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Abstract: This study aims to investigate empirically how the characteristics of the firm; the audit quality and the corporate governance impact the management of earnings. The population employed in this study is industrial firms listed on the Amman Stock Exchange between 2017 and 2019. The method of sampling employed in this study is purposive sampling. 39 firms are analyzed, with 117 items of data being achieved. Also, this study applies statistical testing via multiple regression. The findings show that sales growth, free cash flow, financial leverage, and return on assets all have an impact on earnings management. Meanwhile, other factors such as audit quality, firm size, audit committee, the board size, institutional ownership, and managerial ownership, have not to impact on earnings management.

Keywords: *Audit Quality; Corporate Governance; Company Characteristics; Earnings Management; industrial firms; Amman Stock Exchange.*

1. Introduction

For several stakeholders, financial reports are an important source of information. nevertheless, firms also employ earnings management in different methods to enhance the attendance of their financial reports. The differences between the desires of the management and shareholders that could be represented in the Agency's theory reflects by earnings management.

The earnings management represents the choice of the firm director to implement those policies of the accounting that allow the firm to reach its objectives (Agustia, 2013). The rise in earnings or decreases in financial reported loss levels is one such example of this. And to guarantee the consistency of the financial reporting process is an essential feature of corporate governance (CG) (Shahwan & Mohammad, 2016; Aygun, 2010). Also, the vulnerable and complex financial account of these interests leads to distortion of the financial statements of a corporation and irregularities within them (Shahwan, 2018; Abdel-Azim & Ibrahim, 2014).

Company characteristics, such as sales growth, free cash flow, firm size, financial leverage, return on assets (ROA) are significant elements influencing the activities of the management of the firm. Thus, CG operates as a monitoring system between these conflicting desires. CG seeks to minimize the impact of the practices of earnings management using an audit committee, the board size, institutional ownership, and managerial ownership. Furthermore, it is also expected that the implementation of a high-quality audit would reduce earnings management practices. The reliability and the quality of the financial reports were shown to be enhanced if an audit has been carried out by an independent and qualified auditor. Therefore, firms have confidence in on the facilities of professional as well as qualified auditors to decrease the potential of the manager to take harmful steps to increase the benefit of them self (Shawhan, 2018; Zeptian and Rohman, 2013).

2. Literature Review Theoretical background

The current study seeks to achieve three objectives: to recognize the relation between audit quality and earnings management; the effect of the characteristics of CG on earning management, then the effect of the characteristics of the firms on the earning management from the view of the theory of the agency.

2.1. Theoretical Background:

A relation with the agency remains based on the agreement relation of which it is the director hires other person, recognized such as the agent, towards provide essential services instead of them, involving making important choices instead of them (Jensen and Meckling, 1976). Arrangement among the agent and owners inevitably provides a distinction among management as an agent and shareholder as the owners, that could create a divergence of interests if the agent weakens to work in compliance through the desires of the owners (Wiyadi et. al, 2015). This conflict will lead to the agent preparing financial reports in the corporate context in a way that only enhances their interests. Furthermore, the agent can create financial reports that are conflicting with fact in terms of achieving some value.

3. The Hypothesis Developments

3.1. Audit Committee along with Earnings Management:

The preparation of annual report is supervised by the audit committee (Al-Shaer & Zaman, 2021). Along with mitigating earnings management practices, the audit committee's task is to assure the accuracy of the annual report. If the audit committee handles its position efficiently, the ability to earnings management is decreased (Mardessi & Fourati, 2020; Zeptian and Rohman, 2013). The following Hypothesis will be examined based on this explanation:
H1: There is a significant impact of the audit committee on earnings management.

3.2. Audit Quality along with Earnings Management:

In reducing earnings management, audit quality is a significant factor. Susanto (2013) reports that in financial statements, audit quality will minimize uncertainty. Using the services of professional and qualified auditors becomes part of ensuring good audit quality (Al-Shaer & Zaman, 2021; Mardessi & Fourati, 2020). The following Hypothesis will be examined based on this explanation:
H2: There is a significant impact of Audit quality on earnings management.

3.3. Board Size along with Earnings Management:

The board commissioners should have been used as an inner monitoring system then can influence the possibility of an organization engaged in practices of earnings management (Gerged, Albitar & Al-Haddad, 2021; Aygun et al., 2014). Therefore, additional partners of directors, the more managing oversight inside a firm, which might effectively be growing their chance to share in earnings management (Shahwan & Almubaydeen, 2020; Pirzada, 2016). The following Hypothesis will be examined based on this explanation:
H3: There is a significant impact of Board size on earnings management.

3.4. Institutional Ownership along with Earnings Management:

Shahwan (2020) and Widigno (2014) mentioned that Institutional ownership represents number of shares of the firm operated via institutions, like foreign firms, legal firms, financial firms, governments. In identifying earnings management, institutional investors are regarded as better and more sophisticated because they have better access to information appropriately and timely (Balsam et al., 2002). Therefore, fewer of the institutional ownership levels could improve management's ability to participate in earnings management. (Pirzada et al. 2015). The following Hypothesis will be examined based on this explanation:
H4: There is a significant impact of Institutional ownership on earnings management.

3.5. Managerial Ownership along with Earnings Management:

Managing ownership remains an overall shareholding to the firm held with commissioners, directors, and managers. Broader managerial ownership could prevent the risk that comes from earnings management (Shahwan & Abdel-hamid, 2020; Shahwan & Almubaydeen, 2020; Al-Ramahi et al., 2013; Guna & Herawaty, 2010). Managers who are also owners prefer to resist managing the earnings cos of their concern, as shareholders, in receiving a return on their investment. The following Hypothesis will be examined based on this explanation:
H5: There is a significant impact of Managerial ownership on earnings management.

3.6. Sales Growth along with Earnings Management:

The growth of the revenue is regarded to the number of sales that is changing yearly. The growth of revenue can influence the management of earnings, so adjustments of volume of sales are also applied to evaluate the success of the firm (Shahwan & Al-Trad, 2021; Mahapsari & Taman, 2013). The following Hypothesis will be examined based on this explanation:

H6: There is a significant impact of Sales growth on earnings management

3.7. Free Cash Flow along with Earnings Management:

The actual cash flow towards a free cash flow to which stays ready for distribution to shareholders after all financial costs have been paid out. (Alves, 2021; Agustia, 2013). Large cash flow seems towards imply greater danger of earnings management. The following Hypothesis will be examined based on this explanation:
H7: There is a significant impact of Free cash flow on earnings management.

3.8. Firm Size along with Earnings Management:

Herlambang and Darsono (2015) reported that big businesses remain extra expected toward be recognized with public at large than less significant businesses since the activities of big firms appear to get the most effect upon the public. As a result, big corporations are usually more careful in their annual report. Related to minor businesses, big firms prefer to provide more influential internal management mechanisms that help to provide accurate financial reports (Mai, & Do Thi Van Trang, 2021). The following Hypothesis will be examined based on this explanation:
H8: There is a significant impact of Firm size on earnings management.

3.9. Financial Leverage along with Earnings Management:

Guna and Herawaty (2010) have clarified that the Leverage represents the amount of assets its firm holds which are funded via debt. The great degree of firm's leverage leads to greater risks to the potential shareholders. The greater risk of the business, the more likely the managers would be to participate in earnings management practices (Alves, 2021; Savitri, 2014). The following Hypothesis will be examined based on this explanation:
H9: There is a significant impact of financial leverage on earnings management.

3.10. Return on Asset along with Earnings Management:

ROA relates toward the capacity of the firm towards create an actual revenue from utilizing its assets (Susanto, & Yangrico, 2020; Al-Ramahi et al., 2014; Yuliana & Trisnawati, 2015). Reduced earnings could minimize the company's attractiveness to investors. Corporations who receive large revenues would be more likely to make the earnings-driven investment to sustain the profitability or to raise their profits year to year (Wiyadi et al., 2015). The following Hypothesis will be examined based on this explanation:
H10: There is a significant impact of ROA on earnings management.

4. Research Methodology

The industrial firms listed on the Amman Stock Exchange (ASE) consider as a population for the current research. The period for the research analyzed is from 2017 to 2019. The purposive sampling employed as a method to collect the sample of the research. The benchmarks applied in this study to include industrial firms that disclosed its annual report utilizing the Jordanian Dinar currency, through the year-end, firms have not disclosed the loss through the year of the observation, and firms with institutional ownership. The current study employed the secondary data obtained from annual financial reports of the firms, as disclosed in ASE. According to the ASE accessed online in December 2020, the industrial firms where 39 companies are examined, with 117 data items returned. To analysis, the Hypothesis of the current research the multiple regression tests were used. And the next model is applied for the current study:

$$EM = \alpha + \beta 1AQ + \beta 2AC + \beta 3BSIZE + \beta 4IO + \beta 5 + MO + \beta 6SG + \beta 7FCF + \beta 8SIZE + \beta 9LEV + \beta 10\, ROA + \varepsilon$$

4.1. Operational Definition:

The Jones Model were used to measure earnings management by employing discretionary accruals (Dechow et al, 1995). And the following formula employed to measure the discretionary accruals of the firm:

$$TACCit = NIit - OCFit$$
$$ADCCit = TACCit / Ait\text{-}1 - [\alpha t\,(1/Ait\text{-}1)] + \alpha 2i\,[PPEit / Ait\text{-}1] + \alpha 1i[(\Delta REVit - \Delta RECit) / Ait\text{-}1)]$$

Where:
ADCC= Accruals Discretionary
PPE= Gross Property, Plant and Equipment
OCF= Operating Cash Flows
ΔREC= Change in Receivable
ΔREV= Change in Revenue
Ait-1= Total Asset t-1
NI= Net Income

Consequently, Table 1 below present the operational definition variables of the study and the source:

Table (1): Operational Definition of the Variables

Variable	Definition	reference
Audit quality	0 for firms not audited via Big Four and 1 if the firms audited via Big Four	(Memis & Cetenak, 2012)
Audit committee	Number of members of the audit committee of the firm	(Firnanti & Pirzada, 2019)
Board size	Number of members of the board within the firm	(Aygun et. al, 2014)
Institutional ownership	Share ownership ratio owned by non-management firms	(Firnanti & Pirzada, 2019)
Managerial ownership	0 for corporations with no managerial ownership whilst 1 for corporations with managerial ownership	(Firnanti & Pirzada, 2019; Rahmawati, 2013)
Sales Growth	difference in sales Ratio	(Firnanti & Pirzada, 2019; Savitri, 2014)
Free cash flow	Free cash flow / total assets	(Firnanti & Pirzada, 2019)
Firm size	log of total assets	(Prasetya & Gayatri, 2016)
Financial leverage	Total of the liabilities / total assets	(Firnanti & Pirzada, 2019)
ROA	Net income after tax / total assets	(Firnanti & Pirzada, 2019)

5. Findings and Discussion:

The outcome of the statistical test for the hypothesis results can be seen in Table 2 below:

Table (2): Results of Testing the Hypothesis

Variable	B	Sig.	Decision
Audit Quality	-0,011	0,601	Hypothesis Rejected
Audit Committee	0,001	0,699	Hypothesis Rejected
Board Size	0,010	0,465	Hypothesis Rejected
Institutional Ownership	-0,062	0,296	Hypothesis Rejected
Managerial Ownership	-0,008	0,701	Hypothesis Rejected
Firm Size	-0,023	0,377	Hypothesis Rejected
Sales Growth	0,233	0,000	Hypothesis Accepted
Free Cash Flow	0,473	0,000	Hypothesis Accepted
Financial Leverage	0,054	0,056	Hypothesis Accepted
ROA	0 ,521	0,001	Hypothesis Accepted

Table 2 shows that sales growth, free cash flow, financial leverage, ROA, all influence earnings management significantly and positively. Meanwhile, other variables such as audit quality, audit committee, the board size, managerial ownership, institutional ownership, firm size, have no impact on earnings management.

usually, ROA employed to evaluate firm performance. For the profitability of a firm to be evaluated "good", the management of a firm typically conducts a type of earnings management practice towards lure investors by what seems to be a big grade rate of ROA. In addition, by showing a small amount for leverage, a firm implies that return on investing would remain greater.

Furthermore, high-level free cash flow show that a firm needs enough resources on the way to fulfil its economic and operating desires. Managers of the firms will also not any longer stay willing towards participate to earnings management since there is no reason to draw new potential shareholder. Firms that have rapid growth in sales will very easily invite capital and investors. Consequently, this further lowers the risk of earnings management activities. Likewise, if the growth of sales of the firm decreases, then the vice versa would be true.

Audit quality, Firm size, corporate governance, on the other hand, will not be capable to minimize earnings management activities. Indeed, earnings management can achieve by the aim of cheating stakeholders concerning the success of the entity or influencing contractual results. In addition, Memis and Cetenak (2012) explained that with the implementation of an effective legal framework, earnings management is supposed to decrease because good protection to stakeholder interests may impede the ability of insiders to obtain personal benefits.

6. Conclusion

The key purpose of this study remained to understand earnings management behaviors in respect to agency costs, audit quality, and management mechanism of the Jordanian companies. The findings indicate that the accounting discretionary activities taken out by directors of Jordanian medium and small companies are not reduced by the Big Four auditing institutions. The Large Audit Offices, on the other hand, seem very careful regarding these accounting discretionary activities. Therefore, the hypothesis of the agency theory, examined in

Jordanian firms, indicates that the characteristics of the firm (sales growth, free cash flow, financial leverage, and ROA) all have an impact on earnings management. Meanwhile, audit quality, audit committee, the board size, institutional ownership, managerial ownership, corporate governance, and firm size have no impact on earnings management. The findings illustrate the likelihood of the disagreement between the agencies with relation to Jordanian organizational data.

7. The Limitations and recommendation of the Study

The current study has some limits. the current research focus on the industrial firms registered on the ASE. In this analysis, the independent factors variance can be only described 51.6% of the variant of the dependent variable. Even more, research is suggested to extend the sample population and explore additional independent variables, like operating cash flow, that could have an impact on earnings management. Although the current research has exposed the significance of governance variables and socio-cultural variables in testing the accounting issues, it does have certain weaknesses that reduce the extent of its performance.

Comparative analysis research between deferent countries or with deferent sectors close to Jordan may lead to a deeper awareness to the effect of cultural variables on earnings management practices.

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