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Managing Earnings Management: A Framework of Standards, Governance and Ethics

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Abstract

Manipulating earnings to superficially represent financial reports is a flagrant violation of management's assertions about the fairness of financial statements. Therefore, auditors have developed objectives to counter management assertions to ensure that financial reporting is credible and free from earnings management practices (EMP). This study examines the role of an integrated system of auditing standards and corporate governance surrounded by a framework of ethical values and principles in reducing EMP through the use of a sequential explanatory mixed method. Through this approach, the results obtained from 131 surveys were used as input for the interviews to add a more in-depth understanding of this phenomenon and find fruitful ways to reduce EMP.

The results revealed that management's assertion on “accuracy, valuation and allocation” was most involved in EMP, thus, requiring a high degree of exercising professional skepticism. While “objectivity” was the ethical principle most respected by auditors, the results showed that the most serious threat to auditor independence that poses a challenge to the audit profession is the threat of intimidation. Moreover, the study showed that exercising the supervisory role in holding management accountable and following up on the work of auditors to uncover EMP requires real independence of the audit committee from the executive members. The findings have implications for economic policymakers in emerging countries where the sustainability of the audit profession and public companies is critical to economic development and stability. The study provides insights and guidance in mapping corporate governance for the future and benefiting from the experiences of developed countries as outlined in the study’s conclusion.

Keywords: Earnings management, Management assertions, Corporate governance, Professional Ethics, ISA, IESBA

1. Introduction

The use of EMP dates back to the beginnings of the Industrial Revolution, where manipulation was centered on cost accounting, taking advantage of the weakness of professional controls related to the independence of the auditor and the high flexibility available to company management in using accounting principles that suit their needs (Vagner et al., 2021; Chatfield, 1977). Therefore, it can be said that what opens the way for earnings management is due to legal loopholes, available alternatives in accounting standards, and the presence of space that can be exploited to estimate assets under the pretext of reaching fair value, in addition to collusion between the external auditor and the company (Villaescusa & Omat, 2022). Interest in the phenomenon of earnings management increased after the collapse of Enron and its external auditor. Arthur Andersen was found guilty of not exercising professional care, abusing certain accounting treatments, and relying too heavily on non-audit services, causing a conflict of interest (Iren & Kim, 2023).

Management's desire to manipulate earnings, whether to report higher or lower earnings or even earnings similar to prior periods (Davidson et al. 2004), usually to maximize current or future rewards for owners and management alike. Typically, the most important motives that push companies to engage in EMP are tax evasion, achieving personal gains and incentives, keeping up with competing companies, legal requirements, strengthening the financial position to attract investors, obtaining high ratings from international institutions, pressure from major shareholders and creditors, and obtaining bank loans (Siekelova et al. 2020; Alfadhael & Jarraya, 2021; Boachie, & Mensah, 2022; Athanasakou et al. 2009; Baskaran et al. 2020; International Auditing and Assurance Standards Board [IAASB], 2022).

The accumulation of EMP over the years harms the financial position of the company and may lead to the transfer of the company's listing from the regular market to the over-the-counter (OTC) stock market. The OTC market is for companies that do not meet the conditions for trading in the regular market, such as companies that face major financial and administrative problems and fail to provide the Securities Commission with financial reports on time (Jordan Securities Commission [JSC], 2023). Therefore, investors should be careful and not rush to invest in companies that practice earnings management.

The negative impact of earnings management practices is agreed upon by users of financial statements and auditors. However, the failure of auditors to exercise professional care raises much controversy about the effectiveness of the auditing profession in carrying out its role of defending the fairness of financial reports. After the Arthur Andersen scandal, the Sarbanes-Oxley Act was passed in 2002, which aims to build an effective corporate governance system based on enhancing accountability in public companies. Under the law, the Public Company Accounting Oversight Board (PCAOB) was created to restore confidence in both the financial market and the auditing profession. Since the creation of the PCAOB, we have repeatedly seen penalties imposed by the PCAOB on public companies for violating audit and quality control standards (Public Company Accounting Oversight Board [PCAOB], 2023). This is because auditors' responsibility includes planning the audit process to discover errors and fraud (whether intentional or unintentional) and avoiding anything that jeopardizes their independence or constitutes conflicts of interest. Therefore, corporate governance instructions must be formulated in a way that supports the independence of auditors and ensures that they are not influenced by management’s desire to improve financial reports superficially.

Accordingly, the main objective of this study is to examine the potential role of an integrated framework of International Standards on Auditing (ISAs), the Code of Corporate Governance, and the Code of Professional Ethics, issued by the International Ethics Standards Board for Accountants (IESBA), in combating EMP. To achieve the objectives of this framework in combating earnings management effectively, this study aims to answer the following research questions:

RQ.1: What role can auditing standards play in countering management's assertions to limit EMP?

The answer to this question allows the researcher to know which management assertions, following ISAs, are most vulnerable to manipulation and exploitation in earnings management.

RQ.2: To what extent can corporate governance and audit committees contribute to reducing EMP?

RQ.3: To what extent can the IESBA Code of Ethics contribute to reducing EMP?

Answering RQ.3 allows the researcher to determine the ranking of both (1) the fundamental principles of auditor ethics and (2) the threats to compliance with the fundamental principles in terms of influence and engagement in EMP.

RQ.4: What perceptions and recommendations can auditors suggest to curb EMP?

This research was organized as follows: The introduction addressed the concept of earnings management, the importance of the study, and presented the research questions. The second section dealt with the motives of the research and its contributions. The theoretical framework and literature review are discussed in Section Three. The fourth section explained the dual methodology that was used in addition to explaining the method of collecting data, while the quantitative and qualitative results were presented and analyzed in the fifth section. The final section concluded the study and presented possible prospects for future studies.

2. Research Statement and Contribution

The importance of the study lies in the fact that company managements use accounting methods to show business results and financial positions that serve their short- and long-term goals, even if this is at the expense of other categories of financial statement users. Continuing to misrepresent data and use EMP may eventually lead to financial crises. Accordingly, this study aims to contribute to finding new avenues to combat EMP by activating an integrated system for the roles of auditing standards, corporate governance, and professional ethics.

The first dimension focuses on the audit objectives that auditors use to verify management's assertions, that is, verifying management's claim that transactions, account balances, and disclosures are reported in conformity with accounting standards (IAASB, 2022; Arens et al. 2023). Accordingly, this study can determine which of these assertions are most often violated and exploited to practice earnings management. The second dimension of this study dealt with corporate governance by focusing on the roles of the audit committee in achieving integration between external and internal auditors and enhancing their roles in disclosing and reporting EMP, in addition to the committee's role in enhancing corporate accountability. The third ethical dimension is the element that controls the behavior of professionals and sets a framework to surround their professional decisions and judgments with integrity. EMP has reached out to charities and non-profit organizations seeking to improve their financial picture to obtain additional donations (Cyr et al. 2023; Nguyen & Soobaroyen 2019; Trussel, 2003). Therefore, this ethical framework must be in place and activated, which keeps the financial statements surrounded by an aura of justice. This study addressed the five fundamental principles of professional ethics and the five threats that harm the competence and independence of the auditor according to the International Ethics Standards Board for Accountants. Therefore, this study will give us a perspective on the importance of the five fundamental principles of professional ethics on the one hand, and will also reveal to us the most harmful threats to auditor independence and the reputation of the profession on the other hand. Therefore, this study will guide financial policymakers in dealing with the most serious threats facing the profession from the auditors' point of view.

This study builds on the recommendations of the literature review on earnings management by Walker (2013) who recommended expanding research methods to include qualitative and quantitative methods rather than focusing on archival data. This study complements the results of previous relevant studies that demonstrated the use of EMP in Jordan (Shana'a et al. 2023; Alhadab et al. 2021; Alzoubi, 2016; Aburisheh et al. 2022; Abbadi et al. 2016; Matar et al. 2017; Jarah et al. 2022; Saleem, 2019) by exploring the complementary roles of standard setters, regulators and professional associations in curbing EMP. Therefore, this study aims to provide evidence from developing countries about the phenomenon of earnings management and how it is dealt with by regulators and professional institutes, in contrast to developed countries that have strict regulatory arms in supervising the work of auditors, especially in listed companies.

Furthermore, the above-mentioned studies relied on a single quantitative method, whether archival data or questionnaires, to collect data, while the current study employs an explanatory mixed method, where quantitative results are first obtained and constructed to investigate the roles of auditing standards, corporate governance and professional ethics in limiting EMP. Then, qualitative interviews are conducted to interpret the quantitative results and provide an in-depth analysis to understand the phenomenon of earnings management and how to confront it.

3. Theoretical Framework & Literature Review

The accounting literature does not agree on a unified definition of the concept of earnings management (Beneish, 2001; Belverd et al. 2018; Walker, 2013). Brennan, through a review of relevant literature, provided a wide range of definitions of earnings management. One such concise definition that aligns with the objectives of this study is the one provided by Davidson et al. (2004) "the use of flexible accounting principles that allow managers to influence reported earnings, thereby causing reported income to be larger or smaller than it would otherwise be" (p. 267).

EMP intends to highlight the achievements of the company's management in a way that serves the contractual relationship between management and owners (Elsayed & Elbardan 2018; Reitenga & Tearney, 2003). Earnings management behavior can be explained by agency theory as a result of conflicts of interest between a company's owners and management arising from the separation of ownership and control in public companies (El Diri, 2018; Habib et al. 2022; Alfadhael & Jarraya, 2021; Walker, 2013). Opportunistic managers prioritize their interests over the overall interests of the company, such as job security and increased incentives. On the other hand, company owners aim to maximize the market value of their company. Owners may put pressure on company management to improve profits by linking management incentives to profits. These pressures may push management to manipulate earnings, relying on concealing the full truth of financial reports. The fraud triangle according to auditing standards also indicates that pressures exerted on management contribute to the manipulation of profits, such as: "*profitability or trend level expectations of investment analysts, institutional investors, significant creditors, or other external parties*" (IAASB, 2022, p. 188). Accordingly, the agency problem is considered one of the factors that led to the emergence of the EMP, whether to extend the life of the company's management or to increase its privileges and incentives when linked to profits.

Although auditing standards distinguish between unintentional and intentional misstatements, the standards emphasize the auditor's responsibility to plan well to detect and prevent all types of misstatements. Intentional fraud is more difficult to detect than unintentional error because it is often carried out in collusion with a group of managers and employees who work hard to hide any trace of such fraud. Intentional fraud is also divided into two types: asset theft and fraudulent financial reporting (also called management misstatements). Given that EMP gets the green light from senior management, they fall within the concept of fraudulent financial reporting.

Earnings are managed by top managers due to their high position in the organizational structure, which enables them to bypass control procedures and create complex and carefully organized schemes intended to conceal manipulation (IAASB, 2022; Arens et al. 2023).

The ISAs are issued by The IAASB, which is affiliated with the International Federation of Accountants (IFAC). ISAs have addressed earnings management as intentional misstatements in financial statements and have emphasized the roles of external auditors, those charged with governance, and professional ethics in addressing and reducing EMP. The fourth paragraph of the ISA 240 stipulates:

> *"detection of fraud rests with both those charged with governance and management. . . This involves a commitment to creating a culture of honesty and ethical behavior..., [considering] efforts by management to manage earnings in order to influence the perceptions of analysts"* (IAASB, 2022. Para 4).

Therefore, the roles of standard setters, professional associations, and securities commissions can be illustrated in Figure 1.

The figure begins by identifying the main bodies that establish frameworks and enact laws and directives to regulate the work of companies. These bodies are (1) the IFAC responsible for issuing, developing, and encouraging compliance with international auditing standards and the Code of Ethics of Professional Conduct. (2) Professional Institutes are responsible for monitoring auditors' compliance with auditing standards and rules of professional conduct, and for enforcing disciplinary regulations on their members in the event of proven violations of regulations and laws. (3) The Securities Commission seeks to protect the rights of stakeholders by issuing corporate governance instructions that specify clear roles and powers for the Board of Directors, the Audit Committee, the Executive Management, and the auditors, based on the principles of accountability, transparency, and justice. It is noted from the figure that two bodies issue the Code of Ethics: the IFAC and the professional institutes. Likewise, corporate accountability is issued by two bodies: professional institutes and the securities commission. This overlap reflects the importance of integrating the work of these bodies in enhancing the roles of the three audit arms professionally and ethically, as they are the three primary players in ensuring the integrity of financial statements and combating the phenomenon of earnings management.

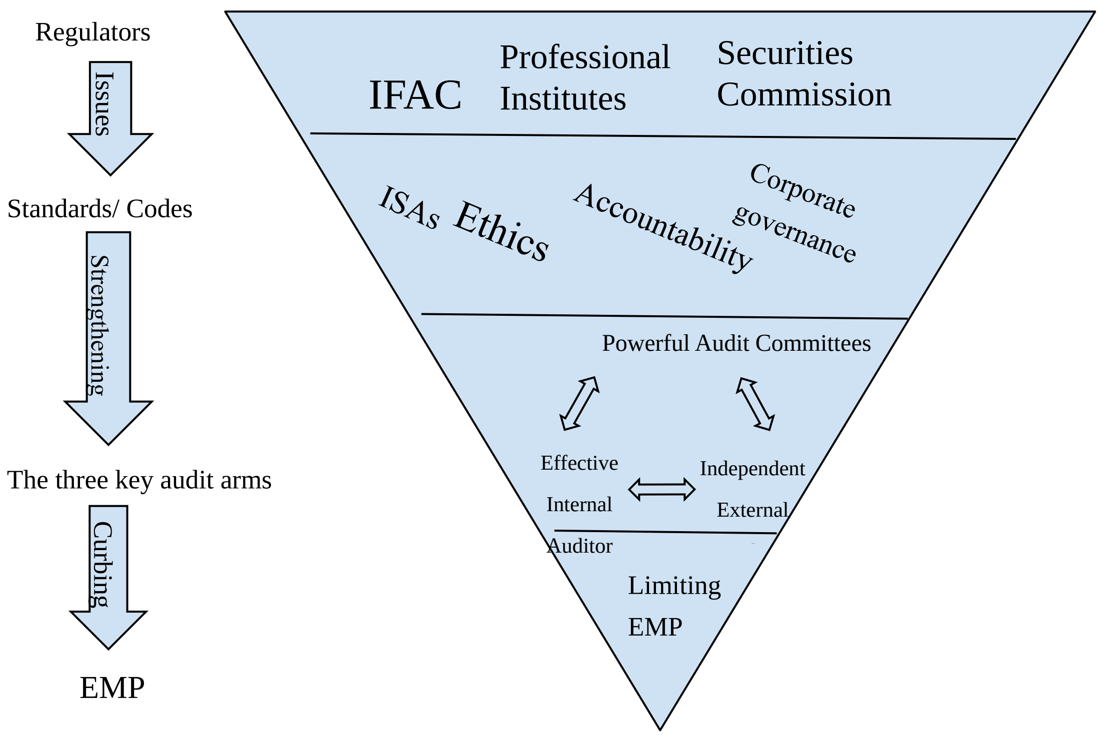

Figure 1. Integrated roles of standard setters, regulators, and professional associations

3.1 ISAs & the Auditing Profession

Accounting standards allow a degree of freedom in accounting estimates, professional judgment, and choice between a group of accounting treatments, such as estimating the useful life of fixed assets and choosing between asset depreciation methods and inventory valuation methods (Alqatamin, 2016). This opens the door for management to manipulate these estimates to influence profits. Therefore, standard setters and professional institutes must constantly strive to learn about developments in earnings management methods and enhance the auditor's ability to obtain appropriate and sufficient evidence to detect EMP.

The first auditing standard ISA 200 states that “the purpose of an audit is to enhance the degree of confidence of intended users in the financial statements" (IAASB, para 3, 2022). The same standard stipulates the responsibility of management and those charged with governance to maintain an effective control system that allows for the preparation of credible financial statements. However, companies practice many earnings management techniques to show profit the way they want. According to Matar et al. (2017), the riskiest EMPs are intentional manipulation followed by Big Bath write-offs, cookie jar reserves, creative accounting, accruals, and income smoothing respectively. The study also revealed that the most common method used by listed Jordanian companies is accruals, and the least used method is the Big Bath-write offs. Therefore, ISA 240 requires the auditor to exercise professional skepticism and verify that management has not violated controls and instructions.

ISA 315 also requires the auditor to plan the audit process in a way that allows for the exercise of a high degree of professional skepticism to achieve the audit objectives. Auditors develop these objectives against verifying management's assertions for all classes of transactions, account balances, and disclosures. Management assertions are management's representations regarding the fairness of financial statements (Arens et al. 2023). The ISA 315 states "The greater the extent to which a class of transactions, account balance or disclosure is susceptible to misstatement because of complexity or subjectivity, the greater the need for the auditor to apply professional skepticism” (IAASB, 2022. p, 265). In response to management assertions, audit objectives are developed to address management assertions and verify classes of transactions, account balances, and disclosures. According to Arens et al. (2023), These objectives are:

(1) The occurrence, completeness, accuracy, classification, timing, and posting and summarization of audit objectives related to the transaction.

(2) The existence, completeness, accuracy, classification, cut-off, detailed correlation, realizable value, rights, and obligations of the audit objectives related to account balances.

(3) The occurrence and rights and obligations, completeness, accuracy and valuation, and classification and understandability of audit objectives related to presentation and disclosure.

Related party transactions are viewed as fertile ground for manipulation of financial statements. Corporate management may sometimes resort to exploiting related-party transactions as a means of earnings management, which caused the collapse of many giant corporations such as Enron, Tyco, and Adelphia, to the point that both the PCAOB and the Securities Exchange Commission imposed financial penalties for auditors who fail to detect manipulation of related party transactions (Clikeman & Liu, 2017; El-Helaly, 2018). Related party transactions pose special challenges to auditors because they occur between related parties with common interests, such as transactions between holding companies, subsidiaries, affiliates, and controlling shareholders (see ISA 550, para. 10), making these transactions difficult to detect. Examples of transactions with related parties abuse include providing loan guarantees, borrowing, selling assets or products, or purchasing goods and services to related parties at prices other than market prices (Kohlbeck & Mayhew 2017). Therefore, auditors must search for appropriate audit evidence to ensure full disclosure of transactions with related parties and ensure that there are no suspicions therein.

There is no doubt that the chances of committing fraud increase as companies increase in size, geographic scope, and complexity of their business operations. This challenge requires the auditor to expand the scope of the audit and obtain more appropriate audit evidence to reach a conviction about the validity of the financial statements. Failure to detect fraud, including EMP, may expose the auditor to penalties and legal liability. Fortunately, in the era of technological revolutions, auditors can now employ technological programs and applications to facilitate the task of auditing and accounting. For example, AI and blockchain applications help process a large volume of financial transactions and help the auditor detect errors quickly. Therefore, thanks to this technology, auditing of the entire population, including invoices, documents, and transactions, rather than just groups of samples, has become a reality (Al-Sayyed et al. 2021; Elommal & Manita, 2022; Richardson et al., 2021).

3.2 Corporate Governance

Auditors may be under pressure to change accounting policies and judgments to favor management's desires. No matter what threat management may pose, there must be a strong audit committee behind the auditors (Bierstaker et al. 2012). Activating corporate governance, and the provisions it contains that support the independence of the audit committee provides an appropriate environment for exercising the supervisory role of the board of directors in holding executive management accountable for EMP (Jrairah et al. 2015). The effectiveness of the audit committees' supervisory functions, as a subcommittee of the Board of Directors, requires high competence, experience, and independence. According to the agency theory, independent audit committees are viewed as entirely dedicated to overseeing management's performance and behavior toward preparing financial statements that serve the company's owners. Agency theory also assumes that the purpose of this supervision is to suppress the potentially deviant behavior of opportunistic management to properly observe their duties and thus prevent or reduce EMP.

External and internal auditors have a significant responsibility to protect financial statements from manipulation. Helping auditors do their job well requires working within a robust and purposeful framework such as auditing standards, professional ethics, corporate governance, and quality control procedures. The Audit Committee, as the liaison officer between the external and internal auditors and the executive management, plays a key role in supporting the auditors to perform their main function of protecting financial data from manipulation (Shbeilat, 2018). Given this pivotal role, all corporate governance codes in developing and developed countries are keen to form audit committees that include a majority of independent members who have expertise in the fields of accounting, finance, and business. Forming independent and qualified audit committees is an essential focal point for the corporate governance system.

The audit committee’s lack of independent members and accounting knowledge reduces the effectiveness of communication with the external auditor and weakens the committee’s oversight role over executive management (Mardessi, 2022; Al-Ziban, 2020; Shbeilat, 2024). Therefore, interest in the positive roles of audit committees is not limited to the relevant literature and corporate governance rules, but even international auditing standards have highlighted the importance of auditors communicating with those responsible for governance and the audit committee in particular (see International Auditing Standards No. 260 and 265 as examples). While ISA 260 sets out a framework for the auditor's responsibility to communicate with the audit committee and those charged with governance, ISA 265 addresses the auditor's responsibility to communicate with the audit committee and management regarding deficiencies in internal control. Moreover, ISA 610 directs the external auditor on how to evaluate the effectiveness of internal auditors, given that they have common objectives, the basis of which is to protect financial reports from manipulation and EMP.

3.3 Professional Ethics

The most important challenge facing earnings management is limited to the technical and ethical dimension for professionals, and the latter is more dangerous to the future of the accounting profession. Therefore, regulators (such as standard setters and corporate governance) need to give more space to the ethical dimension as an effective contributor to the fight against earnings manipulation. The absence of ethical values, accountability, and disciplinary systems makes it easy for opportunistic managers to advance their own goals and benefits at the expense of the greater good of the company through creative EMP. Thus, inculcating and disseminating moral and social values and awareness among executives and employees develops traits of honesty and justice at the expense of excessive self-interest (Chakroun et al. 2022). For financial statements to gain the trust of users, accounting practices must be conducted fairly and honestly, and this is enhanced by instilling ethical values in the behavior and attitudes of accountants, management, and auditors. Auditing standards emphasize the importance of adhering to laws, professional instructions, and professional ethics to limit the manipulation of financial reports. For this reason, the IFAC, through the IESBA, has issued the International Code of Ethics for Professional Accountants as well as the International Independence Standards (International Ethics Standards Board for Accountants [IESBA], 2023). The five fundamental principles of ethics for chartered accountants are:

1- Integrity: this requires the professional accountant to be truthful and honest in her/his work.

2- Objectivity: This means that the auditor’s judgments must be free from bias and favoritism.

3- Professional competence and due care: This requires the professional accountant to maintain a high level of knowledge, skills, and qualifications necessary to perform the tasks.

4- Confidentiality: This means maintaining the confidentiality of the client’s information and not disclosing it or exploiting it for personal purposes.

5- Professional conduct: The professional accountant is required to adhere to the laws, instructions, and rules of professional conduct, and to refrain from any actions that are harmful to the auditing profession.

On the other hand, the IESBA considers that these ethical principles for chartered accountants may be exposed to several threats, which may make auditors' commitment and adherence to the code of ethics questionable. Hence, the IESBA was keen to present these threats to draw the attention of professional accountants to them and to establish safeguards that help avoid them (IESBA, 2023). The threats facing auditing professionals are:

1- Self-interest threat: This type of threat occurs because the professional accountant (or a close relative) has financial or non-financial interests with the client

2- Self-review threat: This threat occurs when the auditor needs to decide on an action, judgment, or activity that the auditor or any member of the audit firm has previously performed, whether they participated in it partially or completely.

3- Advocacy threat: This occurs when the auditor promotes the client's activities, positions, stocks, or planning budgets in a way that affects the auditor's objectivity and impartiality.

4- Familiarity threat: This threat occurs when familiarity and sympathy are formed between the auditor and the client due to a long or close relationship, such as the existence of a close relationship between a member of the audit team and a member of the company's management.

5- Intimidation threat: the threat that the client may exercise to limit the auditor's ability to act objectively, such as exerting pressure on the auditor's scope of work to reduce fees or threatening to remove or replace the auditor.

Controversial concepts related to ethical principles and threats surrounding the profession are both non-audit services and auditor rotation. Audit firms, whether small or large, provide a variety of non-audit services, such as accounting, consulting, administrative, and financial services. Providing such services to the same client may create threats to ethical principles and jeopardize auditor independence, in particular by creating a self-review threat (IESAB, 2023). Therefore, non-audit services, unless prohibited by laws and instructions, represent one of the entry points that may lead to creating a conflict of interest. For this reason, ethical standards recommend obtaining approval from those charged with governance to perform non-audit services, in addition to submitting a report to ensure that they do not violate ethical principles (IESBA, Section 600, 2023). On the other hand, IESBA indicates that an auditor's long association with a client may create threats of familiarity and self-interest (IESBA para 940.2, 2023). Therefore, the periodic change of audit partners also referred to as "rotation", is seen as one preventive measure to counter such threats of familiarity or self-interest (IESBA, 2023; JSC, 2021; SOX, 2002).

One of the objectives of this study is to identify the roles of both the principles of professional ethics and the threats facing auditors in limiting EMP. The study also aims to shed light and find out which of these five ethical principles and five threats have the greatest impact on EMP from the auditors' point of view.

4. Methods

This study follows Creswell & Creswell's (2018) explanatory sequential method. The explanatory sequential design is based on designing a quantitative tool to collect and analyze data about the research phenomenon and obtain results. After that comes the qualitative stage of data collection and analysis, which is designed to take into account the interpretation of the quantitative results of the previous stage. The primary goal of this study is to highlight the interdependent role of auditing standards, corporate governance, and professional ethics in reducing the effects of earnings management. To achieve this goal, a tool was developed to survey the opinions of external auditors to investigate and test the potential role of an integrated system of auditing standards, ethics, and governance codes in addressing the phenomenon of earnings management. Then, qualitative interviews were conducted with the external auditors to obtain a broader understanding and interpretation of the quantitative results that would help in a deeper understanding of the phenomenon of earnings management and come up with recommendations to reduce it. Resorting to mixed research methods because they combine the advantages of qualitative and quantitative research to enrich knowledge about the phenomenon under study. In addition to enhancing validity, answering and interpreting research questions more comprehensively, thus expanding the researcher's ability to conclude the study, and contribute to the literature qualitatively and quantitatively (Toyon, 2021; Wipulanusat et al. 2020).

4.1 Data Collection

The questionnaire was developed based on the three dimensions of this study, which are ISAs, professional ethics, and corporate governance codes, in addition to previous relevant studies that serve these dimensions. The questionnaire covers the three dimensions proposed in the study, allowing the respondents to answer it according to a five-point Likert scale. The questionnaire was drafted and distributed in Arabic the mother tongue of the respondents. The translation of terms related to management assertions, fundamental principles of professional conduct, and threats was based on the accredited translation issued by the IFAC for both the International

Standards on Auditing and the International Code of Ethics.

The introduction to the questionnaire included a brief sentence explaining the aim of the research, followed by demographic data questions: academic qualification, job position, and number of years of experience practicing the accounting and auditing profession. In the last section, the questionnaire statements were presented, which consisted of 41 statements divided into three dimensions, as in Tables 3, 6, and 8. The questionnaire was pilot-tested and presented to 4 academics specialized in the field of auditing and corporate governance to express their opinions and suggestions about the components of the survey, which led to the modification and deletion of some questionnaire items.

With the completion of the quantitative phase, the phase of collecting and analyzing qualitative data began, where 8 interviews were conducted with the external auditors, which were arranged in advance over the phone. The interview questions revolved around the research questions of the study, where they were asked (1) to comment and express their opinions on the quantitative results and (2) to give their suggestions on any other means that would reduce EMP.

With the completion of the quantitative phase, the phase of collecting and analyzing qualitative data began, where 8 interviews were conducted with experienced external auditors. The interview protocol required the interviewees' consent, which was prearranged over the telephone to determine the time and location of the interviews. The interview protocol begins with informing interviewees of the objectives of the study and the expected research contribution. The experience was taken into consideration when selecting the interviewees through the website of the Jordanian Association of Certified Public Accountants (JACPA, n.d), as the experience of the interviewees ranged between 9-21 years. The interview questions revolved around the research questions of the study, where they were asked (1) to comment and express their opinions on the quantitative results and (2) to give their suggestions on any other means that would reduce EMP.

4.2 The Study Sample

Auditors were chosen as the unit of analysis because they are the most familiar with the auditing standards and ethical requirements of their profession. Concerning corporate governance codes, they devote extensive space to provisions on the independence and appointment of external auditors, their powers and scope of work, and details of their relationship with the audit committee, the internal auditor, and executive management. The population for this study consists of 487 auditors licensed with the Jordanian Association of Certified Public Accountants (JACPA, n.d). The questionnaires were distributed during September and October 2023 by the researcher to a random sample of 215 auditors according to Sekaran (2003) with a confidence level of 95%. The number of questionnaires received and suitable for statistical analysis was 131 questionnaires, representing 61% of the sample size.

5. Analysis & Discussion

This section begins by presenting the quantitative results, which address the first three research questions, and then the results of the qualitative interviews are presented and discussed, which also aims to address the fourth research question.

5.1 Survey Results

To achieve the objectives of this study, SPSS was used to analyze the data obtained through the survey. The following statistical tools were used: mean, standard deviation, and Cronbach's alpha. To test the research questions statistically, a one-sample t-test was used to determine whether the mean calculated from the sample data differed from a certain value.

The internal consistency of the questionnaire items was tested by using the Cronbach alpha reliability coefficient, which indicates the strength of association and cohesion between the scale items. Table (1) suggests that Alpha is determined to be greater than the accepted threshold of 0.60 for each variable. This indicates the reliability of the questionnaire.

Table 1. Testing the reliability of the instrument using Cronbach alpha

Dimension	Number of statements	Cronbach alpha
The role of auditing standards in countering management's assertions	13	0.639
Corporate governance and audit committees	13	0.839
Codes of ethics and professional conduct	15	0.865

Regarding the qualifications, job title, and experience of respondents, the percentage of those holding a bachelor’s degree reached 91%, and 9% of those holding a master’s degree. In terms of job title; 28% reported Junior auditor position, 66% senior auditor, 6% manager, and 0% audit partner. As for the experience of the respondents, Table 2 shows that the average years of experience is 11 years and the median is 10 years. Accordingly, the respondents can be viewed as qualified and experienced and their answers can be relied upon.

Table 2. Experience of the respondents

Dimension	Experience (Years)
Average	10.977
Median	10
Minimum	4
Maximum	22
Standard Deviation	3.895

Before presenting the results of the questionnaire, it should be noted that three levels were used to rank the mean of their answers. With an interval of 1.33, the ranks in the last column of Tables 3, 6, and 7 appear as follows: 1 - 2.33 is low; 2.34 - 3.67 is medium, and 3.68 - 5 is high.

Table 3. Means, SD, and ranks related to the roles of auditing standards and the auditor in confronting management assertions to limit EMP.

	Statements	Mean	SD	Rank
1	Verifying management's assertions regarding "Existence" which means assets, liabilities, and equity exist.	4.05	.573	High
2	Verifying management assertions regarding “Rights and Obligations” of asset and liability accounts.	1.91	1.475	Low
3	Verifying management’s assertions regarding "Completeness" that all transactions and events and account balances that should have been recorded have been recorded.	4.18	.846	High
4	Verify management's assertions about the "accuracy" of transactions and events and that amounts have been appropriately recorded.	4.10	.773	High
5	Verifying management's assertions regarding “Accuracy, Valuation and Allocation” that valuation and adjustments of account balances have been appropriately calculated and recorded.	4.45	.598	High
6	Verifying management's assertions regarding “Classification” that transactions and events and account balances have been recorded in the proper accounts.	2.82	1.276	Medium
7	Verifying management's "Occurrence" assertions that recorded transactions and events have occurred and relate to the company.	3.98	.595	high
8	Verifying management's "Cutoff" assertions that transactions and events have been recorded in the correct financial period.	4.02	.620	High
9	Verifying management's assertions about the "presentation" that transactions, events, and account balances are appropriately grouped, clearly described, and appropriately disclosed according to the IFRS.	4.07	.682	High
10	Auditing standards need to be constantly developed and revised to help detect earnings management practices.	4.09	.650	High
11	Forensic accounting analysis skills help auditors discover and limit earnings management practices.	4.03	.540	High
12	Employing modern technological applications that help in conducting a full detailed audit instead of a test audit, such as blockchain, limits the opportunities for tampering with financial data.	2.88	1.307	Medium
13	Scrutinizing all related-party transactions and deals executed such as those performed with subsidiaries and affiliates.	4.01	.575	High
	Average	3.74	.375	High

The first nine statements of the questionnaire represent management's assertions per the ISAs. The results of

Table 3 allow the researcher to determine the ranks of management assertions that are most vulnerable to manipulation and exploitation in earnings management as shown in Table 4.

Table 4. Rankings of management assertions that are most vulnerable to EMP.

Management Assertions	Rank
Accuracy, Valuation, and Allocation	1 (the highest)
Completeness	2
Accuracy	3
Presentation	4
Existence	5
Cutoff	6
Occurrence	7
Classification	8
Rights and Obligations	9

Table 4 indicates that the “accuracy, valuation, and allocation” assertion ranked first among management assertions. This assertion reflects management’s claim that valuation and adjustments to account balances have been correctly calculated and reported. This assertion also implies the accuracy of ending balances in terms of impairment calculations, allowances, depreciation, amortization, and depletion, arriving at net realizable value and fair value. Manipulating account balances by exploiting flexibility in accounting policies and estimates is not only common but also has a serious impact on the validity of financial reporting (Lau, 2021; Altawalbeh, 2020; Ghazalat & AlHallaq, 2024; Ajekwe, 2021; Bajaja & Khalifa, 2015). Bajaja & Khalifa (2015) reported that the most commonly used methods of earnings management in Saudi Arabia are manipulation of allocations, asset valuation, and timing of revenue recognition. The study added that the motives for EMP are to maintain a positive level of stock prices and achieve personal benefits for management. Table 4 also reveals that both “Classification” and “Rights and Obligations" assertions gained medium and low ranks respectively. Interpretations of these findings are left to the interviews in the next section (5.2). Moreover, the results of Table 3 also indicate the importance of updating auditing standards and enhancing auditors' forensic accounting skills in reducing EPM.

To further confirm the validity of the averages shown in Table (3), a one-sample t-test was conducted and the following results appeared:

Table 5. One-Sample statistics & t-tests for RQ.1

N	Mean	Std. Deviation	Std. Error Mean
.131	3.7369	.37527	.03279

Test Value = 3					
				95% Confidence Interval of the Difference	
t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
22.476	130	.000	.73693	.6721	.8018

The results of the one-sample t-test shown in Table 5 reveal that the t-value is significant at the 0.05 level, confirming the important role of auditing standards and audit objectives for transactions, account balances, presentation, and disclosure in countering management assertions to limit EMP.

Table 6. Means, SD, and ranks related to the roles of Corporate Governance & Audit Committees in limiting EMP

	Statements	**Mean**	**SD**	**Level**
1	The auditor's responsibility to appropriately report deficiencies in internal control to those charged with governance according to the ISA 265	4.01	.519	High
2	The effectiveness of the audit committee in following up on executive management’s response to the internal auditor’s reports	4.00	.582	High
3	The independence of the Audit Committee in appointing and determining the fees of the chief of Internal Audit.	4.04	.546	High
4	Evaluate the effectiveness of the internal audit under ISA 610 and provide recommendations for improvement by the external auditor.	3.86	.665	High

5	Resolving any disputes that may arise between the auditor and the company through independent audit committees.	3.79	.699	High
6	The independence of the internal audit activity from the rest of the executive departments enhances their ability to evaluate and monitor their activities.	2.98	1.339	Medium
7	The independence of the Audit Committee in nominating and determining the external auditor's fees.	3.97	.607	High
8	The extent of the audit committee's ability and effectiveness in following up on the executive management's response to the external auditor's observations, reservations, and recommendations.	3.89	.652	High
9	The presence of a qualified audit committee that discusses with the external auditor the appropriateness of accounting policies and estimates.	4.10	.606	High
10	Requiring the approval of the audit committee for non-audit services and disclosing that they did not affect the independence and professionalism of the auditor.	3.77	.750	High
11	Communication between the Risk Management Committee and the external auditor to identify risks and opportunities for intentional misstatements to occur.	3.91	.601	High
12	The existence of a solid accountability system monitored by the Securities Commission.	3.83	.634	High
13	Mandatory rotation enhances the independence and professionalism of the auditor in identifying risks and misstatements	3.04	1.332	Medium
	Average	3.78	.455	**High**

Table 6 shows the potential roles of corporate governance, focusing on its most important mechanism, the audit committee, in reducing EMP. The overall average was = 3.78, which reflects the high level of attitudes towards the role of corporate governance in limiting EMP. However, the exceptions to the high level are two items: the independence of the internal audit activity and the mandatory rotation of auditors, which received moderate levels. The reason for this, according to the interviewees, is that mandatory rotation may not necessarily guarantee the detection of management manipulation and fraud, and that there is no guarantee that the next auditor will differ from the previous auditor in terms of the ability and willingness to detect EMP. As for the Internal auditors' independence, the interviewees believe that such independence is only formal and that the presence of independent and competent internal auditors in full communication with a supportive board of directors and an effective audit committee is very rare. On the other hand, the external auditor also needs the support of the audit committee. Through this effective support, the auditor will be able to confront management that manipulates profits. According to corporate governance instructions, the Audit Committee is responsible for supervising the work of the external auditor following up on whether management responds to the auditor's observations and recommendations, and amending the financial reports in light of that. For these reasons, it is important to have an effective audit committee that is completely independent of executive management.

To further confirm the validity of the averages shown in Table (6), a one-sample t-test was conducted and the following results appeared:

Table 7. One-Sample Statistics & Tests for RQ.2

N	Mean	Std. Deviation	Std. Error Mean
131	3.7833	.45526	.03978

Test Value = 3					
				95% Confidence Interval of the Difference	
t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
19.693	130	.000	.78332	.7046	.8620

The results of the one-sample t-test shown in Table 7 reveal that the t-value is significant at the 0.05 level, confirming the pivotal role of corporate governance and effective audit committees in reducing EMP.

Table 8. Means, SD, and ranks related to the roles of code of ethics & professional behavior in limiting EMP

No.	**Statements**	**Mean**	**SD**	**Level**
1	The auditor's assessment of the entity's control environment, including maintaining a culture of honesty and ethical behavior among senior management and those charged with governance.	3.90	1.352	High
2	The existence of a strict accountability system for the auditing profession, whether it is a professional, civil, or criminal liability.	3.98	1.271	High
3	Having a client acceptance/non-acceptance policy ensures that the audit team complies with ethical requirements.	4.20	1.033	High
4	The presence of a quality management and control system to ensure compliance with relevant ethical requirements according to ISA 220	3.95	1.326	High
5	Exercising professional skepticism regardless of prior knowledge of the company's integrity and commitment to ethical requirements.	3.50	1.112	Medium
6	Commitment to the principle of **integrity**, which means being fair, frank, and honest in all professional dealings.	3.85	1.113	High
7	Commitment to the principle of **objectivity**, which requires expressing an objective opinion by exercising professional judgment without bias or being influenced by conflicts of interest.	4.13	1.105	High
.8	Raising the level of **professional competence and due care**: Perseverance in acquiring the skills and knowledge required by accounting and auditing standards.	3.69	1.183	High
9	Maintaining the principle of **confidentiality** of information obtained during the audit engagement and not disclosing it.	3.02	1.196	Med
10	Comply with the requirements of **professional behavior** stipulated in relevant standards, laws, and instructions, and avoid any behavior that harms the reputation of the profession.	3.79	1.130	High
11	Avoid the threat of *self-interest*, which may occur due to the presence of financial or non-financial interests with the client that would affect the objectivity and behavior of the auditor.	3.79	1.203	High
12	The ability to avoid the threat of *self-review*: This occurs when the auditor needs to review a previous professional judgment, whether issued by the auditor himself or any of the audit team.	3.87	1.224	High
13	Avoid *advocacy threat*: occurs when the auditor endorses and promotes the client in a way that subsequently affects the auditor's objectivity	3.81	1.144	High
14	Ability to avoid *familiarity* threat, where empathy between auditor and client may occur due to a long or close relationship.	3.72	1.204	High
15	The ability to avoid the threat of *intimidation* that the client may exercise to limit the auditor's ability to act objectively.	3.93	1.278	High
	Average	3.81	.702	**High**

Paragraphs 6 to 10 of Table 8 cover the fundamental principles of the International Code of Professional Conduct for Auditors, while Paragraphs 11 to 15 cover the threats facing auditors that hinder their compliance with the above fundamental principles of the Code of Professional Conduct. Accordingly, the fundamental principles and threats can be arranged in descending order in terms of influence and engagement in EMP as shown in Table 9.

Table 9. Ranks of the basic principles of ethics and threats in terms of influence and engagement in EMP

Principles of Auditor Ethics	Rank	Threats to the Principles of Ethics	Rank
Objectivity	1 (the highest)	Intimidation threat	1 (the highest)
Integrity	2	Self-review threat	2
Professional behavior	3	Advocacy threat	3
Professional competence & due care	4	Self-interest threat	4
Confidentiality	5	Familiarity threat	5

Table 9 displays the ranking of ethical principles that auditors must adhere to ensure that financial statements are fair and free of distortions. First and foremost is objectivity, which reflects the ability to maintain neutrality and express an unbiased professional opinion, followed in order by the commitment to the values of integrity, professional competence, adherence to laws and professional ethics, and maintaining professional confidentiality. On the other hand, in Table 9, we see the threats that work to resist auditors' adherence to ethical principles. Table 9 also shows us the ranking of threats that could constitute vulnerabilities and loopholes that could weaken the auditor's ability to adhere to the ethical principles of the profession. The highest of these threats is intimidation. An example of the threat of intimidation is when the company threatens the auditor not to renew the contract for the next year if he does not agree with management's proposals regarding accounting treatments. Next in order is the threat of self-review, the threat of advocacy, the threat of self-interest, and then the threat of familiarity, all of which are statistically highly significant, meaning that they threaten to a high degree the auditor's independence in limiting EMP.

To further confirm the validity of the averages shown in Table (8), a one-sample t-test was conducted and the following results appeared:

Table 10. One-Sample Statistics & Tests for RQ.3

N	Mean	Std. Deviation	Std. Error Mean
131	3.8076	.70216	.06135

Test Value = 3					
				95% Confidence Interval of the Difference	
t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
13.165	130	.000	.80763	.6863	.9290

The results of the one-sample t-test shown in Table 9 reveal that the t-value is significant at the 0.05 level, confirming the pivotal role of the code of ethics & professional behavior in reducing EMP.

5.2 Interview Results

Qualitative results were obtained by conducting 8 interviews with auditors. The questions directed to them revolved around the study's research questions, obtaining their interpretations of the quantitative results, in addition to polling their opinions on any proposed protections to limit EMP. The experience of the interviewees ranged between 9-21 years. 7 of them are senior auditors and one is a manager. The interviewees' responses, viewpoints, and comments were recorded in writing. The main trend of participants' responses was their unanimous agreement on the importance of the integrated roles of auditing standards, corporate governance, and the code of conduct in reducing EMP. After summarizing and classifying the responses and opinions of the interviewees, the following topics emerged as the most prominent topics raised by the interviewees when interpreting the quantitative results and considering means of reducing EMP: (1) transactions with related parties, (2) hiring experts to estimate the fair value of assets (3) lack of transparency in the timing of important decisions such as amortizing losses and goodwill, (4) Weakness and lack of independence of audit committees, (5) A deterrent accountability and disciplinary system for the company's management and employees under the supervision of the Securities Commission.

Regarding the role of auditing standards and the extent to which they enhance the auditor's ability to verify management assertions, the interviewees confirmed that assertions related to accuracy, valuation, and allocation are the most important management assertions that require the highest levels of professional care and professional skepticism. They added that this assertion is subject to many estimates and discretionary judgments by the company's management and is considered the most exploitative and dangerous among other management assertions. The interviewees also pointed out that the most common misuse of "accuracy, valuation, and allocation" is the exploitation of transactions with related parties by manipulating the valuation of the entity's properties. Examples of this include: manipulating the estimate of the fair value of lands and real estate for transactions that take place between the company and a member of the board of directors, senior executives, or their private companies. Thus, while the two findings (quantitative and qualitative) agreed on the danger of manipulating the assertion, the interviews added that this is often done through transactions with related parties.

> *Many companies have collapsed and been taken to the unregulated stock exchange [The Over-The-Counter market (OTC)] due to manipulation of real estate valuations between board members and the company.* (Interviewee E)

Regarding "Rights and Obligations" ranking low in the importance of management assertions, interviewees reported that manipulating rights and obligations is difficult and requires careful collusion that may reach parties outside the company. For instance, when you own a delivery truck, it is very easy to know whether it is owned by the company or not by looking at the vehicle's license. Likewise, bank loans and obligations to others are easy to verify unless they are with allied and affiliated companies. Therefore, it is not easy to manipulate the ownership of the company's assets and properties. As for the "classification" being at a medium level, the interviews revealed that in light of the clear accounting standards in classifying financial statement accounts, an experienced accountant can detect any manipulation in the classification of accounts. Therefore, management rarely resorts to manipulating classification as a means of managing profits due to its ease of detection by the auditor.

Regarding ethical principles, interviewees commented that the principle of objectivity ranked first because it requires true independence for the auditor to be able to issue a professional opinion without favoritism or bias.

> *Objectivity and independence are two sides of the same coin.* (Interviewee C)

On the other hand, the interviewees believe that all of the mentioned threats could constitute a loophole that might weaken the auditor's performance and adherence to the principles of professional ethics. The interviewees believe that the threat of intimidation is considered the most important threat facing the profession, as management intervenes and puts pressure on the auditor to obtain the opinion it deems appropriate, whether by threatening fees or not renewing the auditor's contract. It is worth noting that the interviewees confirmed that the problem does not lie in the Code of Ethics itself, but rather in adherence to it.

The interviewees believe that the need for ethics should not be limited to auditors, but rather should extend to management and the board of directors, as they should set a good example for employees. Therefore, we should not be surprised when we hear recommendations to tighten penalties on managers who make financial statements questionable, such as depriving them of opportunities to obtain jobs in the future (Desai et. al. 2006)

> *The first pillar of the control environment, in accordance with international auditing standards, is monitoring how those in charge of governance supervise management's commitment to spreading and promoting a culture of integrity and ethical behavior among employees.* (Interviewee A)

Regarding corporate governance instructions and the powers of the audit committee, the interviewees believe that they provide a solid basis to support auditors in limiting management's manipulation of financial statements. That is, in general, the provisions related to the powers and qualifications of the audit committee are considered very good, but the problem is the application on the ground. The interviewees had many questions about the extent of the audit committee's independence in its decisions related to appointing auditors and supervising their work. Those interviewed revealed that the pressures exerted by large owners and family companies make the independence of audit committee members highly questionable. They also noted that members of the audit committee, and the board of directors in general, are often family members, relatives, or friends of the major owners.

> Interviewee B: The management's threat or insinuation not to extend the auditor's contract for the next period causes many of them to approve the financial statements.
>
> Interviewer: Isn't the appointment of the auditor supposed to be exercised by the audit committee according to corporate governance instructions?
>
> Interviewee B: They are merely written texts and do not mean anything on the ground because there is no real oversight over the formation of the committees and nothing guarantees their true independence from the management.

> *Unfortunately, many auditors tend to certify the company's financial statements to ensure their survival in the coming period*.............(Interviewee F)
>
> *Companies that have financial management and qualified accountants intervene in the work of the auditor to a greater extent than companies that do not have a qualified staff of accountants.* (Interviewee D)

Given the weak composition of the members of the Audit Committee, from the viewpoint of the interviewees, they suggested that the Securities Commission reconsider supervising the elections of members of the Board of Directors and the formation of the committees emanating from it in a way that ensures the independence of the committee from the rest of the executive members. Communication between auditors and the Securities Commission should also be encouraged, especially to report irregularities and EMP.

On the other hand, participants stressed the need to activate the partnership between the Risk Management Committee and the external auditor to discover cases and practices of profit management. However, interviewees consider that the requirements for forming a risk management committee are much lower than those for an audit committee in terms of, for example, independence of members, experience, academic qualifications, and meeting with the external auditor individually. Therefore, unless the two committees are effective and financially efficient, their formation is nothing more than an ornament to meet the requirements of the JSC.

The interviewees believe that transactions with related parties provide a wide gateway to tampering with financial reporting, especially in the event of collusion by a group of top managers. An example mentioned by the interviewees was the company selling its shares at low prices in a process shrouded in ambiguity and doubts about the identity of the buyer. Another example is the purchase and sale of corporate real estate with related persons such as an executive director where the identity of that director is hidden by another person, subsidiary, or a company in which the director is the real beneficiary.

Interviewees agreed that transactions with companies linked to or affiliated with major shareholders or family businesses are sometimes abused. These controlling groups manipulate financial transactions between interconnected companies without accountability or oversight, and many of them only care about their interests, without any regard for small shareholders. The Interviewees added that stock prices of interconnected companies that engage in EMP often witness high volatility.

> *An example is to make a profitable company buy shares of a losing company within the same group without caring that this harms the shareholders of the good company.* (Interviewee C)
>
> *We notice that companies that manipulate earnings have noticeably fluctuating stock prices.* (Interviewee H)

Manipulating the timing of extinguishing accumulated losses is one way to manage profits. The interviews showed that one of the companies that distributed profits last year decided to use the current year’s profits to extinguish the accumulated losses. This means that shareholders are sometimes subject to the decisions and moods of the board of directors.

Interviewees A, D, G, & F indicated that many EMPs are carried out under the auditor's knowledge and that they sometimes turn a blind eye to these practices, even though exaggeration of these practices may lead to financial scandals. In this context, there is a consensus among those interviewed on the necessity of taking deterrent punitive measures against anyone proven to practice creative accounting, whether by the Auditors Association or by the Securities Commission.

> *Unfortunately, many auditors deliberately neglect to address earnings management.* (Interviewee F)

6. Conclusion

Profits are most vulnerable to opportunistic management practices aimed at demonstrating profit that serves management's interests. The decline in the oversight role of the board of directors and the failure to hold management accountable have led to an increase in EMP, causing several financial crises (Kress, 2018). Accounting standards allow companies some freedom to choose accounting policies and methods that truly reflect their true economic performance. However, this freedom may be intentionally abused resulting in unreliable financial reporting. To limit EMP, international institutions, securities commissions, stock exchanges, and professional organizations develop a set of laws, instructions, and ethical principles to control financial transactions and corporate behavior. Such controls and principles would contribute to reducing EMP if they were applied and monitored effectively. Sophisticated investors can see the risks of the earnings game because of their ability to read and scrutinize the annual report and auditors' reservations, unlike investors with limited or average skills. Protecting inexperienced investors requires regulators to enhance auditors' awareness of the company's motives, methods, and desire to manage profits, in addition to developing financial disclosure tools that are easy to use and understand.

This study, with a double-sequential explanatory design, aims to fill a methodological gap in research on earnings management, most of which has focused either on archival data or on the design of questionnaires as the sole data collection tool (as mentioned in section 2). This study provided quantitative evidence on the roles of (1) auditors in verifying management assertions following ISAs, (2) corporate governance and its most important pillars represented in the audit committee, and (3) Ethical principles and threats facing professionals that affect EMP. This was followed by a qualitative analysis phase by conducting 8 in-depth interviews with auditors to interpret the quantitative results and draw conclusions that contribute to understanding and reducing EMP in developing countries.

The results indicated that the most common management assertion involved in EMP is the assertion of "accuracy, valuation, and allocation," especially when coupled with the exploitation of transactions with related parties. Given that auditors develop general and specific audit objectives to counter and verify management assertions (Arens et al. 2023), this study contributes to guiding auditors toward the most manipulative and exploitative management assertions in EMP. That is, this study provides auditors with a basis for prioritizing the riskiest management assertions and thus helping them develop more effective and verifiable audit objectives.

Concerning corporate governance, the results confirmed that the presence of a strong and independent audit committee is the main support for auditors on the one hand and for implementing the accountability system on the other hand, thus protecting financial reports from manipulation. This is consistent with many previous studies, whether at the level of the characteristics of audit committees (Masmoudi & Makni, 2020; Kapkiyai et al. 2020) or in terms of the committee's preoccupation with performing its duties (Ghafran et al. 2020; Sahyoun & Magnan, 2020). Therefore, the Audit Committee continues to play a pivotal role in protecting financial reporting. Its strategic position at the heart of the organizational structure as a group of independent and non-executive board members, in addition to the powers granted to it, makes it the main guarantor of protecting the company's interests. The Audit Committee is considered the point of contact between the external and internal auditors and the company's management. Therefore, financial policymakers must realize that a corporate governance system that is not based on an effective and truly independent audit committee will be merely decorative. This in turn supports the core of agency theory and can provide another angle from which the audit committee can be viewed as the first line of defense in protecting the rights of owners. This study therefore emphasizes the importance of the middle bond between principals and agents to understand agency theory and its components more broadly. This episode represents the role of the Board of Directors and the independent audit committees in supporting the pillars of corporate governance, reinforcing auditors' independence, and following up on the work of executive management.

Regarding the principles of professional conduct, the principle of objectivity was the most respected and challenging from the auditors' point of view because it requires the true independence of the auditor in expressing professional opinion without bias. The interviewees explained that the principle of objectivity and neutrality towards any party is the complete opposite of profit manipulation. On the flip side of adherence to ethical principles, the International Code of Ethics recognizes a range of threats that prevent an auditor from exercising the highest levels of professional skepticism and care. The International Code of Ethics has identified five threats that limit the auditor's independence, and thus their ability to detect earnings manipulation. The results showed that the greatest threat to the independence of auditors is the "threat of intimidation" in all its forms that management may exercise to achieve its own goals. Exerting effort and pressure to narrow the auditor's scope of work, reducing fees, and implying that the auditor will not be re-elected for the next term are examples of intimidation threats.

The results of the current study provide policymakers in Jordan and developing countries that enjoy a similar regulatory environment with useful guidance in mapping future corporate governance to achieve stability in financial markets and attract investors. Based on the survey and interview findings, there appears to be an urgent need to discuss building a corporate governance framework backed by auditing standards and ethical behavior tailored to enhance the powers and performance of the three audit arms. Corporate governance restructuring may include: (1) The closed meeting between the auditor and the audit committee should include a discussion of EMP, (2) Disclosure of the auditor's meeting with the Risk Management Committee and discussion of potential areas and risks of EMP, (3) Expanding the skills of forensic accounting analysis by the Association of Auditors due to its role in discovering methods of earnings management, (4)To enhance accountability in companies, the corporate governance code should include a separate accountability chapter to question those who tend to manipulate accounts, and encourage auditors to report EMP to the securities commission, (5) promote networking between universities and industry by discussing research results directly with policy makers and those responsible for protecting financial markets, which is still very modest in developing countries, and (6) In line with paragraph 40 of ISA 240 and to enhance the credibility of the annual report, the management representations paragraph must include a statement that there are no transactions with related parties, and if they exist, it must be disclosed that they were conducted under the supervision of the audit committee and that they did not affect the fairness of the financial statements.

One of the most important comparisons between developed and developing countries in the areas of auditing and corporate governance is the presence of regulatory bodies specialized in supervising the quality of auditing. The most important goals of these bodies are enhancing auditors' independence, holding negligent parties accountable, and fining those responsible for violations of quality control standards. This, in turn, contributes to reducing manipulation of financial statements and increasing confidence in financial reports. The most important of these organizations are the U.S. Public Company Accounting Oversight Board (PCAOB) and the Canadian Public Accountability Board (CPAB). In developing countries, such as Jordan, there are no bodies similar to the PCAOB and CPAB. Therefore, this study recommends conducting future studies to consider the feasibility of having such institutions in developing countries to benefit from their experiences in strengthening the auditing profession and reducing EMP.

Moreover, the results drawn from this study may guide future studies to consider the emergence of two approaches to examine the phenomenon of earnings management: The first is to examine the relationship between stock price volatility and the extent of EMP. The second is to study the relationship between companies listed on the over-the-counter (OTC) stock market and the extent to which they practice earnings management. Moreover, studies with mixed methodologies should be conducted to verify the claim that EMPs are sometimes undertaken with the auditor's blessing. This issue must be investigated by auditors' associations to know the extent of the phenomenon and its motives. Finally, this study was limited to the perspective and viewpoints of auditors, while the researcher believes that the viewpoints of financial analysts, institutional investors, and credit officers in banks provide fruitful insights due to their in-depth reading and critical analysis of annual reports.

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