International Journal of Global Accounting, Management, Education, and Entrepreneurship (IJGAME2)
URL : https://jurnal.stiepemuda.ac.id/index.php/ijgame2

P- ISSN : 2723-2948
E- ISSN : 2723-2204

FINANCIAL ENGINEERING OR ETHICAL DILEMMA, LITERATURE REVIEW ON PROFIT MANAGEMENT

Ismiantika[1], Noviansyah Rizal[2], Heni[3], Febriane Devi Rahmawati[4]
Institut Teknologi Dan Bisnis Widya Gama Lumajang[1,2,3,4]
Ismiantika6@gmail.com [1] , noviansyah.rizal@gmail.com[2], heni880828@gmail.com[3], febrianedevi.r@gmail.com[4]

ABSTRACT

Earnings management can also directly impact the quality of financial information presented in reports. Inappropriate accounting policy choices or unreasonable adjustments can affect fundamental analysis by investors and financial analysts. The objective of this research is to determine how financial engineering practices contribute to the formulation and implementation of earnings management policies in a company's financial reports, and what their impact is on the reliability of financial information presented to stakeholders. The research also aims to understand the ethical dilemmas associated with financial engineering practices and earnings management as reflected in the literature review. In the literature review structure of this study, a systematic approach is applied to conduct a literature review. The literature selection process begins with determining keywords relevant to the research scope, including terms such as "financial engineering," "ethical dilemmas," "earnings management," and other related concepts. The findings of this research indicate various financial engineering strategies, such as debt restructuring, accounting manipulation, and the use of complex financial instruments, demonstrating companies' creativity in managing their financial aspects. However, this complexity and creativity also pose challenges in interpreting financial reports, raising questions about transparency and corporate accountability.
***Keywords**: Financial Engineering, Earnings Management.*

A. INTRODUCTION

Introduction to the concept of financial engineering is important in understanding the dynamics of company finances and their impact on financial reporting. Financial engineering is a practice that involves manipulating financial structures or using financial instruments with the aim of achieving profits or managing risks creatively. According to (Alamad et al., 2021) This practice includes a number of strategies, ranging from debt restructuring, the use of derivatives, to realigning investment portfolios. While on the one hand, financial engineering can provide flexibility and financial benefits for companies, on the other hand, this practice also raises ethical dilemmas and risks regarding the accountability of financial information presented to stakeholders. The relationship between financial engineering and earnings management forms a complex dimension in corporate financial practices. Financial engineering, as an innovative financial management strategy, often involves manipulation of financial reports to achieve certain goals. In the context of earnings management, this practice can include temporary adjustments to accounting methods or financial reporting to improve the company's financial image (Puspitasari et al., 2022) . The use of sophisticated financial instruments, such as derivatives or complex financial structures, can provide room for more sophisticated earnings management. However, along with these potential benefits, there are also risks related to the accuracy of financial information and its impact on economic decisions.

The factors that encourage companies to engage in earnings management involve a combination of internal and external pressures that motivate this practice. Internally,

DOI: https://doi.org/10.48024/ijgame2.v1i1.12

companies may feel compelled to improve their financial image to look better in the eyes of stakeholders, including investors, financial analysts, and creditors. According to (Ramandita et al., 2019) This goal is often related to efforts to increase share prices, increase company value, or meet predetermined financial performance targets. On the external side, pressure from capital markets, external stakeholders, and financial analysts can create incentives for earnings management practices. Companies often want to meet market expectations and avoid sanctions or a reduction in investor confidence that could occur if their financial performTop of Formance does not meet expectations. The existence of intense competition in certain industries can also encourage companies to utilize earnings management to produce more profitable financial reports.

In addition, factors such as remuneration policies related to financial performance, pressure from upper management to achieve set profit targets, and uncertain economic conditions can also be a driver of earnings management practices. Therefore, a deep understanding of the dynamics of these factors is essential to dig deeper into companies' motivations for engaging in earnings management practices and their potential impact on long-term financial health. According to (Jatmiko et al., 2020) The impact of earnings management on financial reports can be complex and have significant implications for stakeholders' understanding of the financial health of a company. Earnings management practices, which involve tactical manipulation of accounting methods or the presentation of financial information, can result in financial reports that are less accurate or reflective of actual performance. Positively, earnings management may create the illusion of stability and growth which can increase investor confidence and encourage share prices (Sulaeman, 2020) . However, on the other hand, this impact can create a risk of non-transparency and uncertainty that can disappoint stakeholders when earnings management practices are revealed.

Apart from that, earnings management can also have a direct impact on the quality of financial information presented in reports. The selection of inappropriate accounting policies or unreasonable adjustments can affect fundamental analysis by investors and financial analysts. In the long term, this impact could harm market confidence in the company's reliability and integrity. The importance of understanding the impact of earnings management on financial reports not only focuses on the level of accuracy, but also on the readability and transparency of financial information. Therefore, it is necessary to carry out careful supervision and assessment of earnings management practices so that financial reports remain a reliable tool for making economic and investment decisions. According to (Hariseno & Pujiono, 2021) The influence of economic and regulatory factors on earnings management is an important aspect in analyzing the accounting practices adopted by companies. Economic factors, such as market fluctuations and overall economic conditions, can be key drivers for companies to engage in earnings management. In an unstable economic situation, a company may feel pressure to show more positive financial performance in order to maintain investor confidence and maintain the value of its shares. (Nuryadi et al., 2024; Zaman & Pratama, 2023)

On the other hand, regulations also have a significant impact on earnings management practices. The existence of a strict regulatory framework can create pressure to comply with accounting and financial reporting standards, reducing companies' room for excessive earnings management. On the other hand, regulatory weaknesses or loopholes in regulations can provide opportunities for companies to carry out earnings management practices more freely. Apart from that, a company's response to changes in economic regulations can also influence earnings management policies. According to (Panjaitan et al., 2022) Adoption of new regulations or changes in the regulatory environment can encourage companies to adjust their earnings management practices to comply with legal requirements. The link between earnings management practices and regulatory demands highlights the complex relationship between

corporate accounting practices and the regulatory environment that governs them. Regulatory demands are often an important factor that shapes a company's accounting policies and practices. Strict regulations can create obstacles for companies in implementing aggressive earnings management practices. On the other hand, gaps in regulations or lack of clarity can provide opportunities for companies to carry out earnings management without too many obstacles.

Regulatory requirements may detail the accounting standards that companies must follow in presenting their financial information. In particular, regulations can influence the choice of accounting methods, the treatment of certain transactions, and the disclosure of information a company makes in its financial reports. In an effort to meet regulatory demands, companies may be tempted to use earnings management practices to remain compliant with accounting standards and meet stakeholder expectations (Suryadi, 2022) . Careful monitoring and evaluation of existing regulations can help design a regulatory framework that limits detrimental earnings management practices, while still providing the necessary freedom for adaptation to changing economic and business conditions. By striking the right balance between strict regulations and necessary flexibility, the business environment can support transparent and reliable accounting practices. (Hidayah et al., 2023)

Based on the background description above, the aim of this research is to find out how financial engineering practices contribute to the formulation and implementation of earnings management policies in company financial reports, and what impact this has on the reliability of financial information presented to stakeholders and to find out ethical dilemmas related to engineering practices. finance and earnings management are reflected in the literature review, and how they impact investor confidence, the integrity of financial markets, and the ability of regulations to overcome these challenges.

B. LITERATURE REVIEW

In the literature review structure of this research, a systematic approach is applied in conducting the literature review. A variety of sources are accessed through diverse research databases, with an emphasis on careful literature selection and detailed steps. Google Scholar is one of the main sources used in this literature search. The literature selection process begins with determining keywords that are appropriate to the scope of the research, including terms such as "financial engineering", "ethical dilemma", "profit management" and other related concepts. The initial step involves carefully determining keywords to ensure relevance to the research question.

The literature search was carried out carefully, ensuring that the sources taken came from credible databases and were appropriate to the research field. The types of literature searched include scientific articles, books, journals and other publications that focus on social media and promotions. The literature selection process involves a rigorous analysis of each source found, with an emphasis on quality and relevance. Evaluation is carried out to ensure the selected literature is of high quality and supports the research conceptual framework. The entire literature search method was carried out systematically, maintaining thoroughness in building a solid and relevant theoretical foundation for this research.

C. RESEARCH METHOTDS

The article selection process in this study refers to the Preferred Reporting Systematic Reviews and Meta-analysis (PRISMA) guidelines, which have been proven to be a systematic and rigorous framework for detailing the stages in conducting a literature review. A crucial initial stage in the selection process involves an article search, where an analysis of the literature available in the 2020-2023 period is carried out. At this stage, 15 articles were found which became initial material for this research. The next step in the selection process is the

screening stage, where the articles that have been found are analyzed further. This process includes more in-depth research into the article's relevance to the research focus, methodological quality, and research objectives. After going through a careful screening process, 5 articles were selected to proceed to the further evaluation stage. The selection of articles at this stage is carried out carefully and based on previously established criteria.

The article quality evaluation stage is an important step in ensuring the reliability and quality of the literature resources that will be used in the final study report. Each article is carefully evaluated to ensure methodological validity, relevance to the research topic, and quality of data presentation. In the evaluation stage, it was revealed that the five selected articles met the requirements and were of good quality, so they were suitable to be included in the final report of the literature review. The article selection process carried out reflects a rigorous and systematic approach in accordance with PRISMA guidelines. These steps are designed to ensure that only high-quality literature is used in the research, so that the final results are reliable and make a significant contribution to the current understanding of the research topic. This systematic approach also reflects a commitment to maintaining the integrity and validity of research and meeting high scientific standards.

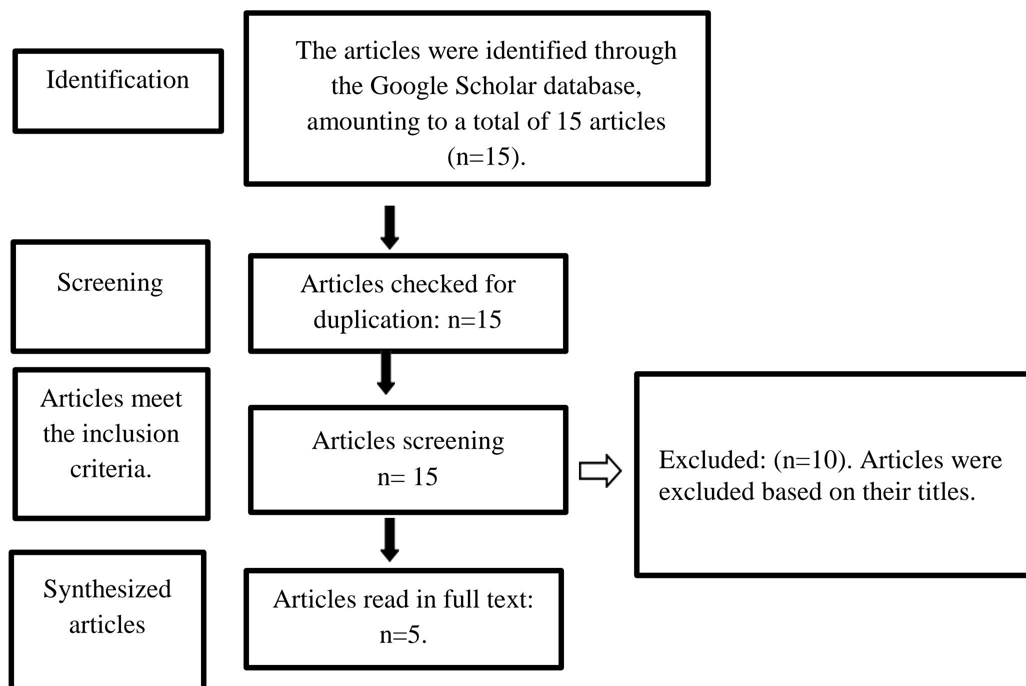

Chart 1. PRISMA diagram

This in-depth identification and review process creates a solid foundation to ensure that the selected articles are of high quality and relevant to the research objectives. Based on the evaluation, 5 articles were selected to proceed to the next stage, which involved an in-depth literature review to explore insights and findings that had been produced by previous studies. In the context of Financial Engineering or Ethical Dilemmas, the selected literature includes an in-depth understanding of financial engineering practices that occur in the business environment. Meanwhile, a literature review regarding Earnings Management highlights practices related to tactical adjustments in financial reporting to achieve certain goals.

DOI: https://doi.org/10.48024/ijgame2.v1i1.12

This entire process reflects a thorough research approach, prioritizing the quality and relevance of the literature used. This in-depth and selective review is designed to ensure that each article included in the research makes a significant contribution to the understanding of the issues involved. Thus, the research results are expected to provide valuable and in-depth insights related to Financial Engineering, Ethical Dilemmas, and Profit Management. This approach also reflects the researcher's commitment to building a strong and informed knowledge base to support research findings. Top of Form

.

Table 1. Financial Engineering or Ethical Dilemma, Literature Review of Profit Management

Title and Researchers	Objective	Results
The Effect of Deferred Tax Assets and Deferred Tax Expenses on Profit Management (Adam & Faridah, 2022)	This research aims to find out whether deferred tax assets have an effect on earnings management and whether deferred tax expenses have an effect on earnings management	There is a significant negative influence between deferred tax assets and earnings management, which means that the higher the value of deferred tax assets, the greater the possibility of the company carrying out earnings management.
Leverage, Company Size, and Company Life Cycle on Profit Management (Kristiana & Rita, 2021)	The aim of the research is to determine the effect of leverage, company size and company life cycle on earnings management in mining sector companies	leverage and company size have no effect on earnings management, but the company life cycle has a positive effect on earnings management in mining sector companies.
Financial engineering and its impact on audit efficiency in the opinion of experts (Tamimi & Orbán, 2022)	This research aims to examine the impact of financial engineering on audit efficiency by analyzing results from research samples involving banks, auditors, financial analysts and academics in Europe, because previous research has not examined the relationship between these variables.	there is a statistically significant relationship between financial engineering and expectation gaps in the audit process, due to the increased need for more detailed information about financial instruments in auditors' reports. The findings from this research are important for auditors, financial engineers, bank executives, and institutions that set accounting and auditing standards.
Revision in the jurisprudence of markets and financial engineering (Al-Sabhany, 2019)	This research aims to reveal the institutional deficiencies and lack of social guidance that lead to a complete disregard for end results and effects when evaluating financial market activities	a clear tendency towards formalism that brands and directs the course of Islamic financial engineering in its efforts to find solutions and exit for transactions using terms and promises
Financial	This research discusses a	the need for business consolidation

engineering of infrastructure projects: The concessional mechanism (Andreeva et al., 2019)	financial engineering model, where financial resources for infrastructure projects are formed based on syndicated loans.	and new infrastructure projects based on digitalization technology in the transportation industry, reviewing the importance of the concession agreement for the construction of the "North Lintang Railway Line

Source: Data processed by researchers, 2023

The various financial engineering strategies commonly used by companies demonstrate the diversity and creativity in a company's approach to financial management. One common strategy is debt restructuring, which involves changes in a company's debt repayment structure to optimize interest charges or shift repayment deadlines. Apart from that, accounting manipulation such as shifting income or expenses to achieve certain financial goals is also a commonly encountered financial engineering strategy. The adoption of complex financial instruments such as derivatives is also part of the financial engineering strategy. According to (Kariimah & Septiowati, 2019) Companies can use derivatives to manage risk and generate financial profits, but their use can also create complexity in the interpretation of financial statements. Furthermore, share buybacks or carefully selected dividend distributions can be a strategy to increase the company's share price, have a positive impact on company value, but also raise questions regarding the source of funds used.

The use of off-balance-sheet practices such as special purpose entities (SPEs) or leashback transactions is also a popular financial engineering strategy. While they can provide financial flexibility, the use of such practices also often carries risks regarding transparency and business sustainability. The relationship between financial engineering practices and earnings management policies creates a complex dynamic in a company's financial strategy. Financial engineering practices, with a focus on manipulation of financial structures, and earnings management policies, which include tactical adjustments to accounting or financial reporting methods, often support each other and provide space for practices that impact financial statements. According to (Atmaja & Supratono, 2020) Debt restructuring, use of derivatives, or other creative financial strategies can give companies the opportunity to achieve certain financial targets. For example, companies may utilize financial instruments to smooth profits and losses or delay recording certain expenses, supporting earnings management policies by creating the desired illusion of stability or growth.

On the other hand, earnings management policies can also provide encouragement for financial engineering practices. When companies set specific financial performance targets, earnings management practices can encourage companies to look for creative ways to manage their financial structure. According to (Puspitasari et al., 2022) For example, selecting certain accounting policies or adjusting debt payments can be directed at achieving predetermined profit goals. Identification of the factors that drive companies to adopt financial engineering reveals the various motivations and pressures that drive companies to adopt innovative and complex financial practices. One of the main factors is the desire of companies to optimize their financial structures, especially in terms of risk management and reducing financial burden. Financial engineering practices, such as debt restructuring or the use of derivatives, provide companies with opportunities to reduce the cost of capital or manage currency, interest rate, or commodity price risks.

Additionally, pressure from external stakeholders, such as investors, financial analysts, or creditors, is often a key driver. Companies often respond to market expectations and seek to maintain or improve their financial image to remain competitive in the capital markets. This may include seeking steady profit growth, increasing stock value, or achieving set financial

performance targets. Internal factors can also provide encouragement, such as management's demands for achieving certain financial targets, efficient capital structure management, or adaptation to changing economic conditions. Additionally, changes in regulations or the global economic environment can create incentives for companies to adopt financial engineering practices to mitigate risks and take advantage of new opportunities (Hidayat, 2021) . A company's motivation to implement financial engineering can be a strong basis for the formulation and implementation of strategic earnings management policies. When companies respond to external and internal needs to achieve certain financial goals, these motivations can provide the basis for the formulation of effective earnings management policies. For example, if a company has ambitious profit targets or high expectations from stakeholders, financial engineering practices can be used as a tool to achieve these goals (Prabowo et al., 2020) .

Motivation to improve a company's financial image, such as increasing share prices or building a strong financial reputation, can be a driving force for companies to implement earnings management policies that support the achievement of these goals. This may include strategic adjustments to accounting methods or realigning investment portfolios to create a more positive financial outlook. In addition, if a company faces external pressures, such as intense industry competition or economic uncertainty, the motivation to adjust profits or show more profitable financial performance can trigger the implementation of earnings management policies (Dewi & Damayanti, 2020) . In this context, financial engineering practices can be an instrument to achieve the desired financial stability or flexibility. Financial engineering practices, such as debt restructuring or the use of derivative instruments, can directly influence elements of financial statements, creating complex dynamics in the interpretation of information by stakeholders.

At the content level of financial statements, financial engineering practices can influence key figures such as net profit, revenue, or assets. For example, the use of derivative instruments to manage risk may cause fluctuations in income or expense items, creating challenges in assessing actual operational performance. Additionally, debt restructuring can create significant changes in capital structure, which in turn affects financial performance measures such as financial ratios or earnings per share. According to (Istianingsih, 2017) In terms of presentation, financial engineering practices can influence the way information is presented in financial reports. Companies may use footnotes or additional disclosures to explain complex changes or use technical terms to detail the financial instruments used. These complex presentations can confuse or complicate the understanding of stakeholders who are less familiar with complex financial practices.

Evaluation of the impact of financial engineering and earnings management practices on the perceptions of stakeholders such as investors, creditors and financial analysts is an important element in understanding the consequences of these practices on the company's trust and relationships with stakeholders. How financial information is presented and managed can have a significant impact on their perceptions and beliefs about a company's performance and prospects. Investors, as the main stakeholders, tend to pay special attention to the reliability of financial reports. Non-transparent or confusing financial engineering and earnings management practices can create uncertainty and harm investor confidence. According to (Hariseno & Pujiono, 2021) On the other hand, if this practice succeeds in creating the illusion of better performance, this can increase investor confidence and result in an increase in share value. Creditors, such as financial institutions or lenders, also have great interest in the company's financial condition. Financial engineering practices that mislead or hide risks can actually harm creditors by reducing their level of vigilance. Conversely, if these practices succeed in improving a company's financial image, this can increase trust and reduce credit risk.

DOI: https://doi.org/10.48024/ijgame2.v1i1.12

Financial analysts, whose job is to decipher financial information to help investors and creditors make decisions, can be affected by the complexity and opacity of financial engineering practices. Overly aggressive earnings management practices can also create difficulties in analyzing a company's actual performance, reducing the analyst's ability to provide accurate investment recommendations. According to (Panjaitan et al., 2022), the level of reliability of financial information produced through financial engineering and earnings management practices raises critical conversations about transparency, accountability and fairness in corporate financial reporting. Financial engineering practices, which include complex strategies in financial structures, can create significant challenges in assessing the reliability of information presented in financial reports. First of all, the use of complex and technical financial instruments can make financial information difficult to access or understand for stakeholders who do not have advanced financial knowledge.

Furthermore, excessive earnings management can cause distortions in financial reports, creating risks of inaccuracy and lack of clarity in financial information. This practice, if not clearly disclosed, can cause confusion and harm stakeholders who rely on financial reports as a basis for decision making. As a result, accurate evaluation of a company's financial health becomes difficult, and the level of reliability of financial information becomes doubtful (Sulaeman, 2020) . It is important to consider how financial engineering and earnings management practices can impact audit quality and external oversight. The auditor's role in assessing and validating financial information is very crucial, and the auditor's involvement in identifying and overcoming potential distortion or manipulation of financial reports is important to ensure the reliability of the information.

The implications of financial engineering and earnings management practices on corporate transparency and accountability are a central point in understanding the impact of these practices on the integrity of financial reporting. Financial engineering practices, by their complex and creative nature, can be detrimental to a company's transparency because they may be difficult to understand for stakeholders who are not involved in high-level finance. According to (Hariseno & Pujiono, 2021) This increased complexity can cloud information and make it difficult for stakeholders to identify true risks and opportunities. In addition, aggressive earnings management can harm corporate accountability because it makes it difficult for stakeholders to objectively assess company performance. If financial reports do not reflect actual performance, this can result in a wrong assessment of the company's financial health and can harm stakeholders such as investors, creditors and financial analysts.

The implications for corporate transparency and accountability also involve legal and regulatory aspects. Financial engineering practices that are not clearly disclosed or that involve abuse of regulations can threaten a company's integrity and credibility. In this case, strict regulations and strict supervision are needed to ensure that companies comply with applicable accounting and financial reporting standards. According to (Panjaitan et al., 2022) Company efforts to control risk and increase transparency in the context of financial engineering and earnings management highlight the proactive steps companies are taking to maintain the integrity of financial information and mitigate potential related risks. Efforts to control risk often involve implementing strict internal policies, using risk management tools, and in-depth evaluation of financial engineering practices that may be used. In addressing the risks associated with financial engineering practices, companies can adopt a risk-based approach by identifying and assessing the potential negative impacts of complex financial strategies. Management of this risk can include judicious use of derivative instruments, continuous monitoring of debt structures, and comprehensive risk planning to respond to changing market conditions.

Furthermore, corporate efforts to increase transparency often involve an increase in the disclosure of more detailed financial information and a better understanding of the financial

practices used. Companies can choose to provide a more in-depth explanation of the accounting policies adopted, describe in detail the risks faced, and provide a clear view regarding the earnings management practices that may be used. (Suryadi, 2022) . In addition, effective communication to external stakeholders, including investors, financial analysts and market supervisory institutions, is an important element in efforts to increase transparency. Companies can adopt open and clear reporting practices, openly explain the financial strategies adopted, and provide sufficient information to enable stakeholders to make informed and reasoned decisions.

The moral and ethical considerations that arise in the practice of financial engineering and earnings management open up discussions about the core values that companies should uphold in a financial context. Ethical dilemmas arise when companies are faced with crucial questions regarding honesty, integrity and responsibility towards stakeholders (Jatmiko et al., 2020) . Moral considerations include the extent to which companies must provide honest and accurate information to stakeholders, and the extent to which financial practices must conform to ethical principles. Fundamental questions about honesty arise when companies choose to adopt financial engineering or earnings management practices that can create distortions in financial reporting. The extent to which companies are obliged to provide the clearest and most honest picture of their performance and risks is an emphasis in these ethical considerations. A company's integrity is tested when they are faced with the opportunity to use creative practices to improve their financial image without considering the possible ethical implications.

The company's responsibility towards stakeholders is a central aspect in this ethical analysis. When making financial decisions, companies must consider the impact on investors, creditors and society in general. The question of the extent to which companies are responsible for the external influences of financial engineering practices, such as their impact on financial market stability or economic sustainability, is an important consideration in ethical assessments (Tamimi & Orbán, 2022) . Ethical dilemmas in financial engineering and earnings management practices can create doubts about a company's integrity and transparency, having a significant impact on investor confidence. Investors depend on honest and accurate financial information to make informed, fact-based investment decisions. When ethical dilemmas create uncertainty about the honesty of financial reports, investor confidence can be eroded. Doubts about the reliability of financial information can lead to reduced confidence in a company's performance and potential return on investment. In the long term, this impact can create a domino effect, affecting share prices, market liquidity, and the general perception of the company's integrity in the capital markets.

Investors who feel that a company does not uphold ethical values may withdraw their investment or reduce their involvement in the company's stock market. Therefore, the impact of ethical dilemmas is not only on individual relationships between companies and investors, but can also affect the company's reputation in financial markets more broadly (Alamad et al., 2021) . Investor trust is critical capital that supports company stability and growth. In the context of ethical dilemmas, companies that can respond proactively and transparently to ethical concerns, as well as implement more ethical financial practices, can regain investors' trust. In the long term view, ethical integrity can be a valuable asset that supports strong relationships between companies and investors, creating a healthier and more sustainable financial environment (Kristiana & Rita, 2021) .

Unethical acts in financial engineering and earnings management practices can create distortions in asset prices and affect the balance of financial markets. Asset price distortion occurs when the information presented by a company does not reflect actual conditions, creating an illusion of performance or value that does not correspond to reality (G. Harb et al., 2023) . For example, the use of unethical financial engineering strategies can create a situation

DOI: https://doi.org/10.48024/ijgame2.v1i1.12

where stock prices reflect performance that is not actually based on the company's actual operations. The effect of this asset price distortion then has an impact on market balance. Efficient markets are assumed to reflect precise information and allow asset prices to reflect their true value. However, unethical conduct creates an imbalance between price and intrinsic value, harming investors who rely on market information to make smart investment decisions. (Pratama et al., 2022)

In addition, these distortions can create unhealthy market volatility, resulting in price fluctuations that are not based on the company's fundamental factors. Investors who are unaware of or do not understand financial engineering practices can get caught up in market movements influenced by inaccurate information, creating unanticipated risks. Further impacts could be felt on market liquidity and resource allocation efficiency. According to (Gryglewicz & Mayer, 2023) Unethical actions can harm investors and other business entities operating in an unstable and unpredictable financial environment. Therefore, maintaining market integrity and ensuring that the information presented by companies reflects the actual situation is the key to creating a healthy and efficient balance in the financial markets. Efforts to reduce unethical behavior through strict regulations, high transparency and effective market monitoring are important to mitigate the impact of distortions that may occur due to unethical financial engineering practices.

Increasingly complex and creative financial engineering practices, along with carefully hidden earnings management practices, create an environment in which regulators must adapt to ever-evolving new skills and tactics. Regulators are often faced with limitations in responding quickly to new innovations in financial practices. According to (Chakravaram et al., 2021) Financial engineering that continues to emerge can bypass existing regulatory frameworks or create legal loopholes that are difficult to identify and overcome. In addition, regulators' limited resources and technology can make it difficult to detect ethical misconduct quickly and efficiently. Subtle earnings management practices can also challenge regulators' ability to detect and address actions that violate ethics (Mirgorodskaya et al., 2018) . The creative methods companies use to hide financial statement manipulation based on Zaman et al., (2024) can require a great deal of skill and technological resources to uncover. This shows the importance of investing in the analytical and supervisory capacity of regulators in order to keep pace with the development of increasingly complex financial practices.

In facing this challenge, cooperation between the private sector, regulators and market supervisory institutions is becoming increasingly important. Effective communication and smooth exchange of information can help better identify trends and potential risks. Additionally, increases in the use of advanced analytical technologies and real-time monitoring can give regulators an edge in detecting harmful practices more efficiently (Koijen & Yogo, 2021) . By recognizing the complexity and dynamics of financial engineering and earnings management practices, regulators need to continually improve their capabilities to address these challenges. Expanding regulations, updating monitoring systems, and increasing collaboration between interested parties can help create a financial environment that is fairer, more transparent, and protected from practices that violate ethics.

D. CONCLUSION

Based on the discussion description, it can be concluded that financial engineering and earnings management practices have a significant impact on company financial reports and stakeholder perceptions. Various financial engineering strategies, such as debt restructuring, accounting manipulation, and the use of complex financial instruments, show companies' creativity in managing their financial aspects. However, this complexity and creativity also creates challenges in the interpretation of financial statements, raising questions about corporate transparency and accountability. Evaluation of the impact of financial engineering

and earnings management practices on stakeholders, including investors, creditors, and financial analysts, is key to understanding their consequences for a company's trust and relationships with its stakeholders. Honesty, integrity, and a company's responsibility to stakeholders are central to ethical discussions, and the ethical dilemmas that arise create uncertainty about a company's integrity and transparency, affecting investor confidence.

Ethical dilemmas also create distortions in asset prices and affect the balance of financial markets. Unethical conduct can create unhealthy market volatility, harming investors and other business entities. Additionally, the impact of financial engineering practices on corporate transparency and accountability raises discussions about core values and corporate responsibilities to society. The importance of corporate efforts to control risk and increase transparency in the context of financial engineering and earnings management highlights proactive steps that companies can take. A risk-based approach, effective risk management, and improvements in financial information disclosure can help create a more ethical and reliable financial environment.

Finally, regulations and the role of regulators are very important in overcoming the challenges that arise from increasingly complex financial engineering practices. Cooperation between the private sector, regulators and market watchdogs, as well as investment in advanced technology and analytics, is necessary to maintain market integrity and prevent harmful practices. Thus, the formulation of policies and implementation of effective actions is key in maintaining the stability and integrity of financial markets as a whole.Top of Form

E. REFERENCES

Adam, D. V., & Faridah, N. S. (2022). Pengaruh Aset Pajak Tangguhan dan Beban Pajak Tangguhan Terhadap Manajemen Laba. *STAR*, *18*(1). https://doi.org/10.55916/jsar.v18i1.24

Al-Sabhany, A. H. O. (2019). Revision in the jurisprudence of markets and financial engineering. *Journal of King Abdulaziz University, Islamic Economics*, *32*(3). https://doi.org/10.4197/Islec.32-3.1

Alamad, S., Hidayah, N. N., & Lowe, A. (2021). A shared boundary object: Financial innovation and engineering in Islamic financial institutions. *British Accounting Review*, *53*(3). https://doi.org/10.1016/j.bar.2020.100958

Andreeva, L. Y., Fedorov, A. V., Prokopenko, E. S., & Sichev, R. A. (2019). Financial engineering of infrastructure projects: The concessional mechanism. *International Journal of Economics and Business Administration*, *7*. https://doi.org/10.35808/ijeba/252

Atmaja, S., & Supratono, E. (2020). Pengaruh Manajemen Laba Terhadap Biaya Modal Ekuitas Melalui Pengungkapan Corporate Social and Environmental Responsibility Sebagai Variabel Intervening. *Jurnal Manajemen Dan Bisnis*, *02*(01).

Chakravaram, V., Ratnakaram, S., Agasha, E., & Vihari, N. S. (2021). The Role of Blockchain Technology in Financial Engineering. *Lecture Notes in Electrical Engineering*, *698*. https://doi.org/10.1007/978-981-15-7961-5_72

Dewi, W. R., & Damayanti, T. W. (2020). Pengaruh Karakter Eksekutif Terhadap Manajemen Laba. *Jurnal Akuntansi Profesi*, *11*(2).

G. Harb, E., Nasrallah, N., El Khoury, R., & Hussainey, K. (2023). Applying Benford's law to detect accounting data manipulation in the pre- and post-financial engineering periods. *Journal of Applied Accounting Research*, *24*(4). https://doi.org/10.1108/JAAR-05-2022-0097

Gryglewicz, S., & Mayer, S. (2023). Dynamic Contracting with Intermediation: Operational,

Governance, and Financial Engineering. *Journal of Finance*, *78*(5). https://doi.org/10.1111/jofi.13265

Hariseno, P. E., & Pujiono. (2021). Pengaruh Praktik Manajemen Laba Terhadap Penghindaran Pajak. *Jurnal Ilmu Komputer, Ekonomi Dan Manajemen (JIKEM)*, *1*(1).

Hidayah, N., Arifin, S., Pratama, D. P. A., Kurniawati, Dominggus, T. B., Suprapto, A. A., & Nurcahyanti, A. (2023). Community Empowerment Through Optimizing Local Wisdom as a Support for The Value of Economic Life. *TGO Journal of Community Development*, *1*(2), 30–38. https://doi.org/https://doi.org/10.56070/jcd.v1i2.35

Hidayat, H. & S. W. (2021). Pengaruh Manajemen Laba dan Transfer Pricing terhadap Penghindaran Pajak. *Bina Ekonomi*, *25*(2).

Istianingsih, I. (2017). Deteksi Manajemen Laba Melalui Discretionary Revenue Dan Aktifitas Riil: Implikasi Penerapan Good Corporate Governance. *Jurnal Riset Akuntansi Dan Keuangan*, *4*(3), 1125–1142. https://doi.org/10.17509/jrak.v4i3.4666

Jatmiko, Anggarani, A., & Sudarwan. (2020). Buku Ajar Manajemen Pemasaran. In *Universitas Esa Unggul*.

Kariimah, M., & Septiowati, R. (2019). PENGARUH MANAJEMEN LABA DAN RASIO LIKUIDITAS TERHADAP AGRESIVITAS PAJAK. *JURNAL AKUNTANSI BERKELANJUTAN INDONESIA*, *2*(1). https://doi.org/10.32493/jabi.v2i1.y2019.p017-038

Koijen, R. S. J., & Yogo, M. (2021). The evolution from life insurance to financial engineering. *GENEVA Risk and Insurance Review*, *46*(2). https://doi.org/10.1057/s10713-021-00068-1

Kristiana, U. E., & Rita, M. R. (2021). Leverage, Ukuran Perusahaan, dan Siklus Hidup Perusahaan terhadap Manajemen Laba. *AFRE (Accounting and Financial Review)*, *4*(1). https://doi.org/10.26905/afr.v4i1.5802

Mirgorodskaya, E. O., Buryakov, G. A., Andreeva, O. V., & Orobinsky, A. S. (2018). Financial engineering in a mechanism of public-private partnership in realization of the regional investment projects. *European Research Studies Journal*, *21*. https://doi.org/10.35808/ersj/1163

Nuryadi, Pratama, D. P. A., & Arifin, S. (2024). Increase Service Sales Turnover Through a Digital Marketing Approach: Effective? *International Journal of Global Accounting, Management, Education, and Entrepreneurship*, *4*(2), 231–237. https://doi.org/10.48024/ijgame2.v4i2.142

Panjaitan, I. L., Muda, I., & Situmeang, C. (2022). Pengaruh Manajemen Laba dan Related Party Transaction Terhadap Nilai Perusahaan Manufaktur yang Terdapat di Bursa Efek Indonesia dengan Komisaris Independen, Kepemilikan Manajerial dan Kepemilikan Institusional Sebagai Variabel Moderasi. *Locus Journal of Academic Literature Review*. https://doi.org/10.56128/ljoalr.v1i2.54

Prabowo, M. A., Hananto, S. T., Budiwati, C., Triatmoko, H., & Widjajanto, A. (2020). Kualitas Audit dan Manajemen Laba Berbasis Operasional. *Jurnal Akuntansi Dan Bisnis*, *20*(2). https://doi.org/10.20961/jab.v20i2.570

Pratama, D. P. A., Sakti, N. C., & Listiadi, A. (2022). Pengembangan Media Pembelajaran Interaktif Berbasis Mind Mapping pada Era Pembelajaran Jarak Jauh. *Jurnal Pendidikan Ekonomi Undiksha*, *14*(1), 146–159. https://doi.org/10.23887/jjpe.v14i1.47710

Puspitasari, D. M., Razak, N., Aprianto, R., Rinaldi, R. A., & Meiden, C. (2022). Manajemen

Laba Dalam Perspektif Tata Kelola Perusahaan. *Syntax Idea*, *4*(3).

Ramandita, H. D., Utami, E., & Lutfi, E. T. (2019). Sistem Pengukuran Kinerja Manajemen Untuk Mengevaluasi Tujuan Perusahaan Menggunakan Model Balanced Scorecard Dan Gamification. *Creative Information Technology Journal*, *4*(4). https://doi.org/10.24076/citec.2017v4i4.120

Sulaeman, E. (2020). PENGARUH MANAJEMEN LABA DAN KOMPOSISI KOMISARIS INDEPENDEN TERHADAP KUALITAS LABA DAN EFEKNYA TERHADAP NILAI PERUSAHAAN. *EKUITAS (Jurnal Ekonomi Dan Keuangan)*, *3*(2). https://doi.org/10.24034/j25485024.y2019.v3.i2.4109

Suryadi, D. (2022). Pengaruh Manajemen Laba, Leverage, Profitabilitas, Struktur Modal dan Ukuran Perusahaan Terhadap Nilai Perusahaan. *Journal of Business and Economics (JBE) UPI YPTK*, *7*(2). https://doi.org/10.35134/jbeupiyptk.v7i2.168

Tamimi, O., & Orbán, I. (2022). Financial engineering and its impact on audit efficiency in the opinion of experts. *Journal of International Studies*, *15*(2). https://doi.org/10.14254/2071-8330.2022/15-2/4

Zaman, K., & Pratama, D. P. A. (2023). Improving The Efficiency Of Payroll And Wage Processes In Surabaya's Creative Industries: Could Management Accounting Information System Do It? *International Journal of Global Accounting, Management, Education, and Entrepreneurship*, *4*(1), 22–31. https://jurnal.stiepemuda.ac.id/index.php/ijgame2/article/view/87

Zaman, K., Setyowati, L., & Pratama, D. P. A. (2024). Utilization of Flipbook Audio-Visual in Ebook Innovation to Improve Student Understanding for Accounting Subjects in SMK Arif Rahman Hakim SUrabaya. *International Journal of Economics, Science, and Education*, *1*(2), 81–87.