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The Influence of Financial Distress, Tax Planning and Good Corporate Governance (GCG) on Earnings Management with Internal Control as an Intervening Variable

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Abstract. *Financial distress occurs due to the company's failure to manage finances. These continuous losses result in capital deficiencies and even worse conditions when the company's liabilities are much higher than the company's assets. The sample of this study was 126 BUMN companies selected using purposive samples. The results of the analysis and testing carried out can conclude that financial distress and good corporate governance affect internal control. At the same time, tax planning does not affect internal control. Then, financial distress, tax planning, and good corporate governance do not affect earnings management, while internal control affects earnings management. Furthermore, financial distress and good corporate governance affect earnings management through internal control, while tax planning does not affect earnings management through internal control.*

Keywords: *Financial Distress, Tax Planning dan Good Corporate Governance (GCG), Manajemen Laba, Internal Control*

Abstrak. Financial distress terjadi akibat kegagalan perusahaan dalam mengelola keuangan. Kerugian yang terus menerus tersebut mengakibatkan terjadinya kekurangan modal dan bahkan lebih buruk lagi bila jumlah kewajiban perusahaan jauh lebih tinggi dibandingkan dengan aset perusahaan. Sampel penelitian ini berjumlah 126 perusahaan BUMN yang dipilih dengan menggunakan sampel purposive. Hasil analisis dan pengujian yang dilakukan dapat disimpulkan bahwa financial distress dan good corporate governance berpengaruh terhadap pengendalian internal. Sedangkan perencanaan pajak tidak berpengaruh terhadap pengendalian internal. Kemudian financial distress, perencanaan pajak, dan tata kelola perusahaan yang baik tidak berpengaruh terhadap manajemen laba, sedangkan pengendalian internal berpengaruh terhadap manajemen laba. Selanjutnya financial distress dan good corporate governance berpengaruh terhadap manajemen laba melalui pengendalian internal, sedangkan perencanaan pajak tidak berpengaruh terhadap manajemen laba melalui pengendalian internal.

Kata Kunci: Financial Distress, Tax Planning dan Good Corporate Governance (GCG), Manajemen Laba, Pengendalian Internal

BACKGROUND

Indonesia occupies the fourth largest projected economic position in 2030 in the world after China, India, and the United States (Winters & Executive, 2020). This is supported, among other things, by state income sourced from tax revenues, which are divided into several sectors. Apart from that, state income comes from non-tax income as profits from State-Owned Enterprises (BUMN). Based on Law no. 19 of 2003 Article 1, BUMN is a business entity whose capital is wholly or primarily owned by the state through direct statements from separated state assets. BUMN is a government tool for managing and organizing national economic policies

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and for the welfare of the people (Koto, 2021). BUMN has a significant role in the Indonesian economy, especially as a pioneer in business sectors that still need to be of interest to private businesses (Aristanto, 2020).

Based on BUMN performance reports from 2018 to 2021, BUMN's net profit in 2018 was IDR 166 trillion, increasing to 2020, BUMN's net profit was IDR 203 trillion. In 2019, BUMN's net profit experienced a decline of IDR 152 trillion, which continued until 2021, BUMN net profit was IDR 124 trillion. Despite experiencing an increase, in 2018, several state-owned companies experienced losses, including PT Indofarma, PT Sang Hyang Seri, PT PAL Indonesia, PT Krakatau Steel, Tbk, PT Dirgantara Indonesia, and Perum Bulog. The causes of losses in these companies also vary, including increased financial burdens, contract cancellations due to not achieving targets, inefficiencies, and administrative burdens (Nainggolan, 2019).

Financial distress itself occurs because the company fails to manage its finances; there are continuous losses that result in capital deficiencies. Even worse conditions are when the company's liabilities are much higher than the company's assets (Chairunesia et al., 2018). Rogers and Stoken (2005) stated that companies experiencing financial distress will disclose optimistic information for the future to reduce negative responses from recipients of the information. Furthermore, companies with financial distress may have greater motivation to carry out earnings management due to higher pressure (Li et al., 2020). Financial distress conditions will be a better sample in searches related to company earnings management because it is carried out to detect aggressive accounting practices (Bisogno & De Luca, 2015). The company's aggressive accounting practices in situations of financial distress are usually carried out by reporting more aggressive profits (Jacoby et al., 2019).

Apart from financial distress, another variable that influences companies to carry out earnings management is tax planning (Achyani & Lestari, 2019). Tax planning is a tool and an initial stage of tax management that serves to accommodate the growing aspirations of human nature (Pohan, 2015). Tax management itself is an overall effort made by a company's tax manager for tax-related purposes that can be managed appropriately, efficiently, and economically so that it can make a maximum contribution to the company.

The management tries to improve welfare with several steps, for example, obtaining enormous credit through small interest and making minimum tax payments (Aditama & Purwaningsih, 2014). Management will maximize profits to get bonuses, especially when they have to fulfill agreements related to debt management. It will also minimize profits to minimize political costs, including taxes (Tartono et al., 2021). One of the opportunities for managers to carry out earnings management is through tax planning in addition to deferred tax expenses, deferred tax assets, managerial ownership, and free cash flow (Achyani & Lestari, 2019).

Apart from the driving factors, earnings management actions in one company can be minimized or prevented by implementing good GCG (Riadiani & Wahyudin, 2015). Because the determinant of a company's success or failure is more due to strategy, one of which is through the implementation of GCG (Agustia, 2013). The implementation of GCG in the company is essential because good GCG will increase shareholder confidence, ensure equal treatment for each stakeholder, and provide effective, efficient, and appropriate protection for shareholders and investors (Maharani & Soewarno, 2018).

Management that is greedy and arrogant makes opportunities for fraud, including earnings management, more open; furthermore, greedy management ignores its integrity, abuses positions and authority, and arrogantly feels that its actions will not be known by others (Reskino et al., 2021). From these conditions, good corporate governance is needed that is well implemented. In addition, good corporate governance is needed as a control mechanism to unite the differences in interests between agents and principals to prevent misleading earnings management actions to prevent a decrease in investor confidence in the quality of financial statements and hinder the smooth flow of capital in financial markets (Sutino & Khoiruddin, 2016).

Apart from being prevented by good GCG practices, earnings management, according to Hadi & Afriyenti (2022), is one of the fraudulent practices that can be controlled through reasonable and quality internal control. In line with that, high-quality internal control is expected to limit earnings management that occurs in companies (Ye et al., 2012). Since the Enron case exploded, the United States has enacted the SOX Act, requiring companies to regulate earnings management and strengthen internal control. Since then, researchers have also begun researching the relationship between internal control and earnings management (Yang Shunhua et al., 2019; Hadi & Afriyenti, 2022). According to Wali & Masmoudi (2020), internal control reporting refers to the Sarbanes Oxley Act 2002, which hopes to improve report quality and build investor confidence.

This study uses internal control as an intervening / mediating variable. This is done because apart from being a factor that influences earnings management, internal control can also be influenced by other variables. Previous research by Li et al. (2020) states that internal control can mediate between financial distress and earnings management by suppressing accrual and actual earnings management behavior in companies experiencing financial distress. Because the internal control system is designed and implemented by management, it needs to be improved in the form of doubts about management's competence and views regarding financial statements. Furthermore, weak internal control will create a gap for management to make manipulation efforts, for example, through discretionary costs, sales, and production cost control.

THEORY

1. Profit Management

Earnings management is a manager's attempt to influence the information presented in financial reports to deceive shareholders who need this information in order to know the company's performance and condition (Sulistyanto, 2008). Earnings management can occur from two points of view, including the contractual point of view and financial reporting. From the contractual point of view, earnings management is carried out by choosing low costs to protect the company from the influence of unexpected facts in a rigid and incomplete contract (Schipper, 1898; Scott, 1997). Meanwhile, from a financial reporting perspective, earnings management is used to influence the market value of the company's shares.

$$\boxed{TAit/Ait_{-1} = \alpha_0\,(1/Ait_{-1}) + \alpha_1\,(\Delta REVit - \Delta RECit)/Ait_{-1} + \alpha_2\,PPEit/Ait_{-1} + \varepsilon it}$$

2. Internal Control

According to the Indonesian Accountants Association (2009), internal control is a process carried out by the board of commissioners, management, and other personnel which is designed to provide an overview of adequate confidence regarding the achievement of report reliability, effectiveness, and efficiency of operations, as well as compliance with open laws and regulations. Internal control is a process designed to provide appropriate certainty to achieve management objectives regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations (Arens, 2008). The components of internal control itself, according to the Committee of Sponsoring Organizations of The Commissions (COSO) (2013), consist of five components.

3. Financial Distress

Financial distress is a condition where a company is at a stage of financial decline, and this condition occurs before bankruptcy or liquidation (Platt & Platt, 2002). In line with that, financial distress is a condition where a company experiences financial difficulties, which is in a situation of agreement with creditors and experiences unfavorable conditions or is in a difficult situation, thereby triggering the company to experience a recession that continues during the financial crisis (Binti & Ameer, 2010).

4. Tax Planning

According to Wardoyo et al. (2016), taxes are a source of financing for the state in running the government. Several elements inherent in the definition of tax include: (1) taxes are collected based on the law and its implementing regulations, (2) they can be enforced, (3) in paying taxes, there is no direct reward from the government, (4) taxes are collected by the state either central government and regional government, (5) taxes are intended for government expenditure, if the income still has a surplus, it can be used to finance public investment (Wardoyo et al., 2016).

5. Good Corporate Governance (GCG)

Corporate governance is a process that is influenced by a set of regulations, regulators, laws, market mechanisms, recording standards, best practices, and the efforts of all participants in a company's corporate governance, including directors, officers, auditors, legal advisors, and financial advisors, who create a system of checks and balances by the aim of increasing shareholder value which increases resilience and sustainability, while protecting the interests of other stakeholders (Rezaei & Ghanaeenejad, 2014). Meanwhile, according to the Cadbury committee, corporate governance is a system that directs and controls the company to achieve a balance between the power of authority required by the company to ensure its continued existence and accountability to the owners (Sudarmanto et al., 2021).

Research Method

The research concept is described in the following conceptual framework:

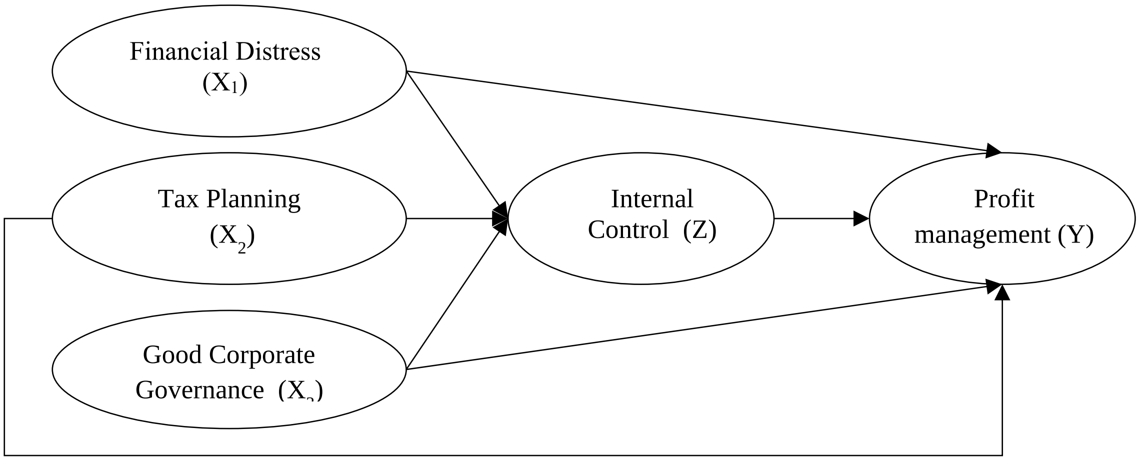

Figure 1. Conceptual Framework

The hypothesis in this research is described as follows:

H1: Financial distress affects internal control

H2: Tax planning affects internal control

H3: Good corporate governance (GCG) influences internal control

H4: Financial distress influences earnings management

H5: Tax planning has a significant effect on earnings management

H6: Good corporate governance (GCG) influences earnings management.

H7: Internal Control Influences Earnings Management

H8: Financial Distress has a significant effect on earnings management through internal control.

H9: Tax planning has a significant effect on earnings management through internal control.

H10: Good Corporate Governance has a significant effect on earnings management through internal control.

Quantitative research requires many numbers, starting from data collection, interpretation of that data, and the appearance of the results. In this research, the sample was selected using a purposive sampling method; that is, the sample used was limited to the type of sample that specifically had the desired information because only a few samples had that information or met the specified criteria. The criteria established in this research are as follows:

1. State-owned companies and subsidiary companies listed on the Indonesia Stock Exchange (BEI)
2. State-owned companies and subsidiary companies listed on the Indonesia Stock Exchange (BEI) during the 2018 to 2022 period consistently.

3. Is a state-owned company and non-financial or non-bank subsidiary company registered on the Indonesia Stock Exchange for the 2018-2022 period.
4. Companies that publish annual reports and complete financial reports for 2018-2022. As well as having complete data available and in good condition (not damaged) to find the data needed regarding the calculation of independent, intervening, and dependent variables

The total sample in this study was 21 companies that met the sampling requirements; then, if you multiplied it by the five-year research period, the data as research objects amounted to 126 data.

RESULT

1. Descriptive Statistical Test Results

Table 1. Descriptive Test Results

Variable	N	Min	Max	Median	Mean	Std. Deviasi
Profit management	126	0,225	1,437	0,476	0,533	0,181
Internal Control	126	0,412	0,941	0,765	0,739	0,153
FinancialDistress	126	0	1	0	0,365	0,481
Financial Distress 2	126	0	1	0	0,103	0,481
Financial Distress 3	126	0	1	0	0,222	0,213
Tax Planning 1	126	-1,277	5,283	0,233	0,272	0,562
Tax Planning 2	126	-0,65	5,28	0,22	0,286	0,586
Good CorporateGovernance	126	0	1	1	0,54	0,489

2. Outer Model

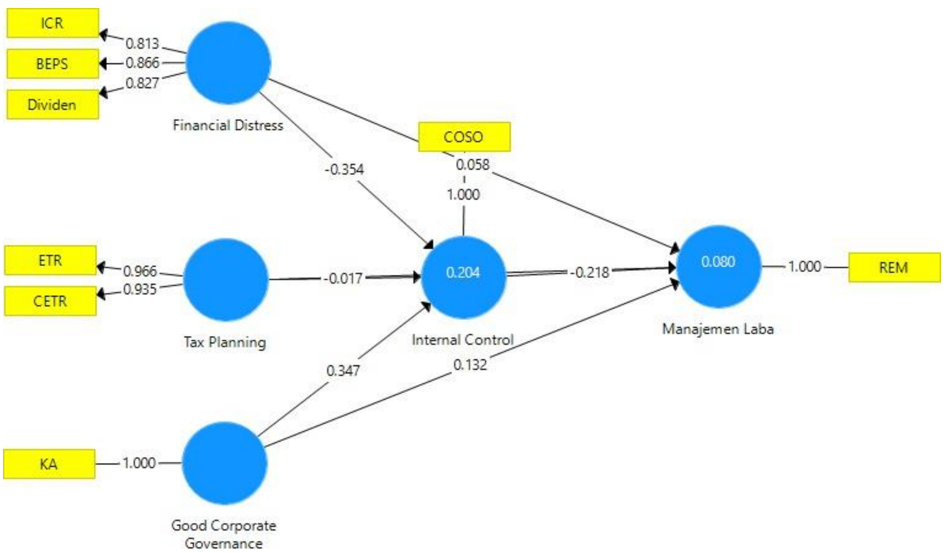

Figure 2. Bootstrapping results

An individual reflective measure is said to be correlated if it has a loading factor value higher than 0.70 with the construct being measured (Hair et al., 2019). Based on Table 2, the outer loading values in this study have met the criteria. Namely, all outer loading values are above 0.70.

Tabel 2. Hasil Outer Loading

	FD	GCG	IC	ML	TP
ICR	0,813				
BEPS	0,866				
Dividen	0,827				
KA		1,000			
COSO			1,000		
REM				1,000	
ETR					0,966
CETR					0,935

Table 3. Composite Reliability and Cronbach Alpha results

	Composite Reliability	***Cronbach's Alpha***
Financial Distress	0,874	0,786
Good Corporate Governance	1,000	1,000
Internal Control	1,000	1,000
Profit management	1,000	1,000
Tax Planning	0,950	0,896

Based on the table above, it is known that the Composite Reliability of the financial distress variable is 0.874; the good corporate governance variable is 1,000; the internal control variable is 1,000; the earnings management variable is 1,000; The tax planning variable is 0.950, meaning that all variables have a composite reliability greater than 0.70, so all constructs have met the reliability criteria.

Furthermore, Cronbach's Alpha of the financial distress variable is 0.786; the good corporate governance variable is 1,000; the internal control variable is 1,000; the earnings management variable is 1,000; the financial distress variable is 0.896, meaning that all variables have a composite reliability greater than 0.60, so all constructs have met the reliability criteria.

Table 4. Average Variance Extracted (AVE) Value

	Average Variance Extracted (AVE)
Financial Distress	0,698
Good Corporate Governance	1,000
Internal Control	1,000
Profit management	1,000
Tax Planning	0,904

From Table 4 above, it is known that the AVE value of the financial distress variable is 0.698; the good corporate governance variable is 1,000; the internal control variable is 1,000; the earnings management variable is 1,000; tac planning variable is 0.904, meaning that all variables have an AVE value greater than 0.50, so all constructs have met the convergent validity criteria.

3. Inner Model

a. Determination Test

Table 5. *R Square*

	R-*Square*
Internal Control	0,204
Profit management	0,080

The table above shows that the R-Square value for the internal control variable is 0.204. These results show that the variables of financial distress, tax planning, and good corporate governance can explain the internal control variable by 20%. In comparison, the remaining 80% is explained by other variables not hypothesized in this research. Based on this description, the R-squared value for the internal control variable is included in the weak category. This happens because many factors, both internal and external to the company, cause internal control. Next, the R-squared value for the earnings management variable is 0.080. These results show that the variables of financial distress, tax planning, internal control, and good corporate governance can explain the earnings management variable by 8%.

In comparison, the remaining 92% is explained by other variables not hypothesized in this research. Based on this description, the R-squared value of the earnings management variable is included in the weak category. This happens because many factors, both internal and external to the company, cause earnings management.

b. Collinearity (Collinearity/Variance Inflation Factor/VIF)

. **Table 6.** ***Inner VIF Value***

	VIF
ICR	1,777
BEPS	2,178
Dividen	1,492
ETR	2,936
CETR	2,936
KA	1,000
COSO	1,000
REM	1,000

All indicators, such as ICR, BEPS, and dividends, respectively, representing financial distress, have a VIF value of 1.777; 2,178 and 1,492 < 5. Likewise, the ETR and CETR indicators have a VIF value of 2,936 and 2,936 representing tax planning < 5. Furthermore, KA represents good corporate governance and has a VIF value of 1,000 < 5. Furthermore, COSO and REM represent internal control and earnings management. Both have a VIF value of 1,000. From this description, multicollinearity in this study has been fulfilled because all VIF values for the indicators are below 5.

c. Direct Effect Test

Structural Model of PLS algorithm results:

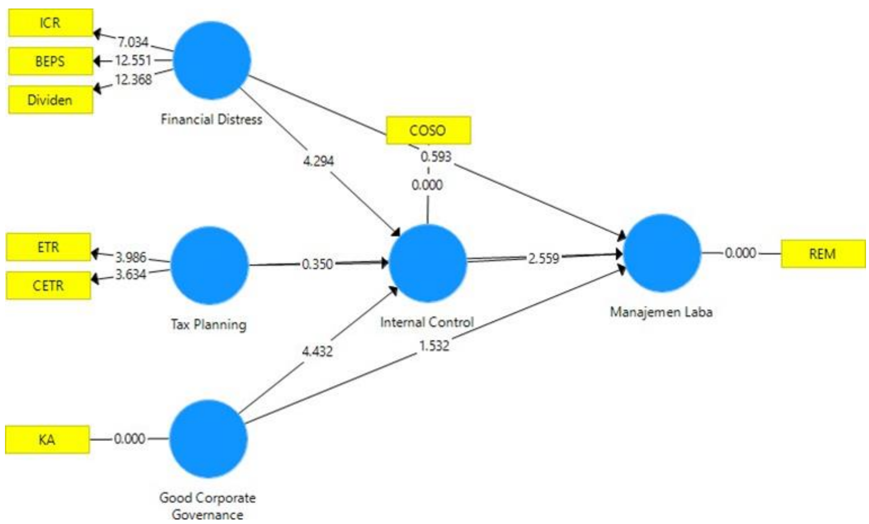

Figure 4. Bootstrapping results

Table 5. ***Path Coefficients (Mean, STDEV, T-Value)***

	Original Sample (O)	*Sample Mean (M)*	*Standard Deviation (STDEV)*	*T Statistics (|O/STDEV|)*	*P Values*
FD -> IC	-0,354	-0,361	0,082	4,294	0,000
FD -> ML	0,058	0,055	0,098	0,589	0,556
GCG -> IC	0,347	0,347	0,079	4,417	0,000
GCG -> ML	0,132	0,137	0,087	1,530	0,126
IC -> ML	-0,218	-0,219	0,085	2,568	0,010
TP -> IC	-0,017	-0,016	0,048	0,362	0,717
TP -> ML	0,142	0,199	0,109	1,304	0,192

The table above shows that the influence of FD (financial distress) on IC (internal control) t-statistic value is 4.294 (more than 1.96), and the P-Value is 0.000 (less than 0.05), meaning that FD (financial distress) has a significant effect on IC (internal control). Furthermore, the influence of GCG (good corporate governance) on IC (internal control) has a t-statistic value of 4.417 (more than 1.96) and a P-Value of 0.000 (less than 0.05), meaning that GCG has a significant effect on IC (internal controls). Correspondingly, the influence of IC (internal control) on ML (profit management) t-statistic value is 2.568 (more than 1.96), and the P-Value is 0.010 (less than 0.05), meaning that IC (internal control) has a significant effect on ML (profit management).

The influence between FD (financial distress) on ML (profit management) t-statistic value is 0.589 (less than 1.96), and P-Value is 0.556 (more than 0.05), meaning that FD (financial distress) has no significant effect on ML (profit management). Then, the influence of GCG (good corporate governance) on ML (profit management) t-statistical value is 1.530 (less than 1.96), and the P-Value is 0.126 (more than 0.05), meaning that FD (financial distress) is not significant effect on ML (profit management). In line with that, the influence of TP (tax planning) on IC (internal control) t-statistic value is 0.362 (less than 1.96), and P-Value is 0.717 (more than 0.05), meaning FD (financial distress) has no significant effect on ML (earnings management). Likewise, with the influence of TP on ML (profit management), the t-statistic value is 1.304 (less than 1.96), and the P-Value is 0.192 (more than 0.05), meaning that FD (financial distress) has no significant effect on ML (profit management).

Indirect Effect Test

Indirect effect testing is also carried out using the T-statistics test (t-test), namely with a significance level of 5%; in this test, the p-value is < 0.05 (α 5%), meaning the test is significant and vice versa if the p-value is > 0 .05 (α 5%), means not significant.

Table 6. *Specific Indirect Effect* (Mean, STDEV, T-Value)

	Original Sample (O)	*Sample Mean (M)*	*Standard Deviation (STDEV)*	*T Statistics (|O/STDEV|)*	*P Values*
FD -> IC -> ML	0,077	0,080	0,039	1,986	0,047
GCG -> IC -> ML	-0,076	-0,076	0,034	2,203	0,028
TP -> IC -> ML	0,004	0,004	0,011	0,327	0,744

The table above shows that the influence of TP (tax planning) on ML (profit management) through IC (internal control) has a t-statistic of 0.327 (less than 1.96) with a p-value of 0.744 (more than 0.05), meaning IC (internal control) cannot mediate the relationship between TP (tax planning) ML (profit management). Meanwhile, the influence of FD (financial distress) on ML (profit management) through IC (internal control) has a t-statistic of 1.986 (more than 1.96) with a p-value of 0.047 (less than 0.05), meaning IC (internal control) can mediate the relationship between ML (profit management) and IC (internal control). Then, the influence of GCG (good corporate governance) on ML (profit management) through IC (internal control) has a statistical t-value of 2.203 (more than 1.96) with a p-value of 0.028 (less than 0.05), meaning IC (internal control) can mediate the relationship between GCG (good corporate governance) and ML (profit management).

CONCLUSION

1. **The Effect of Financial Distress on Internal Control**

   Financial distress on internal control has a t-statistic value and p-value of 4.294 and 0.000. The t-statistic value is more significant than 1.96, and the p-value is less than 0.05. The results of this study are by the research objectives, namely to analyze and find empirical evidence regarding the effect of financial distress on internal control. The study results found that companies with financial distress conditions have reasonable internal control by previous research (Li et al., 2020). This happens because companies with financial distress conditions in order to recover, one of their efforts is to improve their internal control. In addition, this research aligns with Doyle et al. (2007) and Li et al. (2012), which state that financial distress affects internal control.

2. The Effect of Tax Planning on Internal Control

Tax planning on internal control has a t-statistic value and p-value of 0.362 and 0.717. The t-statistic value is smaller than 1.96, and the p-value is more significant than 0.05. This study aligns with the agency theory by Jensen and Meckling (1976). Although the results of this study are contradictory, namely that tax planning does not affect internal control. This study proves that the complexity and flexibility of management in conducting tax planning that leads to opportunistic actions cannot be controlled through internal control. Because tax planning itself is not a violation if management does it within the limits that are still by applicable tax provisions and does not lead to excessive opportunistic behavior. So, companies with reasonable internal control can still do tax planning, but the possibility of tax planning is still within the limits of applicable regulations; in other words, management does tax planning by utilizing tax loopholes.

3. The influence of Good Corporate Governance on Internal Control

Good corporate governance on internal control has a t-statistic and p-value of 4.417 and 0.000. The t-statistic value is more significant than 1.96, and the p-value is smaller than 0.05. Based on theory, this research aligns with agency theory by Jensen and Meckling (1976), which states that good corporate governance influences internal control. Reasonable internal control in a company is supported by good corporate governance as well. Good corporate governance is a set of systems and frameworks that regulate the relationship between company management, including directors, commissioners, and shareholders, to achieve company goals. To maintain a balance between the relationship between management and company goals, strict internal control is needed.

4. The Effect of Financial Distress on Earnings Management

Financial distress on earnings management has a t-statistic and p-value of 0.589 and 0.556. The t-statistic value is smaller than 1.96, and the p-value is more significant than 0.05. Based on theory, the results of this research are in line with agency theory by Jensen and Meckling (1976). Although the results are contradictory, they show that financial distress does not influence earnings management. This is because companies in a state of financial distress will make improvements to avoid bankruptcy, for example, by improving employee efficiency through reducing unnecessary resources instead of focusing on manipulating financial reports, which will harm the company's credibility in the future. Because the use of earnings management will disguise the company's operational performance and reduce the accuracy of reported earnings information, disguising the company's financial reports will create problems for management itself because the information biases decision-making, which will have an impact on the smooth functioning of financial markets (Irawan & Apriwenni, 2021; Kristyaningsih et al., 2021).

5. The Effect of Tax Planning on Earnings Management

Tax planning on earnings management has a t-statistic and p-value of 1.304 and 0.192. The t-statistic value is smaller than 1.96, and the p-value is more significant than 0.05. Based on theory, this study aligns with agency theory by Jensen and Meckling (1976). Although it has contradictory results, namely, tax planning does not affect earnings management. The higher the tax planning in a company, the higher the earnings management. This is different from research by Lubis & Suryani (2018) and Santana & Made (2016), which state that the higher the tax planning of a company, the more likely the company will carry out earnings management. The results of this study are also inconsistent with research by Astutik & Mildawati (2016) and Dewi et al. (2017), which state that tax planning affects earnings management because these companies often adjust their financial statements to get the expected profit. So, the better the tax planning carried out by a company, the better the earnings management carried out by the company.

6. The Effect of Good Corporate Governance (GCG) on Earnings Management

Good corporate governance in earnings management has a t-statistic value and p-value of 1,530 and 0.126. The t-statistic value is smaller than 1.96, and the p-value is more significant than 0.05. Based on theory, the results of this study are by agency theory by Jensen and Meckling (1976). However, it has contradictory results, namely, good corporate governance does not affect earnings management. In line with research by Ismail Saleh (2012), Riadiani and Wahyudin (2015) state that the GCG mechanism does not affect earnings management. GCG appropriately implemented in a company will not rule out the possibility of the company not carrying out earnings management. Because earnings management itself, if carried out within the limits of the corridor, does not violate financial reporting rules, it is allowed (Febriyanti et al., 2014; Felicia & Sutrisno, 2020).

7. The Effect of Internal Control on Earnings Management

Internal control on earnings management has a t-statistic value and p-value of 2.568 and 0.010. The t-statistic value is more significant than 1.96, and the p-value is smaller than 0.05. The results of this study are in line with the agency theory by Jensen Meckling (1976) that internal control affects earnings management. Reasonable internal control in a company allows earnings management that occurs in the company to be small. In line with previous research by Makhdalena (2012), Chen & Yaohong (2018), Chen et al. (2018), Wali & Masmoudi (2020), and Xu & Kim (2021) which state that internal control affects earnings management. Reasonable internal control encourages management to refrain from presenting more financial reports and avoid earnings management practices, especially those that lead to illegal actions. This is if earnings management is seen on the negative side, namely fraud, by the argument stating that implementing reasonable control will be able to avoid fraud (Hamidah & Reskino, 2021).

8. The Effect of Financial Distress on Earnings Management through Internal Control

The indirect effect between the financial distress variable and earnings management shows a t-statistic value and p-value of 1.986 and 0.047. The t-statistic value is more significant than 1.96, and the p-value is smaller than 0.05. This means that financial distress has a significant effect on earnings management after being mediated by internal control, by the eighth hypothesis (Ha8) accepted. The results of this study indicate that internal control can mediate the relationship between financial distress and earnings management. The previous hypothesis shows no influence between financial distress and earnings management. Ineffective internal control will encourage companies in financial distress to manage earnings.

Furthermore, sound internal control will be able to reduce earnings management genuine earnings management in companies with financial distress. The results of this study are by agency theory, which states that information asymmetry between agents and principals will cause companies to manage earnings, especially in financial distress. However, the opportunistic behavior of the agent can be mediated by the existence of reasonable internal control. Even though the company is in financial distress and is motivated to carry out earnings management, if the company has sound internal control, the company will avoid earnings management practices that lead to illegal actions.

9. The Effect of Tax Planning on Earnings Management through Internal Control

The indirect effect between the tax planning variable and earnings management shows a t-statistic value and p-value of 0.327 and 0.744. The t-statistic value is smaller than 1.96, and the p-value is more significant than 0.05. This means that tax planning has no significant effect on earnings management after being mediated by internal control. The results of this study indicate that internal control cannot mediate the relationship between tax planning and earnings management. This can be explained by the fact that sound internal control or not, high or low tax planning will not affect earnings management actions by companies. The results of this study are different from the arguments of Bimo et al. (2019), who argue that in the context of tax avoidance, effective internal control can mitigate management errors when making judgments and estimating corporate tax policies. Likewise, the argument by Rae et al. (2017) states that internal control also ensures that management does not violate applicable regulations. The results of this study are in line with agency theory by Jensen and Meckling (1976). Despite having contradictory results, tax planning, even though it has been mediated by internal control, still does not affect earnings management. Tax planning is usually done about earnings management by reducing profits so that tax payments are minimal. However, this action is risky because it will impact the company's future image, especially for BUMN companies and BUMN subsidiaries as the object of this study.

10. The Influence of Good Corporate Governance Mechanisms on Profit Management through Internal Control

The results of intervening effects testing using SmartPLS 3.0, carried out using the bootstrapping method in the specific indirect effects section to determine the indirect influence between suitable corporate governance variables on earnings management, show a t-statistic and p-value of 2.203 and 0.028. The t-statistic value is more significant than 1.96, and the p-value is smaller than 0.05. This means that good corporate governance has a significant influence on earnings management after being mediated by internal control. The results of this research indicate that internal control can mediate the relationship between good corporate governance and earnings management. The results of previous hypothesis testing stated that good corporate governance, as proxied by KAP size, did not influence earnings management. However, after being mediated by internal control, which is proxied by the 2013 COSO framework, which includes indicators that regulate objectives, organization, and structure influence earnings management. This can be explained by whether the company's internal control is reasonable and good corporate governance influences earnings management..

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