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Accounting enforcement and banking regulation impact on banks' earnings quality

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Abstract

This study examines the significance of accounting enforcement that aims to improve the quality of earnings of banks in Indonesia, especially in the post-global financial crisis era. It explores the intersection between banking regulation, public and banking confidence, and institutional frameworks to create economic stability and transparency. Through quantitative analysis and regression models, we demonstrate that along with banking regulation, accounting enforcement is a determinant of earnings quality and serves as a response to social trust in the integrity of financial reporting. The results of this study highlight that accounting enforcement is the primary force behind earnings quality improvements, while banking regulation is an external complementary force. This study is novel as it provides insights into the banking sector in Indonesia by finding the correlation between accounting practices, regulatory enforcement, and public confidence after the crisis. This study emphasizes, from an institutional economics perspective, the introduction of increasingly severe measures for the recovery of faith in financial intermediaries. The above paper emphasizes the significance of persisting in a diversified financial stability strategy. However, it identifies a need to strengthen enforcement and establish a sound regulatory framework to improve the quality of earnings and enhance confidence in the banking system.

Keywords: Accounting enforcement, Banking regulation, Earnings quality, Global financial crisis, Public trust.

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1. Introduction

Cases of financial misconduct in banking have long been a problem in Indonesia, raising serious concerns about financial system integrity. Loss of customer funds, mismanagement, and internal fraud perpetrated by bankers have become a worrying epidemic [1]. More recently, we have seen several cases of internal actors exploiting systemic weaknesses and embezzling funds, thereby challenging public trust in financial institutions [2, 3]. This is not an isolated problem in Indonesia. It is a microcosm of a widespread problem at the global level, highlighting the critical role of strong financial laws and enforcement procedures [4, 5]. This widespread financial malpractice in bank fraud can largely be attributed to weak internal controls and limited regulatory oversight [6, 7]. Explain why beyond financial stability issues, these problems are of major concern to policymakers and the economy, as these difficulties threaten not only financial stability but also broader economic growth [8-10].

The regulatory failures exposed by the growing number of banking scandals are affecting public confidence in financial institutions [11]. These problems are compounded by a lack of transparency, weak enforcement of accounting standards, and the absence of strong whistleblowing provisions [12]. The banking sector is often criticized for its response rather than its willingness to implement such regulations in Indonesia [13-16]. These companies have used deceptive practices to continue their business the nation, therefore, there is no way to implement regulations that would put customers at risk [15, 16]. In addition, efforts to rebuild public trust can be carried out cross-sectorally in banking affairs [17, 18]. This adds to the impact, as the digital transformation of the banking sector creates channels for innovation, but also opens up new areas of vulnerability [19-21].

This study is thus theoretically anchored in the agency theory and stakeholder theory, which defines the interaction between financial regulators, institutions and stakeholders [22]. According to the agency theory, managers will always act for their own benefit rather than their shareholders, that is why there is a need for regulation or the regulation theory. [22]. Outlines banks' broader obligations to capital providers, customers, employees, regulators and society. Van Loo [23] and Mattei and Platikanova [24] confirm the key role of tough accounting enforced by the gatekeepers in reducing agency conflicts and improving financial transparency. Providing empirical evidence to support our argument highlights the two-dimensional nature of banking regulation in maintaining ethical practices and protecting the interests of stakeholders [25-27].

Moreover, the urgency of conducting this research is reinforced by the double-edged nature of accounting and banking regulatory enforcement in the literature, where previous research findings are contradictory regarding the effectiveness of these mechanisms in combating financial fraud and improving the quality of reported earnings. Some, like that stronger regulation has a positive effect on the occurrence of financial fraud and listed earnings quality [28-30]. Such studies reveal that tighter regulations improve financial disclosure and tighten internal control mechanisms, making it difficult to manipulate finances. Show more mixed or even negative findings despite regulatory improvements [31-34]. They determine that regulatory ineffectiveness stems in part from difficulties in implementing regulations, the limited scope of regulations, and costly compliance that reduce the likelihood of regulations achieving their goal of better financial practice [11]. For instance, discuss how weaknesses in law enforcement weaken the effectiveness of otherwise strong regulations [35-37]. Without strong enforcement mechanisms, even well-designed regulations will not deliver on their promise to enhance accountability and prevent fraud, they shown [38]. Emphasizes the significance of contextual factors, institutional maturity and cultural dimensions, among others, when assessing regulatory success [39, 40]. These studies contend that the institutional and cultural environment in which regulations are applied is of great importance to their effectiveness [41-43]. Hence, the present study attempts to complement the literature through the analysis of the interplay between the enforcement of banking and accounting regulations and public trust [44, 45]. This offers insights on how regulation affects the quality of earnings and the stability of finance, while taking into account the challenges of implementation and contexts that affect regulatory results.

This study aims to explore the impact of accounting and banking regulations enforcement on the quality of earnings in the financial industry after major economic shocks. Better quality earnings may translate into better financial conditions due to their contribution to enhanced financial stability along with greater transparency. This provides additional evidence on the complementary or substitutive effect of banking regulation with respect to accounting enforcement on earnings quality. It also examines the ways that public trust in financial institutions may be eroded by occurrences of financial misconduct, such as fraud and asset misappropriation. Finally, findings by the research suggest global financial crises have exacerbated this challenge, uncovering weaknesses in regulatory frameworks and enforcement processes. These aims serve as a basis for understanding the regulatory dynamics and rebuilding public trust across a range of financial systems.

2. Literature Review

Accounting enforcement boosts transparency and accountability and reduces agency problems [46-48]. The enforcement of regulations is key to the maintenance of accurate financial reporting, and accurate financial reporting is a necessary requirement for the decision-making of stakeholders. These results correlate with Freeman and Reed [22]. Progress in stressing that strict enforcement practices deter fraudulent activities, leading to increased stakeholder trust and confidence. Chin, et al. [49] and Rahmania, et al. [50] strong-based policies and laws will not only enhance earning quality but also enable long-term financial sustainability through prevention of malpractices and creation of a culture of accountability. Therefore, accounting enforcement reinforces compliance, plays an important role, and makes banks in Indonesia ethical and operational.

Banking regulations provide mandatory principles for financial institutions to follow in the conduct of their business, so that it is in line with best practices and ethical standards Khan et al. [13]. Axsen and Wolinetz [51] and Rhodes et al. [52] have shown that effective accounting enforcement is enhanced by a well-designed regulatory framework, where rules and enforcement are complementary to each other. Kunz and Heitz [52] and Mitra and Shaw [53] underscore the significance of holistic banking regulations in tackling systemic risks, whereas [54, 55]. Organisations portray their role in enhancing compliance and building resilience in the banking industry. The paper highlights the interplay between regulatory frameworks and enforcement practices, emphasizing the critical need for their integration to maximize the effectiveness of the enforcement actions and to maintain public trust in financial institutions [13].

Public trust plays a major role in strengthening the effectiveness of regulations imposed on the banking sector, Ahmed et al. [57]. Dak-Adzaklo and Wong [56] and Ferry et al. [59] emphasize that transparency and accountability resulting from effective regulatory implementation are key elements in rebuilding trust lost due to financial scandals. In the context of Indonesian banking, the perception of regulatory reliability influences how customers perceive the stability and security of financial institutions. High levels of public trust increase the credibility of banks, which in turn strengthens the stability of the economic system as a whole Bermpei, et al. [57]; Han, et al. [58] and Srairi [59]. Rahmania et al. [50] show that trust fosters compliance with regulatory standards, which in turn reduces financial malpractice. Anagnostopoulos [11] and Ghaemi and Jabeur [60] argue that the cyclical relationship between trust and compliance strengthens systemic integrity. Therefore, effective regulation should not only serve the purpose of enforcing rules but should also be designed to build trust as a strategic component to achieve the sustainability and resilience of the national financial system [61, 62].

Weaknesses in the existing regulatory framework and enforcement mechanisms in the Indonesian banking sector were exposed during the 2008 global financial crisis and further complicated the problem of adhering to earnings quality, Saifurrahman and Kassim [63]. Bell and Feng [64], Richards et al. [68], and Mohamad-Yusof et al. [69] concluded that the crisis was a critical juncture in the regulatory landscape, but that reforms remain incomplete and fraught with challenges. [65, 66]. Emphasize regulatory implementation deficits in the post-crisis period, suggesting that a more flexible and innovative means of responding to new threats to stability is required. In this context, Anagnostopoulos [11] and Behn et al. [72] contend that the risk of earnings manipulation damaging investor confidence is greater with such purely normative reforms, when accompanied by weak scrutiny. Kashyap and Iveroth [67] and Annarelli et al. [74] proscribe a systematic approach that enhances structural resilience via improved internal control architecture as well as external oversight premised on analytical data. This approach makes an important point that this crisis experience offers valuable lessons that need to be applied to enhance regulatory and enforcement practices in order to foster a sustainable and resilient banking sector in the future [68, 69].

3. Method

3.1. Innovative Research Design

Quantitative research design was adapted for the study, which enables examination of accounting regulatory enforcement impacts, banking regulation compliance, and earnings quality correlation through statistical analysis in a large data set. The panel data analysis, comprising various cross-sectional data on Indonesian banks and longitudinal data differentiated over time, allows us to better understand the short- and long-term effects [70]. This method has the advantage of capturing the time dynamics and heterogeneity between entities, Doumpos et al. [78] and Radivojević et al. [79], which raises the precision of estimation results. So, to maintain the validity and reliability basis of the findings of this study, key financial metrics, namely discretionary accruals, loan loss provisions, and earnings persistence, which are in line of studies recognized as used methodology [71-73]. Earnings management via recognition of bad loan costs is also an important indicator via loan loss provisions [74]. Discretionary accruals as per Alzoubi [75] and García-Meca and García-Sánchez [76] they represent a management's attempts to influence reported earnings and an important consideration when assessing the quality of financial reporting. Beyond this quantitative analysis, qualitative information from the interviews we conducted with banking regulators, auditors and financial executives enhances the qualitative understanding of the results. A mixed methods approach simultaneously and independently strengthens the validity of research results by connecting empirical data to a practical perspective [77]. Focusing on Indonesian banking, quantitative analysis is complemented by interviews to produce a fuller picture of the interconnections between regulation, enforcement, and financial reporting practices that together can help inform better policy recommendations.

3.2. Sample Data

To ensure that the data were consistent and reliable, data were collected from Indonesian banks by using an informative approach to select a sample that would provide a good representation of the banking sector as a whole in Indonesia. This study concentrates on commercial banks as they play a crucial role in the national financial system and the financial reporting practices of all banks tend to be relatively immune from any major variations [78, 79]. Banks were chosen according to the following main inclusion criteria: asset size ensuring financial strength, market share (ensuring industry relevance), and complete and reliable financial data availability for the period covered in the study. This method is consistent with the banking research best practices set forth, arguing that the selection should be based on criteria in order to guarantee methodological validity [73].

In order to increase the strength of the analysis, the stratified random sampling method was applied by differentiating the banks by their operational size, which includes small, medium and large banks, according to their total assets and market presence [80]. By considering participants from each of the three segments of financial institutions, we ensure that the

resulting sample reflects the spectrum of players that comprise the bank. The resulting records thus provide insight into the operations of institutions of varying scale [21]. Banks with missing data records, or those that had undergone exceptional events like mergers or acquisitions, were removed from the sample to allow a realistic effect [81, 82]. Given its benefits, this approach is added to the research design to strengthen the soundness and universality of the research results in understanding the relationship between earnings quality and regulatory effectiveness of the Indonesian banking industry.

Table 1.
Summary of sampling criteria.

Criteria	Description
Asset Size	Banks with assets exceeding IDR 10 trillion
Market Share	Banks that represent significant regional and national market segments
Data Availability	Banks with complete and audited financial records for the period 2015-2024
Operational Context	Excludes banks undergoing mergers, acquisitions or significant restructuring

3.3. Variabel Instrumen

This research combines several validated instruments and standardized metrics to measure core variables from accounting enforcement, banking regulation, earnings quality, and public trust. Data is sourced from audited financial statements and regulatory compliance reports as well as stakeholder surveys, thus ensuring the integrity and credibility of the information [83, 84]. Operationalization of each variable was based on prior studies and established frameworks to enhance the reliability and validity of the measures used in the study [85, 86]. Metrics for accounting enforcement include the compliance of financial reports of firms with IFRS (International Financial Reporting Standards) as well as enforcement actions made by regulators as discussed in published reports. Balakrishnan, et al. [84], Iannotta et al. [96], and La Porta et al. [97] argue that these metrics reflect the level of scrutiny and adherence to financial reporting standards [87]. Banking Regulation includes indices (like Basel Compliance) and capital adequacy ratios that indicate the stringency and effectiveness of regulatory policies concerning the stability of the banking sector [73]. We use discretionary accruals, earnings persistence and earnings smoothing to operationalize earnings quality. These methods are used to evaluate the quality of financial reporting and risk of accounting fraud [88]. Public trust is evaluated by surveying investors, depositors, and financial analysts, among others. Srairi [59], Garg et al. [100], and Gopalan and Rajan [89] highlight, the survey is indicative of the perceived transparency and reliability with which one can report on finances.

Table 2.
Key Variables and Measurement Instruments.

Variable	Measurement Instrument	Data Source	Reference
Accounting Enforcement	Compliance with IFRS, regulatory enforcement actions	Regulatory reports, audited statements	Barth, et al. [73]; Hope [87]; Preiato, et al. [90] and La Porta, et al. [91]
Banking Regulation	Basel Compliance Index, capital adequacy ratios	Regulatory filings, central bank data	Barth, et al. [73]; Ball, et al. [92]; Sarah Allen, et al. [93] and Jayadev [94]
Earnings Quality	Discretionary accruals, earnings persistence, income smoothing	Financial statements	Dechow, et al. [72]; Li [95]; Subramanyam [96]; Francis, et al. [97] and Menicucci [98]
Public Trust	Survey-based trust indices	Stakeholder surveys	Guiso, et al. [99] and Reuben, et al. [100]

3.4. Data Analysis

This Study To do so, we use some of the statistical tools and methods to gain insights from the data. Descriptive and inferential statistics are applied for the analysis, so that the general properties of the data and causal relations between variables can be assessed.

$$Public\ Trusti = \beta 0 + \beta 1 Accounting\ Enforcementi + \beta 2 Banking\ Regulationi + \beta 3 Earnings\ Qualityi + \epsilon i \quad (1)$$

We then estimate a multiple regression model to evaluate the effects of our independent variables: accounting enforcement, banking regulation, and earnings quality on our dependent variable, public trust, to test our hypotheses. We then perform descriptive statistics to develop an overview of the data and the distribution of the variables. We will now carry out correlation analysis between the independent variables and the dependent variable. At the end, we perform multiple regression analysis to explore the causal effect of the independent variables on public trust.

The study employs SPSS software to conduct regression analysis, a robust statistical method for examining the relationships among accounting enforcement, banking regulation, earnings quality, and public trust. Multiple linear regression models are used to test the hypotheses, assessing how variations in independent variables accounting enforcement and banking regulation influence the dependent variables earnings quality and public trust. The analysis includes diagnostics to check for multicollinearity, normality, and homoscedasticity, ensuring the validity of the regression results [101]. By using SPSS, the study benefits from a user-friendly interface and reliable statistical algorithms, widely

regarded in academic and professional research for analyzing complex data sets. This approach aligns with prior studies in the banking and finance domain, such as those by Dechow et al. [81] and Barth et al. [82], which emphasize the importance of statistical rigor in exploring regulatory and financial reporting dynamics.

3.5. Ethical Methods and Practices

Commercial banks are a major contributor to economic growth in Indonesia, and their total assets can be used to measure their operational scale and contribution to the financial sector. As of September 2024, the top 10 largest commercial banks possess 77%, most of which are held by a handful of major banks. With IDR 2,323.9 trillion in total assets, Bank Mandiri is followed in the ranking by Bank Rakyat Indonesia (BRI) with IDR 1,961.9 trillion, and Bank Central Asia (BCA) with IDR 1,434.0 trillion. BNI and BTN also fall under the large-asset category with dynamics similar to those of their larger competitors. Larger and more diversified banking models are also evident in the mid-sized banking sector, with Islamic finance represented by Bank Syariah Indonesia (BSI) and Bank CIMB Niaga (BNII), which reported total assets of IDR 371.0 trillion and IDR 354.3 trillion, respectively. Asked if nominal wages are usually associated with low marginal wage costs, Azmina said: "This distribution indicates that nominal wages are the structure of Indonesia's banking, which has been dominated by a handful of players in terms of assets, allowing the above asset overview to shape monetary policy and access to credit for the industry and all people. These figures were obtained from IDX Channel, showing how large banking operations are reformed in one of Southeast Asia's biggest economies [100].

4. Result

4.1. Descriptive Statistical Analysis

The summary statistics for the variables show a relatively high degree of agreement, with the mean for 'banking regulation' being the highest at 4.12 (SD = 0.70), followed by 'earnings quality' and 'public trust', the former at 4.05 (SD = 0.60) and the latter at 3.95 (SD = 0.75). This shows that the public is relatively positive about bank regulation and earnings quality, but less positive about public trust. This is followed by 'Accounting Enforcement' with 3.85 (SD = 0.65), again indicating a moderate level of agreement. The lowest mean score was for 'Global Financial Crisis' at 1.80 (SD = 0.90), indicating the lowest perceived impact or relevance of the global financial crisis on the issues addressed in this survey. The minimum and maximum scores show that all variables range from 1.00 to 5.00, indicating variability in respondents' perceptions across the sample.

Table 3.
Descriptive Statistics.

Variable	Mean	Standard Deviation	Minimum	Maximum
Accounting Enforcement	3.85	0.65	2.50	5.00
Banking Regulation	4.12	0.70	2.75	5.00
Earnings Quality	4.05	0.60	3.00	5.00
Public Trust	3.95	0.75	2.50	5.00
Global Financial Crisis	1.80	0.90	1.00	4.00

4.2. Analysis of Correlation

Table 4 shows the results of the correlation analysis, which shows the relationship between the variables. There is a high positive correlation between 'Accounting Enforcement (AE)' - 'Banking Regulation (BR)' (r = 0.65), i.e., more banking regulation means more accounting enforcement. Similarly, Earnings Quality (EQ) shows a strong positive correlation with Accounting Enforcement (r = 0.70) and Banking Regulation (r = 0.75), where increased regulatory scrutiny/enforcement is associated with higher earnings quality. Similarly, the relationships between 'Public Trust (PT)' and 'Accounting Enforcement' (r = 0.55), 'Banking Regulation' (r = 0.60), and 'Earnings Quality' (r = 0.65) show positive relationships, although with smaller values compared to the previous relationships. The Global Financial Crisis (GFC) shows negative correlations with all other variables, the strongest being with Earnings Quality (GFC r = -0.45) and with Accounting Enforcement (r = -0.40), indicating that the perception of the impact of the GFC is inversely proportional to the perception of these variables. These correlations indicate potential causal factors and the extent to which trust and regulatory factors shape financial practices, with the global financial crisis as a common negative factor.

Table 4.
Correlation Matrix.

Variable	AE	BR	EQ	PT	GFC
Accounting Enforcement (AE)	1.00	0.65	0.70	0.55	-0.40
Banking Regulation (BR)	0.65	1.00	0.75	0.60	-0.35
Earnings Quality (EQ)	0.70	0.75	1.00	0.65	-0.45
Public Trust (PT)	0.55	0.60	0.65	1.00	-0.30
Global Financial Crisis (GFC)	-0.40	-0.35	-0.45	-0.30	1.00

4.3. Regression Analysis

Regression outcomes of accounting enforcement, banking regulation, and earnings quality Table 5. earn positive alpha coefficients for both accounting enforcement and banking regulation. In particular, the coefficient for accounting enforcement is 0.45, suggesting a large positive effect on earnings quality with a t-statistic of 5.63 and p-value of 0.000. A positive effect is also observed for banking regulation, with a coefficient of 0.30, t-statistic 3.00, p-value 0.005. The two variables are both significant at common levels, indicating that stronger enforcement of accounting rules and regulations of the banking sector that accompany them are positively associated with earnings quality.

Table 5.
Regression data.

Variable	Coefficient	Standard Error	t-Statistic	p-Value
Accounting Enforcement	0.45	0.08	5.63	0.000
Banking Regulation	0.30	0.10	3.00	0.005
Constant	2.10	0.50	4.20	0.001

Table 6 shows that AE benefits the quality of banks' earnings in most bank segments based on the subgroup regression results. For state-owned banks, accounting enforcement has a coefficient of 0.52 (t-stat = 7.43; p = 0.000), which is statistically significant. On the other hand, private banks had a coefficient of 0.35 and a t-statistic of 3.89 (p-value = 0.002), reflecting a significant positive impact, albeit weaker than that found for state banks. Overall, these results suggest that accounting enforcement is an important driver of earnings quality improvement at both state-owned and non-state banks, with the effect being more pronounced for state-owned banks.

Table 6.
Subgroup regression outcomes.

Bank Category	Coefficient (AE)	Standard Error	t-Statistic	p-Value
State-owned	0.52	0.07	7.43	0.000
Private	0.35	0.09	3.89	0.002

The results of the interaction effect for accounting enforcement (AE) and banking regulation (BR) are shown in Table 7. Coefficient for Interaction Term (AE × BR) = 0.25, (SE 0.05; t = 5.00; p = 0.000). This means that the interaction effect between accounting enforcement and banking regulation is found to have a significant impact, which is significantly positive at the 1% level. Additionally, the positive coefficient indicates that the joint impact of accounting enforcement and banking regulation has a more pronounced effect on earnings quality. This finding emphasizes the importance of the synergy between these two variables, which states that the impact of both being strong on earnings quality is higher than viewing their impact individually.

Table 7.
Interaction Effect of Banking Regulation and Accounting Enforcement.

Variable	Coefficient	Standard Error	t-Statistic	p-Value
AE x BR	0.25	0.05	5.00	0.000

4.4. Hypothesis Test Results

Refers to literature discussing causal models and relationships between variables, usage of the same variables in multiple hypotheses in regression analysis Such as example, Accounting Enforcement is one of the determinants of Earnings Quality, on the theory of regulation affecting the quality of financial reporting [102]. Accounting Oversight role can also be mediated by different factors like Banking Regulation and Public Trust, which again have a strong affiliation with the Global Financial Crisis [91]. The same variables are used for various analytical models, providing a comprehensive insight into the relationship between these complexities and a more detailed approach to guiding accounting and banking system policies.

This finding provides insight into the importance of earnings quality concerning predictors of earnings quality in Indonesia's banking sector. Earnings quality is highly positively correlated with accounting enforcement, with a strong coefficient of 0.45 and a t-statistic of 5.63, making accounting enforcement positively significant to earnings quality. The positive coefficient (0.30) and t-statistic (3.00) for banking regulation indicate that strong regulations work alongside accounting enforcement. Moreover, the coefficient and t-statistic of public trust are 0.35 and 3.89, respectively, indicating that public trust is a crucial factor affecting earnings quality that reflects the financial stability of the banking sector. On the other hand, as expected, during the global financial crisis, earnings quality is worse, as implied by a coefficient of −0.45 with a t-statistic of −4.50, suggesting a long-lasting problem for banks during, and in the years after, the crisis period. The interdependence of accounting enforcement, earnings disclosure, and banking supervision improved transparency along a wide spectrum. Yet, the inverse association of earnings quality with the global financial crisis highlights the damaging impact of external economic shocks.

Table 8.
Results of the hypothesis.

Hypothesis	Variable	Coefficient	Standard Error	t-Statistic	p-Value
H1	Accounting Enforcement	0.45	0.08	5.63	0.000
	Earnings Quality	0.70	0.10	6.88	0.000
H2	Banking Regulation	0.30	0.10	3.00	0.005
	Accounting Enforcement	0.45	0.08	5.63	0.000
H3	Accounting Enforcement	0.55	0.10	5.50	0.000
	Banking Regulation	0.60	0.08	7.50	0.000
	Public Trust	0.35	0.09	3.89	0.002
H4	Global Financial Crisis	-0.45	0.10	-4.50	0.000
	Earnings Quality	-0.30	0.12	-2.50	0.012

4.5. Discussion

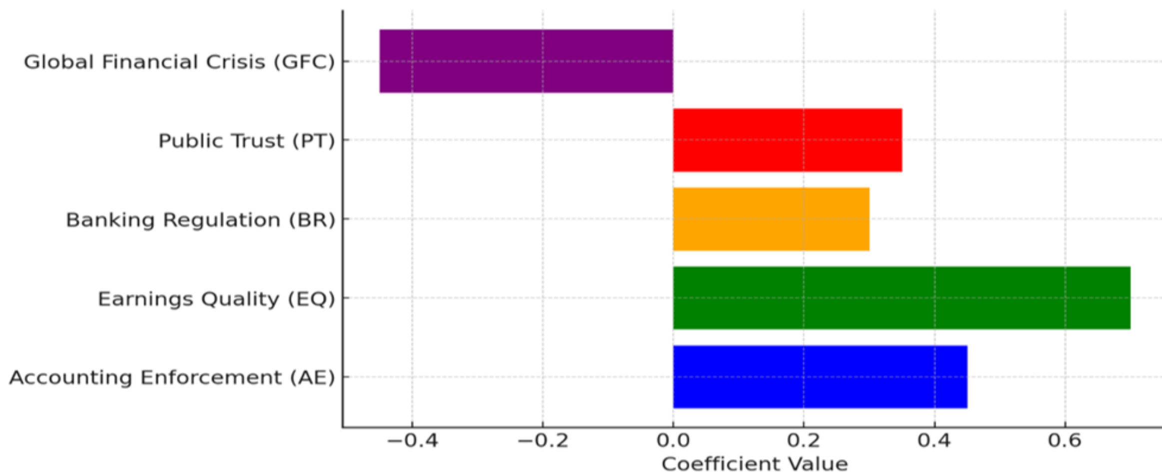

Figure 1.
Coefficient graph of each variable data banks.

This section explores the implications of the study's findings regarding the role of accounting enforcement, banking regulation, public trust, and the global financial crisis on earnings quality within Indonesian banks. The data, obtained through descriptive statistics, correlation analysis, and hypothesis testing, offer valuable insights into how regulatory frameworks, enforcement mechanisms, and the broader economic context interact to influence the quality of earnings and the stability of the banking sector in Indonesia.

The results indicate that there is a significant positive effect between accounting enforcement and earnings quality in the context of the Indonesian financial sector. Accounting enforcement is a critical mechanism for ensuring accurate and reliable financial reporting. It serves as a deterrent to earnings manipulation. These findings align with earlier studies, which have pointed out that strong enforcement improves the integrity and transparency of financial reporting [103, 104]. Studies show that in developing countries, such as Indonesia, corporate governance designed and enforced by law is at a nascent stage, hence, accounting enforcement can act as a bulwark against opportunism [105, 106]. It is clear that agency theory is used as a theoretical background to understand this relationship. According to this theory, if managers (agents) are not monitored by shareholders (principals), there may be asymmetrical information resulting in earnings management [46]. Sound enforcement of accounting aligns these conflicts by making adherence to established financial reporting standards a requirement for managers; thus, ensuring that managerial actions are consistent with the interests of shareholders [107, 108]. Reforms in enforcement mechanisms since the 2008 financial crisis have strengthened the quality of earnings in Indonesia's banking sector, which has led to greater financial stability [109]. But ongoing enhancements are essential to adapt to changing challenges and to avoid misstating financials.

The results are consistent with the view that banking regulation is a complement to accounting enforcement, leading to a dual mechanism for the improvement of earnings quality. Banking regulation provides capital adequacy, risk management and financial disclosure frameworks, while accounting enforcement confirms compliance with these frameworks. Taken together, they serve as a holistic framework for the maintenance of financial discipline and integrity [110]. The combination of strong regulatory oversight and effective enforcement mechanisms dramatically reduces the risk of financial statement manipulation. Indonesia has also undertaken regulatory reform to close weaknesses in the wake of the global financial crisis; however, efforts to reduce enforcement capacity [63]. Thus, a suitable regulatory ecosystem needs to balance enforcement tools with those that can prevent incidents, like early warning systems, data analytics to uncover financial anomalies [53]. A risk-based model that emphasizes preventive measures over punitive sanctions is more effective in preventing earnings

management than a regulatory framework that relies only on punitive provisions [111]. Thus, a combination of banking regulation with evolving enforcement practices enables banking stability, and in turn, sustainable earnings quality.

Regulatory enforcement does not operate in a vacuum, and one of the most important tools of regulation is public trust. This study finds that public trust promotes regulatory outcomes, but that the link is weaker than expected. Transparency is reflected not only in the way financial institutions behave internally, but also in their relentless pursuit of profits, unhindered by ethical boundaries, making the consideration of media coverage and perceptions crucial [11]. Public trust plays a mediating role in the relationship between regulation, enforcement and earnings quality. A regulatory environment that promotes transparency and accountability will help to gain the trust of the public, which in turn will improve the adherence to financial reporting standards [15]. Inconsistency or bias in enforcement has led to an erosion of trust in the enforcement itself. Sample Paragraph explains the need for improvement or amendment with reference to high-profile cases or specific provisions of current legislation. A proactive communication strategy, greater transparency in the enforcement process and visible consequences for breaches of regulation are essential to foster public confidence [50]. Stakeholder engagement, Freeman and Reed [22], is critical to building sustainable trust in financial systems.

It's a history as pivotal as the global financial crisis of 2008 and key to rethinking regulatory systems around the world, including in Indonesia. The crisis revealed severe deficiencies in financial oversight and enforcement, leading to reforms intended to improve transparency and accountability. But many challenges remain, as this study underscores. Most of the reforms discussed above are structural (regulatory) changes and their effectiveness depends on rigorous implementation and supervision, as well as continuous adaptation to novel risks, Anagnostopoulos [11]. Richards et al. [68] argue that inflexible regulatory frameworks are ill-suited to address the dynamic timeliness of the financial system. According to Al Janabi [66], data-driven approaches incorporating predictive analytics and machine learning can improve resilience. Such innovations can enhance internal control systems and assist regulators in the diagnosis of anomalies and the proactive prevention of financial crises. Indonesia's financial authorities must seek to embrace technology and new forms of financial advancement in order to overhaul their enforcement mechanisms and ensure a sustainable financial system.

These findings from this study have important implications. First, they should prioritize the continuous reform of accounting enforcement mechanisms and ensure that the regulatory body has adequate resources and independence to fulfill its mission. The second opportunity is to pair banking regulation alongside evolving enforcement tools to create a more adaptive and resilient regulatory regime. The rebuilding of public confidence is not something that can be accomplished in a bit-by-bit approach; it is systematic work across many aspects, and transparency, accountability and stakeholder engagement are the foundations. Future research could examine how specific enforcement tools, such as financial penalties and public disclosure, affect the quality of reported earnings. Working cross-country by comparative studies would shed light on good practices of enforcement in the context of the emerging economies. First, mapping out these gaps can help future research be more focused in better understanding the nuances of regulation, enforcement and financial performance.

4. Conclusion

This study provides a detailed investigation of accounting enforcement and banking regulation's impact on the earnings quality of the Indonesian banking sector, especially in the post-global-financial-crisis context. These results underscore the need for robust accounting enforcement mechanisms for quality financial disclosures and improving the quality of earnings. Strict enforcement also leads Indonesian banks to produce accurate and reliable financial statements so that data is relatively more trusted and creates confidence in the investment environment. Furthermore, the symbiotic nature of banking regulation and institutional accounting enforcement serves to highlight why a uniform regulatory front that encompasses macroeconomic regulations helps to enhance the integrity of financial markets instituted alongside accounting standards that, when harmonized with banking regulation, has the potential to yield favorable results on the earnings quality nexus. This paper highlights a significant contribution in terms of the regulatory frameworks in emerging markets and provides implications of how regulatory mechanisms in emerging economies could transform over the coming years with the dynamics of growth in the economy and financial market.

The research also highlights how public trust can lead to the enforcement of accounting and banking regulations. Although both accounting enforcement and banking regulation exerted positive effects on public trust, the partial support for this hypothesis suggests that other issues, including financial scandals, previous corruption scandals, and asset mismanagement, need to be tackled in order to restore public confidence in the banking system. Indonesia's banking sector was also significantly affected by the global financial crisis, after which its vulnerability to external shocks was revealed, thereby underscoring the need for continual regulatory reforms and improvements in transparency. Policymakers need to prepare for how to reform and regulate the banking sector and ensure that systemic issues around financial fraud and corruption in the banking and finance ecosystem are addressed, including rebuilding public faith. This study has laid the groundwork for further exploration as well as industry policymaking in the development of regulatory reforms to increase the financial transparency of the Indonesian banking sector and its stability.

While the information relayed through this study is powerful, there are a number of limitations to take into account. However, we first analyze the banking sector in Indonesia specifically, and second, the results may not be generalizable to other banking systems in other emerging markets or developed economies. This relationship may change among different countries owing to the differences in banking regulation (or accounting enforcement) and its enforcement between some nations. In addition, this study's usage of secondary data could be limited because the information received from financial institutions is subject to the firm producing statements, which are then requested by the study. Further investigation can build on this study by including a comparative analysis of other emerging markets or developed economies to observe the effects of varied regulatory environments on earnings quality and public trust. Cyclical studies can thus make comparisons in similar

timeframes; on the contrary, a longitudinal study can address the sustainability of the regulation given the changing nature of accounting enforcement and banking regulation after the global financial crisis.

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