in pdf and excel formats. This study used purposive sampling with the following criteria:

Table 1. Sample Selection

No	Criteria	Total
1	Manufacturing Company Listed on IDX in 2017	170
2	Manufacturing companies that publish annual reports and financial reports not in rupiah (Rp) in 2017-2021	39
3	Manufacturing companies that inconsistently published complete annual reports and financial statements for 2017-2021.	17
4	Number of manufacturing company samples	114
5	Number of manufacturing data	342
6	Negative cash flow operating	88
7	Outlier data	38
8	Number of manufacturing data samples	216

The research was conducted on manufacturing companies listed on the Indonesia Stock Exchange from 2019 to 2021. The sample of manufacturing companies was chosen because the manufacturing industry has the freedom to practice real earnings management policies related to cash flow, production costs and discretionary policies.

The data collected is data from 2017 to 2021 because measurement of real earnings management variables requires data 2 years before the year of analysis (t-2). This study excludes companies with negative cash flow operating because the net cash flow that is directly related to a company's profit/loss is operating cash flow. There are 88 operating deficit net cash flow data. the results of casewise diagnostic testing found 38 data with standardized residuals of more than 3 observation data, so they were excluded from the analysis so that the data was normally distributed. After being selected based on the criteria in Table 1, a sample of 216 observation data was obtained.

The inferential statistical analysis used in this research is Ordinary Least Square (OLS) multiple linear regression with the following research equation model:

$$CH = \alpha + \beta_1 REM + \beta_2 AIS + \beta_3 REMxAIS + \beta_4 TA + \beta_5 DER + \beta_6 ROA + \beta_7 CR + \varepsilon \quad \text{.....(1)}$$

CH stands for Cash Holding, REM represent Real Earnings Management, AIS stands for Auditor Industry Specialization, TA stands for Total Assets, DER stands for Debt Equity Ratio, ROA represent Return on Earnings, and CR stands for Current Ratio.

The CH variable is measured referring to measurements made by Yun et al. (2021), namely the ratio of cash and cash equivalents divided by total assets. Furthermore, to ensure that the research results used an alternative (CHTA), namely the ratio of cash and cash equivalents divided by total assets minus cash and cash equivalents. Furthermore, because the errors of the research model are not normally distributed, to test the robustness of CH and CHTA, they are transformed using natural logarithms.

REM proxies by Sitanggang et al., (2020) are used in measuring abnormal activity levels of operating, discretionary, and production costs as indicators of upward manipulation of real activity. Abnormal cash flow (Abn_CFO), abnormal production cost (Abn_PROD), and abnormal discretionary expense (Abn_DISEXP) are obtained from the residual values of equations (1), (2), and (3).

Abnormal Production. Overproduction is a technique to manipulate revenue by reducing the allocation of indirect costs that can affect the cost of goods sold. Abnormal overproduction is the residual value of the following models:

$$\frac{Prod_{it}}{Assets_{it-1}} = \alpha_0 + \alpha_1\left(\frac{1}{Assets_{it-1}}\right) + \alpha_2\left(\frac{Sales_{it}}{Assets_{it-1}}\right) + \alpha_3\left(\frac{\Delta Sales_{it}}{Assets_{it-1}}\right) + \alpha_4\left(\frac{\Delta Sales_{it-1}}{Assets_{it-1}}\right) + \varepsilon_{it} \quad \text{.....(2)}$$

where, $Prod_{it}$ is the sum of the cost of goods sold and the change in inventory during year t. $Assets_{it-1}$ are total assets at year t-1, $Sales_{it}$ is net sales during year t, and $\Delta Sales_{it-1}$ is the change in net sales during year t.

Abnormal Cash Flow Operation (Abn_CFO) Abnormal Cash Flow Operation is to manipulate earnings by improving sales through sales discounts and/ or lenient credit terms. the abnormal operating cash flow is residual from the normal model:

$$\frac{CFO_{it}}{Assets_{it-1}} = \alpha_0 + \alpha_1\left(\frac{1}{Assets_{it-1}}\right) + \alpha_2\left(\frac{Sales_{it}}{Assets_{it-1}}\right) + \alpha_3\left(\frac{\Delta Sales_{it}}{Assets_{it-1}}\right) + \varepsilon_{it} \quad \text{.....(3)}$$

CFO_{it} is cash flow from operations during year t. Abnormal Discretionary Expense (Abn_Discexp). Discretionary cost reduction is used to manipulate profits by changing real operating activities. The normal level of discretionary costs is obtained from the model below, while the abnormal value is the residual value.

$$\frac{Discexp_{it}}{Assets_{it-1}} = \alpha_0 + \alpha_1\left(\frac{1}{Assets_{it-1}}\right) + \alpha_2\left(\frac{Sales_{it}}{Assets_{it-1}}\right) + \varepsilon_{it} \quad \text{.....(4)}$$

Where, $Discexp_{it}$ is the sum of R&D expenses and SG&A expenses during year.

The measurement of variables of the AIS gives a score of 1 for corporate clients audited by the AIS and 0 if not included. The appointment of specialist and non-specialist industrial auditors is through the following stages: The first stage is to determine sub-sectors that have at least 25 issuers of the Indonesia Stock Exchange. The second step, totaling all sales in 1 sub-sector. The third step is the issuer's percentage of sales compared to total sales in 1 sub-

sector. The fourth step is to determine the public accounting firm that audits each company. The fifth step, adding up the percentage of sales in the same sub-sector for the same public accounting firm. The sixth step, determining a public accounting firm that audits more than 25per cent of the percentage of sales is called an auditor with industry specialization, whereas if it is equal to or less than 25per cent it is called a non-audit industry specialization.

The control variables in this study are variables that have affected CH in previous studies. Firm size (FS) is measured by LNTA (log natural total assets), Profitability (ROA) is proxied by the return to total assets, Solvency (DER) is proxied by debt-to-equity ratio, and Liquidity (CR) is measured by current assets to short term liability.

RESULTS

The presentation of research results begins with presenting statistics. The maximum, minimum, average, and standard deviation values for variables with a ratio of scale measurements. Meanwhile, variables with a nominal measurement scale only display the mode.

Table 2. Statistic Descriptive

	Mean	Std. Deviation	Minimum	Maximum
CH	0,10976	0,12783	0,00107	0,58664
REM	0,00453	0,08813	-0,26242	0,29208
TA	9039441603682	21684000195752	152818996760	179356193000000
ROA	0,1034071586	0,6215397105	-1,0498394	6,6004886952
CR	2,12240	1,90776	0,05872	10,50393
DER	5,52265	54,09135	-19,05558	786,93111
TQ	4768,90407	40302,89622	0,01776	375566,57842
	Modus	Frequency	Total	Percent
AIS	0	158	216	71,10

Table 2 shows that manufacturing companies in Indonesia, on average, hold cash and cash equivalents of 10.979 per cent of total assets with a standard deviation of 12.783 percent. The minimum REM value is -0.26242 indicating that there are companies whose earnings impact income decreasing. On average, REM results in increased income. Furthermore, the mode for non-AIS audits of 158 (71.10 percent) informs that most are audited by non-AIS.

The one sample Kolmogorov Smirnov test above the residual values for the dependent variables CH and CHTA show that the data are not normally distributed. Meanwhile, after the natural log transformation for CH (LNCH) and CHTA (LNCHTA), the residual values are normally distributed (table 3). F calculated in tables 2 and 3 proves that this research model is fit with data where significant CH, CHT, LNCH, and LNCHTA are less than 5per cent. Adjusted R Square for the fourth model is not much different, Adjusted R CH is 0.318, CHTA is 0.386, LNCH is 0.395, and LNCHTA is 0.397. This shows that the power to clarify the independent variable to the dependent is quite large.

Table 3. The OLS Result of the Research Model

		CH		CHTA	
	Expected	Coefficient	t-statistics	coefficient	t-statistics
(Constant)		-.163	-1.876	-9.527	-8.086
REM (H1)	+	.123	1.846	1.842	2.035
AIS	+	.040	3.185	.458	2.688
REMXAIS (H2)	+	.405	2.795	4.014	2.041
LNTA	+	.007	2.356	.209	5.063
DER	+/-	-2.017E-5	-.211	-.002	-1.396
ROA	+	3.989E-5	.172	-.002	-.590
CR	+	.016	5.670	.236	6.310
Ad					
Adjusted R Square		0.318		0.386	
F-Statistic		15.338		20.317	
P value		0.000		0.000	
Durbin Watson		1.802		1.765	
Test Statistic		0.052		0.170	
Asympt sig		0.000		0.000	
N		216		216	

REM in Table 3 for the CH model represents a coefficient regression of 0.123 with a t-value of 1.846. The CHTA model shows a regression coefficient of 1.842 with a t-value of 2.035. The CH model and model are significant at 10 percent and CHTA model is significant at 5 percent with a positive influence direction. These results verify that hypothesis that REM has a positive influence on CH is accepted. Furthermore, AIS strengthens the relationship between REM and CH is acceptable. The regression coefficient for AIS as a moderating variable (REMXAIS) for the CH model is 0.405 with a t-value of 2.795 and for the CHTA model, it has a regression coefficient of 4.014 at t-value of 2.0411. These results indicate that the regression coefficient is in accordance with the hypothesis that has a significant effect at the 1 percent level.

This study also added a robustness test using the LNCH and LNCHTA variables as dependent substitutes for CH and CHTA. This test is used to strengthen the reliability of research results. Table 4 shows the results of multiple linear regression testing finding evidence that the results of hypothesis testing in Table 3 are reliable.

Table 4. The OLS Result of the Research Log Natural Model

		LNCH		LNCHTA	
	Expected	Coefficient	t-statistics	coefficient	t-statistics
(Constant)		-9.338	-8.529	-9.527	-8.086
REM (H1)	+	1.697	2.018	1.842	2.035
AIS	+	.411	2.594	.458	2.688
REMXAIS (H2)	+	3.546	1.940	4.014	2.041
LNTA	+	.201	5.237	.209	5.063
DER	+/-	-.002	-1.488	-.002	-1.396
ROA	+	-.002	-.653	-.002	-.590
CR	+	.217	6.260	.236	6.310
Add					
Adjusted R Square		0.386		0.386	
F-Statistic		20.308		20.853	
P value		0.000		0.000	
Durbin Watson		1.768		1.765	
Test Statistic		0.045		0.052	
Asympt sig		0.200		0.200	
N		216		216	

Testing the LNCH and LNCHTA proves that the CH and CHTA model) give results that are not much different. The REM variable in table 3 for the LNCH model represents a coefficient regression of 1.697 with a t-value of 2.098. The regression coefficient produces a positive direction, and the t-value is significant at 5 percent. Furthermore, the LNCHTA model proves that hypothesis 1 is accepted, the regression coefficient is positive and the t-value of 2.035 is significant at 1 percent. This indicates that REM has a positive effect on CH. This can be seen from the LNCH 2 model table for the LNCH variable, the regression coefficient value is positive (3.546) with a t value of 1.940, which means that the coefficient direction is as expected with a significance of less than 5 percent. Furthermore, the LNCHTA model for the REMXAIS variable gives a regression coefficient of 4.014 and a t value of 2.041. These results prove that AIS reinforces the relation between REM and CH.

DISCUSSION

The research results showing that REM has a positive effect on CH provide evidence that REM is a good signal indicating that the company has good performance. This is in line with signaling theory, namely that REM actions carried out by company management provide clues to investors about how management views the company's prospects. Companies that practice REM are companies that have good performance so they are able to CH. Not all companies practice REM because it is expensive. . In addition, because this activity has become part of the company's operations, it must be carried out carefully. Companies that use the REM strategy prove that the profit target has been met, so REM is used as a signal that the company can create CH as a form of short-term performance. The positive influence of REM on CH shows that managers tend to choose cost reductions and/or lower selling prices.Khuong et al., (2020) stated that managers can manipulate real activities to increase income towards the income realization target.Aggressive real activity management can help companies save money. This shows that when REM occurs it gives a signal that the company is hoarding cash to reduce the risk of volatility.

Earnings management policies carried out by managers can be used to convey inside information regarding the company's current performance and prospects as a form of signaling mechanism. Managers can send

personal signals to influence shares through earnings management policies. Earnings management is an informative objective to create value maximization. In the REM context, the signal reason (or real benefit) states that the abnormal activity is intended to satisfy zero or zero income. Previous period profits can increase the company's credibility and prestige in the eyes of shareholders, strengthen relationships with stakeholders and enable better subsequent results.. In line with these results, research by Khuong et al., (2020) which examined energy sector companies in Vietnam succeeded in proving that real earnings management will improve the company's business performance. Furthermore, Jeong & Choi, (2019) state that persistence of return on cash flow has the potential to increase cash flow management through real activities and is a strategic outcome for superior managerial opportunism decision-making. Management's policy of selling by providing sales discounts because new products have been launched and old products are considered obsolete is part of management's real income with an efficiency motive for additional costs. (Chang et al., 2018) indicate that REM has a positive impact on stronger cash-holding values in companies with more financial debt constraints. Empirical analysis by Chada & Varadharajan, (2023)confirms that the firms with higher earnings quality reduce cash. Meanwhile, opposite results were found by (Kumar et al., 2023) who found that REM had a negative effect on accounting performance and market performance. These results illustrate that real earnings management will have a positive effect on future performance.

AIS strengthens the relationship between REM and CH indicating that there are different characteristics of the sub-sectors of the manufacturing industry. AIS can detect REM due to an understanding of the business practices and operations of the manufacturing industry sub-sector. AIS in the manufacturing industry gives a signal that REM practice reflects a positive sign on CH performance(Jiang et al., 2020). The results can be interpreted as that specialist auditors can lower management's opportunistic interference in REM because the specialist auditor's expertise has competence that can detect REM. AIS encourages REM strategies as policies that can align the interests of management with company owners. AIS can lower the potential practice of abnormal business by arranging earnings. AIS works with high-quality auditing standards for clients so that the audit results reflect high-quality information. This is because AIS have more industry-specific knowledge and experience, so they are more skilled in the industry than non-AIS. The important role of AIS is as a competent party in examining the reliability and fairness of financial reporting from an opportunistic attitude in REM so that earnings management reflects company performance. The results of previous research in the perspective of earnings information quality, the observed positive relationship between AIS and the earnings response coefficient indicates that, on average, specialist auditors enhance market perceptions of earnings quality. Mukhlasin (2018) found evidence that auditors specializing in the industry can detect when there is corporate fraud. Lopez et al. (2022) proved that AIS was a significant determinant of accounting quality in the IFRS adoption. That is, the financial statements audited by AIS have better quality reporting than companies audited by non-AIS. Test results that prove that AIS affects earnings response coefficient, fraudulent reporting, and earning quality prove that AIS strengthens the quality of financial reports. However. Chowdhury & Eliwa, (2021) do not find any conclusive evidence on production costs manipulation, the aggregated measure of real earnings management shows a significant positive association with the presence of Big 4 auditors.

CONCLUSIONS

REM is an earnings management strategy that is attached to the company's business activities. From the perspective of signal theory, REM is a personal signal from management indicating that the company has good performance for now and in the future. Test results on manufacturing companies prove that there is a positive influence between REM and CH. This study also proves that AIS based on subsectors in manufacturing companies strengthens the signal that explains the effect of REM on CH performance. Theoretically, this study contributes to an alternative framework of signaling theory in building the rationality of the impact of REM. Private signals indicate an alignment of interests between management and shareholders. The complexity of the company's business transactions requires the role of an auditor who specifically controls the company's business activities. Practically, it can be identified that companies with abnormal earnings increasing income audited by auditors with industry specialization are a positive signal for investors about company performance.

This study has limitations in that the samples analyzed combine REM for increasing income and decreasing income. Analysis of REM is carried out on the earnings management index. Although it provides significant results, the auditor's measurement of industry specialization only refers to sales-based market dominance. For further research, it is recommended to analyze REM only which has the character of increasing income, using other proxies in measuring AIS, for example, proxies based on partner auditors, not public accounting firms. The next researcher can also analyze REM based on abnormal cash flow, abnormal production, and abnormal discretionary expenses.

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