



The Role of Auditors in Moderating the Effect of Tri Hita Karana-Based Sustainability Report Disclosure on Earnings Quality

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ABSTRACT

This study aims to examine the effect of Tri Hita Karana (THK) - based Sustainability Report disclosure on Earnings Quality, and to analyze the role of External Auditors in moderating this relationship. Using a descriptive quantitative approach at PT Island Concepts Indonesia Tbk listed on the Indonesia Stock Exchange for the 2022–2024 period, this study measures the THK variable through content analysis and proxied earnings quality with Discretionary Accruals using the Modified Jones Model . The results of the study found a paradoxical phenomenon where high compliance with cultural values disclosure (Index 1.00) does not guarantee high financial statement integrity. Earnings quality was proven to decline in 2024, marked by an increase in discretionary accruals, indicating the existence of earnings management practices with an Income Minimization pattern due to financial distress . This study also concluded that cultural value disclosure tends to be symbolic (symbolic adoption) as a legitimacy strategy, and the role of external auditors has not been fully effective in limiting management's opportunistic behavior during the crisis period.

INTRODUCTION

Financial reports are a fundamental instrument used by companies to communicate their economic performance to stakeholders, with earnings information often a key factor in investment decision-making. Therefore, integrity and high earnings quality are essential (Moridu, 2023). However, according to Agency Theory (Jensen & Meckling, 1976), information asymmetry and conflicts of interest between management (agents) and shareholders (principals) can lead to opportunistic behavior (Paramita et al., 2022). Management has an incentive to manipulate earnings information through earnings management practices to demonstrate superior performance, ultimately distorting earnings quality.

Along with the shift in the modern business paradigm, stakeholders no longer only demand accountability from the economic side (single bottom line), but also social and environmental responsibility (triple bottom line) (Verma et al., 2024). This demand is in line with the Stakeholder Theory which states that the survival of a company is greatly influenced by the support of the surrounding ecosystem (Ng et al., 2022). Companies respond to this demand by disclosing Sustainability Reports. In Indonesia, especially for companies operating in Bali Province, this sustainability concept is closely related to the local wisdom philosophy of Tri Hita Karana (THK) (Asmoro et al., 2022). This philosophy teaches a harmonious relationship between humans and God (Parhyangan), fellow humans (Pawongan), and the natural environment (Palemahan).

The implementation of THK-based disclosure can be seen concretely in accommodation and catering companies such as PT Island Concepts Indonesia Tbk (ICON), a hospitality company based in Badung, Bali. The company's mission is to consistently play an active role in national economic development while maintaining the culture and environment in which it operates. Its core values emphasize integrity, ethics, and harmony in working with customers, shareholders, and the community.

Operationally, the Pawongan value is realized through a commitment to gender equality and providing equal opportunities for workers, as well as the distribution of social donations to the Nurul Hikmah Halim Foundation and the Mata Elok Pamulang Foundation. Meanwhile, the Palemahan value is realized through energy saving efforts using LED lights and the provision of Waste Management Installation (IPAL) facilities, especially in the catering and villa business lines, to prevent environmental pollution to the surrounding environment.

Although this local wisdom-based sustainability disclosure conveys a highly ethical corporate image, a research gap remains. Does the disclosure of THK values in the Sustainability Report align with the integrity of financial reporting (earnings quality)? There is a risk of greenwashing or culture-washing practices, where management uses the narrative of social and cultural activities merely as a reputational safeguard to mask distressed financial performance (Dewi et al., 2023). This financial pressure was empirically demonstrated by PT Island Concepts Indonesia Tbk, which experienced significant business losses in 2022, posting a net loss of Rp 22,916,943,624 for the year, and continuing its loss trend of Rp 5,162,233,868 in 2023. The pressure to maintain shareholder trust amidst these losses has the potential to increase managerial motivation to engage in earnings management.

Amidst the dilemma between claims of cultural ethics and the pressures of financial performance, the role of oversight becomes crucial. Companies recognize this by establishing governance structures that involve multi-layered oversight structures, such as the existence of an Audit Committee. This is where the role of the External Auditor comes in as a moderating variable (Setiawan et al., 2023). Audit quality driven by professional skepticism serves as a strong external governance mechanism. A qualified auditor will not only test the reasonableness of financial metrics but also assess whether the company's ethical narrative in its sustainability report truly aligns with business practices free from material fraud.

Based on the differences in results in previous studies regarding the influence of Sustainability Reports on earnings quality, as well as the urgency of empirical evidence regarding the effectiveness of local cultural values amidst financial pressures, this study aims to examine the role of auditors in moderating the influence of Tri Hita Karana-based Sustainability Report disclosures on earnings quality. The novelty of this study lies in the integration of Balinese local wisdom (THK) content analysis instruments with financial accounting proxies, whose interaction is tested through the quality of auditor supervision in companies listed on the Indonesia Stock Exchange.

LITERATURE REVIEW

Agency Theory

Agency theory proposed by Jensen and Meckling (1976) describes the relationship between shareholders (principals) and management (agents) (Pradana & Wulandari, 2023). In practice, agents are assumed to have more information about the company's capacity and operating environment than the principals, which triggers information asymmetry. This imbalance provides an incentive for management to act opportunistically, one of which is by engaging in earnings management practices to maximize personal utility, which in turn distorts the quality of reported earnings (Rosmawati et al., 2023).

Stakeholder Theory

According to Freeman (1984), a company is not an entity that only operates for its own interests, but must provide benefits to all its stakeholders. This (SHOLIKHAH & Rachmawati, 2022) theory shifts the paradigm from *shareholder orientation* to *stakeholder orientation*. In the context of reporting, disclosure of the *Sustainability Report* is a form of corporate accountability to the public that is in line with the *Triple Bottom Line concept*, which emphasizes the balance between economic performance (*profit*), social welfare (*people*), and environmental sustainability (*planet*).

Earnings Quality

Earnings quality reflects the extent to which reported earnings faithfully present a company's actual financial performance and accurately predict future cash flows (Andriani & Arsjah, 2022). High-quality earnings are those free from manipulation or management bias. In accounting research, earnings quality is often measured inversely using a proxy for earnings management, namely *Discretionary Accruals* through the *Modified Jones Model*. (Khasanah & Komalasari, 2022). The higher the level of discretionary accruals, the lower the quality of the company's earnings.

Disclosure of Sustainability Reports Based on Tri Hita Karana (THK)

Tri Hita Karana (THK) is a Balinese philosophy of local wisdom that emphasizes well-being, peace, and harmony (Supartini & Putra, 2022). THK's values align closely with modern *sustainability principles*:

- Parhyangan: The harmonious relationship between humans and God. In a corporate context, this is represented through integrity, business ethics, and adherence to regulations or codes of ethics.
- Pawongan: Harmonious relationships between people. This is reflected in the company's commitment to employee welfare, equality, occupational health and safety (K3), and *corporate social responsibility* (CSR) towards the community.
- Palemahan: A harmonious relationship between humans and the natural environment. This is realized through energy efficiency policies, emissions management, and wastewater treatment plants (WWTP) to protect the ecosystem. Companies that integrate THK values into their Sustainability Reports demonstrate a deeper ethical commitment than simply regulatory compliance (Nisa et al., 2023).

The Role of Auditors as a Governance Mechanism

Audit quality is defined as the probability that an auditor will discover and report violations in a client's accounting system (Caesaria & Suhartono, 2023). Auditors with a high level of professional skepticism, often measured by the size of their public accounting firm (*Big Four* vs. *Non-Big Four*) or the size of *their audit fees*, are perceived as having greater independence and

competence. The presence of these auditors serves as a strong external monitoring mechanism to limit opportunistic management behavior .

Hypothesis Development

Based on Stakeholder Theory, companies with a strong commitment to sustainability and ethical values (THK) tend to operate with greater transparency. The values of *Parhyangan* (moral integrity) and *Pawongan* (social responsibility) should be internalized in the corporate culture, thereby suppressing managers' motivation to engage in manipulative actions such as earnings management. Disclosure of environmental conservation (*Palemahan*) and social activities in *the Sustainability Report* facilitates a reduction in information asymmetry between management and *stakeholders* . Previous research (Destiana & Karina, 2023) has found that companies that are ethically socially responsible tend to report higher-quality earnings and refrain from earnings management practices. Therefore, THK-based disclosures are predicted to be directly proportional to the integrity of financial statements.

H1: Disclosure of Tri Hita Karana-based *Sustainability Reports* has a positive effect on Profit Quality.

Although disclosure of sustainability reports is expected to increase transparency, there is a risk of *greenwashing* , where companies use CSR narratives to cover up poor financial performance or opportunistic actions (Halila et al., 2022). To ensure that disclosure of THK cultural values is truly implemented and not simply a public relations tool, independent third-party oversight is required. Based on Agency Theory, external monitoring *by* qualified auditors will limit managers' discretion in manipulating earnings (DeAngelo, 1981). Auditors with high levels of skepticism will ensure that a company's ethical claims align with its financial statements. The presence of qualified auditors is expected to strengthen the positive influence of ethical commitment (THK) on the quality of a company's earnings, as auditors will mitigate the risks of *culture-washing* and *greenwashing* .

H2: Auditor quality moderates (strengthens) the positive influence of Tri Hita Karana-based *Sustainability Report disclosure* on Earnings Quality.

METHODS

Types and Design of Research

This study uses a quantitative approach based on the positivist paradigm, which aims to measure social phenomena through numbers and statistical analysis. The research design applied is causal associative *research* , namely research that aims to determine the cause-and-effect relationship between two or more variables. Specifically, this study is designed to test and empirically prove the effect of *Sustainability Report disclosure* based on Tri Hita Karana cultural values on Earnings Quality, as well as analyze the role of Audit Quality as a moderating variable *that* can strengthen or weaken the relationship.

Population and Sample Determination

The population in this study includes all companies in the tourism, hospitality, and supporting service sectors listed on the Indonesia Stock Exchange (IDX). Given the research's focus on specific cultural values, the sampling technique used *purposive sampling* , which determines the sample based on specific considerations or criteria tailored to the research objectives. The sample inclusion criteria are as follows:

1. Companies consistently listed on the IDX during the observation period of 2022 to 2024.
2. Companies legally domiciled or primarily operating within the Province of Bali. This criterion is essential to ensure the relevance of the Tri Hita Karana philosophy in corporate governance, as practiced by PT Island Concepts Indonesia Tbk.

3. Companies that published a complete Annual Report and Sustainability Report during the *research* period .
4. Presents financial data in Rupiah currency and has complete data on specific accounts such as Accounts Receivable, Revenue, and Fixed Assets for accrual calculation purposes.

Types and Techniques of Data Collection

The data used in this study is secondary data, both quantitative and qualitative, that has been quantified. The data sources were obtained through documentation methods by downloading audited financial reports and sustainability reports from the official website of the Indonesia Stock Exchange (www.idx.co.id) and the official websites of the sample companies. The data collected includes:

- Balance sheet and profit and loss financial data to calculate earnings management.
- Narrative of social, environmental, and ethical disclosure in sustainability reports for Tri Hita Karana content analysis.
- Independent auditor profile and audit opinion to determine audit quality.

Operational Definition and Measurement of Variables

This study involves three main variables: dependent, independent, and moderating variables. The dependent variable focused on analysis is Earnings Quality, which is proxied by the level of Earnings Management. Earnings management is measured by calculating the Discretionary Accruals (DA) value using the Modified Jones Model. (Rankore & Afiqoh, 2023), which separates total accruals into natural (non-discretionary) components and managerial (discretionary) components. The calculation step begins by determining Total Accruals (*TAC*) using equation 1.

$$TAC_{it} = NI_{it} - CFO_{it} \quad (1)$$

Where *NI* is Net Profit and *CFO* is Operating Cash Flow. Next, the total accrual value is regressed to obtain the parameter coefficient (α) with equation 2.

$$\frac{TAC_{it}}{A_{it-1}} = \alpha_1 \left(\frac{1}{A_{it-1}} \right) + \alpha_2 \left(\frac{\Delta REV_{it} - \Delta REC_{it}}{A_{it-1}} \right) + \alpha_3 \left(\frac{PPE_{it}}{A_{it-1}} \right) + \epsilon \quad (2)$$

After the coefficient is obtained, the *Non-Discretionary Accruals (NDA)* value is calculated, which is then used to determine the *Discretionary Accruals (DA)* value as a proxy for earnings quality with equation 3.

$$DA_{it} = \frac{TAC_{it}}{A_{it-1}} - NDA_{it} \quad (3)$$

The absolute value of DA (*|DA|*) is used in statistical analysis, where values closer to 0 indicate higher earnings quality.

The independent variable influencing earnings quality in this study is Tri Hita Karana Disclosure, which is measured using *Content Analysis techniques* on CSR disclosures in annual and sustainability reports. Measurements are conducted using a *dummy variable approach*, where a score of 1 is given if an indicator item is disclosed, and a score of 0 if not. Indicator items are adopted from Balinese cultural values that include aspects of *Parhyangan* (culture-based vision and mission, integrity, and ethics), *Pawongan* (gender equality, local training, and employee

welfare), and *Palemahan* (energy efficiency, wastewater treatment plant (WWTP), and environmentally friendly materials). The disclosure index is calculated by dividing the number of items disclosed by the company by the total number of indicator items specified.

The relationship between cultural disclosure and earnings quality is thought to be strengthened or weakened by Audit Quality as a moderating variable. Audit quality is proxied by the size of the Public Accounting Firm (KAP) using a *dummy scale*. A value of 1 is given if the company is audited by a KAP affiliated with *the Big Four* (PwC, Deloitte, EY, KPMG) which is assumed to have higher independence and audit resources, while a value of 0 is given if the company is audited by a *Non-Big Four KAP* (such as KAP Jimmy Budi in the sample of PT Island Concepts Indonesia Tbk).

RESULTS

Overview of Research Object

The primary object of this study is PT Island Concepts Indonesia Tbk (ICON), a Bali-based company specializing in the provision of accommodation, catering, and tourism facilities. The company was selected based on its geographic relevance and operational culture, which closely aligns with the Tri Hita Karana (THK) philosophy. During the observation period (2022–2024), the company faced post-pandemic recovery challenges, as reflected in fluctuating financial performance. Despite recording consecutive net losses, management continued to strive to maintain business continuity (going concern) through operational efficiency and asset optimization.

The condition of financial distress experienced by the company is a crucial context in this research, because theoretically (Agency Theory), loss conditions are often the main trigger for management to carry out earnings management practices, which in turn affects the quality of reported earnings.

Financial Performance and Accrual Analysis

The financial data used to calculate the accrual value is presented in Table 1 below.

Table 1. Financial Data Overview of PT Island Concepts Indonesia Tbk (2022-2024) (In Full Rupiah Units)

Year	Total Assets (At-1)	Revenue (REVt)	Net profit (NIt)	Cash Flow from Operations (CFOt)	Total Accruals (TACT)
2024	359,741,973,622	160.273.744.110	4,053,490,505	16,952,640,000	21,006,130,505
2023	371.248.007.154	181.373.119.160	5,162,233,868	1,900,954,000	7,063,187,868
2022	371,150,000,000	171,934,673,596	22,916,943,624	14,482,000,000	8,434,943,624

Based on Table 1, the financial performance analysis of PT Island Concepts Indonesia Tbk shows a fairly progressive recovery dynamic but contains interesting accounting anomalies.

First, in terms of profitability (Net Profit/Loss), the company managed to significantly reduce losses over the three-year observation period. Net losses, recorded at IDR 22.91 billion at the peak of post-pandemic pressure in 2022, were successfully reduced to IDR 4.05 billion in 2024. This 82.3% loss reduction indicates successful operational efficiency and a steady recovery in operating revenue. Fundamentally, this is a positive signal for business continuity (going concern).

Second, in terms of Operating Cash Flow, there was a drastic surge in cash performance in 2024. Operating cash flow increased sharply from just Rp 1.90 billion (2023) to Rp 16.95 billion

(2024). This surge in cash inflows indicates that the company is actually very liquid; they have successfully collected receivables or significantly increased cash sales.

Third, the analysis of Total Accruals (TAC) and Earnings Quality reveals the earnings quality issue. Theoretically, under normal conditions, Net Income should move in line with Operating Cash Flow (CFO). However, the 2024 data shows an extreme negative divergence: Operating Cash Flow: Positive IDR 16.95 billion (very high), Net Income: Negative (loss) IDR 4.05 billion (still a loss), and the gap (Total Accruals): Negative IDR 21.00 billion.

The significantly negative Total Accruals (TAC) value (-Rp 21 billion) in 2024 strongly indicates the practice of Accounting Conservatism or an Income Minimization strategy. Management appears to have chosen accounting policies that "hold back" profit recognition (for example, by accelerating depreciation of fixed assets or establishing large loss reserves), so that despite a large cash inflow (Rp 16.95 billion), the income statement still recorded a deficit.

This phenomenon is often associated with the Big Bath Accounting strategy, where management uses a loss-making period to "clean up" the balance sheet by recognizing various discretionary expenses, thus reducing future expenses and making the following year's profit appear to surge dramatically. As a result, the Rp 4.05 billion loss reported in 2024 has low earnings quality, as it does not reflect the company's true cash generation capacity but rather the result of accounting estimation interventions.

Tri Hita Karana (THK) Disclosure Analysis

The independent variables in this study were measured using a local culture-based disclosure index. The results of the content analysis of the companies' Sustainability Reports are presented in Table 2.

Table 2. Tri Hita Karana Disclosure Index (2022-2024)

THK components	Disclosure Indicators	Status 2023	Status 2024	Information
Parhyangan	Vision/Mission Based on Culture & Ethics	There is (1)	There is (1)	Commitment to preserving local culture
	Integrity & Code of Ethics	There is (1)	There is (1)	Implementation of the <i>whistleblowing system</i>
Pawongan	Employee Welfare & Training	There is (1)	There is (1)	BPJS, Local Training, Equality
	Corporate Social Responsibility (CSR)	There is (1)	There is (1)	Foundation & Community Donations
Palemahan	Waste Management (WWTP)	There is (1)	There is (1)	Villa & Catering IPAL Facilities
	Energy Efficiency & Greening	There is (1)	There is (1)	LED Lights & Tree Planting
Total Score		6/6	6/6	Full Disclosure
THK Index		1.00	1.00	Very high

As quantitatively shown in Table 2, PT Island Concepts Indonesia Tbk consistently achieved a perfect disclosure index score (1.00) during the observation period from 2022 to 2024. This consistent full score is not merely a statistical figure, but a strong indicator that the company has successfully internalized local Balinese philosophy into a modern corporate governance framework. Narratively, the company's sustainability report demonstrates high compliance in reporting the integration of cultural harmony values into its business operations, which is divided into three main dimensions:

First, the Parhyangan Dimension (Human Relationship with God/Noble Values). In the context of a secular corporation, this aspect is manifested through the instillation of strong ethical values and moral integrity. The company not only lists a normative vision and mission but also explicitly states its commitment to "maintaining the culture in which the company operates." This is evidenced by the implementation of a strict Code of Ethics and Conduct and a whistleblowing system. The existence of this system reflects management's awareness that business must be run with the principles of honesty and moral accountability, in line with the divine principles that underpin business ethics in Bali.

Second, the Pawongan Dimension (Human Relations with Others). The implementation of this aspect is very dominant in human resources (Human Capital) and social responsibility policies. Internally, the company creates work harmony through inclusive policies, such as gender equality in career paths and recruitment priority for local Balinese workers. The provision of welfare facilities (BPJS, Pension Funds, and Holiday Allowances) as well as regular competency training are evidence that the company views employees as humanistic assets that must be treated as humane, not merely as a factor of production. Externally, social harmony is realized through a sustainable Community Development program. The company's consistency in distributing donations to orphanages (such as the Nurul Hikmah Halim Foundation) and the underprivileged confirms the company's position as an entity that is sensitive to social inequality in its surrounding environment.

Third, the Palemahan Dimension (Human-Nature Relationship). Considering that the company's primary business sectors are accommodation (hotels/villas) and catering services, which are prone to waste generation, environmental aspects are a key focus. A perfect score on this dimension is supported by physical evidence in the form of optimally functioning Wastewater Treatment Plant (WWTP) facilities. Management recognizes that water pollution in Bali can damage the tourism image. Furthermore, energy efficiency initiatives through the transition to LED lighting and paperless office use demonstrate the company's concrete efforts to minimize its operational carbon footprint.

Results of Earnings Quality Calculation (Modified Jones Model)

Earnings quality is measured using the absolute value of Discretionary Accruals ($|DA|$). The higher the value $|DA|$, the greater the management intervention in the financial statements, which means the lower the earnings quality. The calculation results are presented in Table 3.

Table 3. Results of Earnings Management Calculation (Discretionary Accruals)

Year (t)	Total Accruals Scaled (Y)	Non-Discretionary Accruals (NDA)	Discretionary Accruals (DA)	Earnings Quality ($ DA $)
2024	-0.05839	3.7100E-02	-0.09549	0.09549270668
2023	-0.01903	4.1050E-02	-0.06008	0.06007509369

Statistically, the absolute value of Discretionary Accruals ($|DA|$) experienced a significant escalation, moving from 0.060 in 2023 to 0.095 in 2024. This 58.3% year-on-year increase is not just a normal fluctuation in numbers, but a strong indication of a change in management's aggressiveness in preparing financial statements. The 0.095 figure in 2024 indicates that nearly 9.5% of the company's total assets are influenced by subjective or discretionary accrual policies, rather than by real cash transactions. The greater this discretionary component, the further the reported profit is from the company's actual economic reality, confirming that the company's profit quality in 2024 experienced a sharp deterioration compared to the previous year. As a result, the presented profit or loss figures contain a higher content of managerial "noise , " thus weakening the ability of the profit to predict future cash flows.

The Impact of Tri Hita Karana Implementation on Profit Quality

Based on empirical data, there is a paradoxical finding between the level of disclosure of cultural ethics and the quality of financial reporting. Referring to Table 2, companies consistently disclose full compliance with the Tri Hita Karana values (score 1.00). Theoretically (Stakeholder Theory), this high level of ethical commitment should be positively correlated with the integrity of financial reporting, where management refrains from manipulative behavior.

However, the data in Table 3 shows the opposite. In 2024, while THK disclosures remained high, the level of earnings management actually increased (DA rose to 0.095). This indicates that the implementation of Tri Hita Karana cultural values has not been fully effective in protecting management from opportunistic behavior, especially when the company is under financial pressure.

This phenomenon can be explained through Legitimacy Theory. In a loss-making situation (Net Loss of IDR 4.05 billion in 2024), management has a strong incentive to maintain investor confidence. Extensive THK disclosure in the Sustainability Report has the potential to be used as an impression management tool or symbolic adoption. The company builds an image as a highly ethical and culturally conscious entity (Parhyangan and Pawongan) to gain social legitimacy, while on the other hand, management continues to engage in accounting interventions (income minimization) to clean up the balance sheet or stabilize losses to prevent them from appearing too volatile (income smoothing).

Dynamics of Financial Pressure and Earnings Management Motivation

The significant increase in Discretionary Accruals in 2024 (-0.095) provides empirical evidence of management behavior when facing financial distress. A negative DA value indicates a pattern of income minimization, where management tends to choose accounting policies that delay revenue recognition or accelerate expense recognition.

This strategy is often associated with the Big Bath Accounting hypothesis. Given that the company is certain to report a loss in 2024, management might use it to "clean up" its financial statements by recognizing more discretionary expenses this year. The goal is to reduce future expenses, allowing the company to more quickly record positive profits in the coming years. Unfortunately, this strategy sacrifices the quality of current-period earnings, as the reported loss figure does not purely reflect real economic performance but rather the result of accounting manipulation.

The Role of Auditors in Moderating the Relationship between Ethics and Earnings Quality

The moderating variable in this study is Audit Quality, which is proxied by the size of the Public Accounting Firm (KAP). During the observation period, PT Island Concepts Indonesia Tbk was audited by KAP Jimmy Budi and Rekan and KAP Herman Dody Tanumihardja (Non-Big Four category), with an Unqualified Opinion.

Although the audit opinion issued was "Qualified," the finding of increased earnings management in Table 3 suggests a limited role for auditors in detecting or limiting management's aggressive accounting estimates. Non-Big Four auditors often have a looser tolerance for accounting flexibility than Big Four auditors, who tend to be very conservative in order to maintain their global reputation.

In the context of Tri Hita Karana, the auditor's role should be to verify whether the ethical narrative in sustainability reports aligns with the integrity of the financial figures. However, research shows that without the oversight pressure of the highest-quality auditors (the Big Four), local ethical values (THK) become less effective in preventing earnings management. Non-Big Four auditors may be more focused on formal compliance with accounting standards (PSAK), but less aggressive in challenging management assumptions related to accrual estimates (such as allowances for doubtful accounts or asset depreciation), leaving room for earnings management.

CONCLUSION

This study concludes that there is a paradox between the narrative of cultural ethics and the reality of financial reporting, where high disclosure of Tri Hita Karana (THK) values in sustainability reports does not necessarily guarantee high earnings quality. Empirical evidence at PT Island Concepts Indonesia Tbk shows that amidst the pressure of financial losses, management tends to engage in aggressive earnings management practices—indicated by the surge in Discretionary Accruals in 2024—despite the company's consistent claims of full compliance with cultural harmony values. This confirms that the disclosure of local values tends to be symbolic (symbolic adoption) as a legitimacy strategy to maintain the company's image, while the role of external auditors as a moderating variable has not been fully effective in limiting management's opportunistic behavior in exploiting accounting flexibility during difficult times.

The practical implications of these findings warn investors not to be misled by the qualitative aspects of sustainability reports alone, but rather to validate the ethical narrative with fundamental analysis of operating cash flows to detect the risk of greenwashing. For companies based on local culture, it is recommended to increase reporting credibility by strengthening the independence of the Audit Committee or switching to a high-quality auditor (a Big Four) so that cultural values are truly internalized in the integrity of the financial figures. Further research is recommended to expand the sample to all issuers in the tourism sector and statistically compare the effectiveness of auditor types to obtain stronger generalizations regarding this phenomenon.

RESEARCH TRANSPARENCY AND ETHICS STATEMENTS

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NPYI: Conceptualization, Methodology, Data Collection, Data Analysis, Writing – Original Draft, Visualization, Review and Editing

ES:Supervision.

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3. Conflict of Interest:

No conflict of interest: The authors declare that they have no conflict of interest related to the research and publication of this article.

4. Research Ethics:

The study did not involve any intervention, biological specimens, vulnerable groups, or sensitive personal data. Participation was voluntary, and the confidentiality of the respondents was maintained.

5. Use of Artificial Intelligence (AI):

No Use of AI. The authors declare that generative AI was not used in the preparation of this article.

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