Jurnal HARMONI, 4 (1) (2025) 64-76
Online ISSN : 2829-730X

The Effect of Quality Audit, Earning Management and Good Corporate Governance on Financial Performance (Empirical Study on Food and Beverage Companies Listed on the IDX for the 2019-2023 Period)

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ABSTRACT

This study assesses the extent to which audit quality, earnings management, and corporate governance practices shape firms' financial performance. The investigation centers on food-and-beverage companies listed on the Indonesia Stock Exchange between 2019 and 2023. Employing a quantitative approach, the research relies on purposive sampling, yielding 26 firms as the analytical units. Data were processed with *Statistical Product and Service Solutions (SPSS)*, and relationships among variables were examined through multiple linear regression. The results indicate that audit quality and earnings management exert a significant positive influence on financial performance, whereas good corporate governance does not display a meaningful positive effect according to the partial (t-test) analysis.
Keywords:*Audit Quality; Earning Managemnet; Good CorporateGovernance and Financial Performance*

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INTRODUCTION

The increasingly competitive development of the business world requires companies to manage their financial performance effectively and efficiently. Financial performance is the main indicator in evaluating the company's operational success. In *the Food and Beverage* sector, the contribution to the national Gross Domestic Product (GDP) is quite significant, making this sector an important object to study, especially in the period that includes before, during, and after the COVID-19 pandemic. which provides interesting dynamics in the management and performance of companies. This time span is interesting to study because it illustrates how food and beverage companies face various challenges and opportunities in unstable economic conditions. In addition, this period also shows how companies are adapting to regulatory changes and increasingly dynamic market demands

Audit quality is an important factor in creating reliable and trusted financial reports. High-quality audits increase the trust of investors and other stakeholders. According to Singh & Rahman (2024), quality auditing is a systematic process that is able to detect and report material misrepresentations in financial statements, as well as maintain the independence and professional competence of auditors. The "Modern Auditing Quality Framework" defines audit quality as "the ability of auditors to detect and report material misstatements in financial statements, while maintaining professional independence and competence". However, in practice, companies often do profit management (Earning Management).

Profit management is carried out to provide a better picture of the company's financial performance, but it can mislead users of financial statements if done excessively or manipulatively (Susanto, 2022). In addition, management practices can affect financial reporting on the company's condition. Therefore, the relationship between audit quality and profit management acts as a supervisory mechanism to detect the existence of profit management practices with qualified auditors who will carry out special procedures to identify profit manipulation patterns. Practices carried out both in fiction and real activities. The existence of profit manipulation practices occurs within the company, coupled with inaccuracies on the part of auditors regarding financial reporting, this problem can be mitigated through the establishment of effective corporate governance that seeks to align the interests of different stakeholders.

Effective Corporate Governance (GCG) is a regulatory framework designed to encourage openness and responsible oversight in corporate affairs. GCG includes key principles such as accountability, openness, responsibility, independence, and fair treatment. The implementation of GCG is believed to reduce the prevalence of profit manipulation and improve audit efficiency. Governance mechanisms are essential to monitor the company's management, ensuring that their actions benefit not only themselves, but also the company's stakeholders. At its core, alignment between managers and stakeholders is determined by strong corporate governance practices, including features such as institutional ownership, managerial ownership, and an independent board of commissioners. Substantial levels of institutional and managerial ownership are considered to limit managerial propensity to manipulate profits. Additionally, having independent commissioners in a company can prevent profit management behavior, as their role is to monitor the organization's activities in pursuit of its goals.

Park & Gunawan (2024) The results of the study show that the composition and organization of the Board of Commissioners, as well as the establishment of an independent audit committee, positively affect financial results. In addition, the contribution of institutional ownership in improving the effectiveness of management supervision is a topic that needs to be explored further. Based on this background, this study aims to analyze the influence of audit quality, profit management, and good corporate governance on the financial performance of food and beverage companies listed on the IDX for the 2019–2023 period.

THEORETICAL FOUNDATION AND HYPOTHESIS DEVELOPMENT

Agency theory states that stakeholders have the potential to cause conflicts of interest and result in agency costs (agency costs) Kyere & Ausloos (2021). This study uses agency theory based on the interaction between managers (agents) and business owners (principals), which can cause conflicts of interest, explained by the agency theory that is the focus of this research. Amelinda and Rachmawati (2021) stated that the basic principle of agency theory is the incompatibility between the principal goals and the agents' goals. This can result in managerial decisions that prioritize personal goals over maximizing shareholder well-being through investments in profitable projects in the long run. The purpose of agency theory is to test and resolve problems that arise in the agency relationship between shareholders and management.

Audit Quality According to DeAngelo (1981) in Zam Zam & Kalangi, (2021). Audit quality is the probability that the auditor will find and report errors in the client's financial statements. High audit quality can increase the credibility of financial statements. This is strengthened by the opinion of Nurdiono & Junaidi (2016) who stated that quality audits have the ability to find violations, comply with applicable financial standards, and be carried out professionally.

Earning Mangement (Profit management) is an action carried out by company management to manipulate the numbers presented in financial statements for a specific purpose. Wijaya & Christiawan (2024) define profit management as management intervention in the external financial reporting process with the aim of obtaining personal profits. This intervention can be done through judgments in financial reporting or structuring transactions that affect financial reporting.

Good Corporate Governance (GCG) is a form of how a company is regulated and supervised so that it can run in a healthy and responsible manner. This includes the existence of an independent board of commissioners, audit committees, and strong institutional ownership with the aim of ensuring that management does not abuse its authority and continues to work in the interests of the company and shareholders. Putri et al. (2024) expand the definition of GCG as a structure and mechanism that ensures the management of a company runs efficiently, transparently, and responsibly to create sustainable value for all stakeholders.

According to Munawir (2012:30) in Bella, Siti (2020), the company's financial performance is one of the bases for assessing the company's financial condition which is carried out based on an analysis of the company's financial ratio. Typically, this performance is measured using financial ratios such as Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). The results of the measurement provide an idea of whether the company is in a financially healthy condition or is facing financial problems. Financial performance is a reflection of how a company's financial condition is in a certain period. From this, we can tell whether the company is in good financial condition or vice versa. This information is important because it can be a reference for management, investors, or other parties in making decisions

THOUGHTS

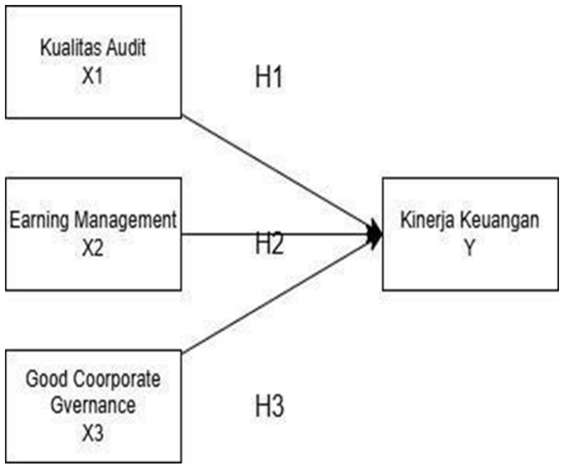

Figure 1 Frame of Mind

Hypotheses developed:
H1: Audit quality has a positive effect on financial performance.
H2: Profit management has a positive effect on financial performance.
H3: Good corporate governance has a positive effect on financial performance

RESEARCH METHODS

This study uses an associative quantitative approach with multiple linear regression analysis methods to test the influence of audit quality, earning management, and good corporate governance on financial performance. This study aims to examine the cause-and-effect relationship between independent variables and dependent variables based on historical company data. The population in this study is all food and beverage sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2019 to 2023. The selection of this sector is based on its significant contribution to economic growth and the resilience of this sector during the pandemic. The sampling technique used the purposive sampling method, so that a sample of 26 companies was obtained.

Table 1 Purposive Sampling

No	Sample Characteristics	Sum
1	Food and beverage companies listed on the IDX for the 2019-2023 period	95
2	Companies that do not report financial statements Period 2019-2023	-39
3	The company does not use Rp	-3
4	The company does not make a profit	-25
	Number of Research Samples	26
	Total Sample (n x study period) (26 x 5 years)	130

The type and source of data used is secondary quantitative, in the form of the company's annual financial report downloaded from the official IDX website www.idx.co.id and the website of each company. The data includes information on ROAs, profit management practices, institutional ownership, managerial ownership, independent board of commissioners, and audit information.

Table 2 Variabel Oprasional

No	Variabel Oprasional	Definition	Indicator	Scale Measuremen t
1	Financial Performance (Y)	The ability of a company to make money effectively from its assets Profit efficiently from assets owned	$ROA \frac{Total\ Aset}{laba\ Bersih} X\ 100\%$	Ratio (Interval)
2	*Audit Quality* (X1)	Audit quality can be seen from Auditor Ability	n KAP big for = 1 KAP non big fou = 0	Skala dummy (Nominal)
3	*Earning Management* (X2)	Profit management's efforts to regulate profits through accounting policies	*Discretionary Accruals* (berdasarkan Modified Jones Model) Total annual accrual	Ratio

No	Variabel Oprasional	Definition	Indicator	Scale Measuremen t

		to achieve targets Certain		
4	*Good Corporate Governance* (X3)	The company's systems and structure to direct and supervise the company to run in a transparent, accountable, and Efficient	Institutional Ownership (% of institutional shares) Managerial Ownership (% of shares by managerial) Proposal of independent commissioners (number of independent commissioners ÷ total commissioners)	Ratio (Interval)

The data processing process is carried out with the help of SPSS software, here are the steps performed:

a. **Descriptive Statistical Analysis**: To describe the data characteristics of each variable.
b. **Classical Assumption Test:** Includes normality, multicollinearity, autocorrelation, and heteroscedasticity tests.
c. **Multiple Linear Regression Analysis:** To determine the simultaneous and partial influence of independent variables on dependent variables.

Significance Test:
F Test (Simultaneous): Tests whether all independent variables together affect dependent variables.
t-test (Partial): Tests the influence of each independent variable on the dependent variable individually.
Coefficient of Determination (R^2): A customized value of R2 that is small or close to zero is the ability of independent variables to explain dependent variables is very limited (Ghozali, 2016).

RESULTS AND DISCUSSION

Descriptive Test

Table 3 Uji Deskritif

	N	Min	Max	Mean	Hours of deviation
Audit Quality (X1)	125	.00	1.00	.6000	.49187
Earning Management (X2)	125	8335709331	226628042094643008	11814495189881312	41436274664703568
Good Corporate Governance (X3)	125	.00	494500.09	14229.2853	76071.74154
Financial Performance (Y)	125	.05	129.01	15.8928	23.39011
Valid N (listwise)	125				

The results of the descriptive table above are as follows

a. Audit Quality (X1) has an average of 0.60, meaning that 60% of the companies in the sample are audited by the Big Four KAP.
b. Earning Management (X2) has a very high average value of accrual, indicating a variation in lab management practices among companies.
c. Good Corporate Governance (X3) shows a huge data spread, which indicates that the implementation of GCG varies from company to company.
d. Financial Performance (Y), the average ROA of 15.89% is quite high but also has a large deviation (23.39), showing

Classic Assumption Test

Normality Test Results

Table 4 Normality Test

		Unstandardized Residual
N		125
Normal Parametersa,b	**Mean**	.0000000
	Hours of deviation	1.08379373
Most Extreme Differences	**Absolute**	.068
	Positive	.056
	Negative	-.068
Test Statistic		.068
Asymp. Sig. (2-tailed)		.200c,d

Explanation: The significance value of the normality test of the Kolmogorov Smirnov method is 0.200 or greater than 0.050, meaning that the data in this study is normally distributed

Histrogram Dan P-Plot

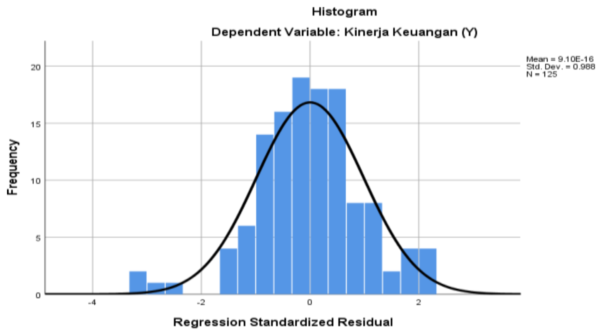

Figure 2 Graph Histogram

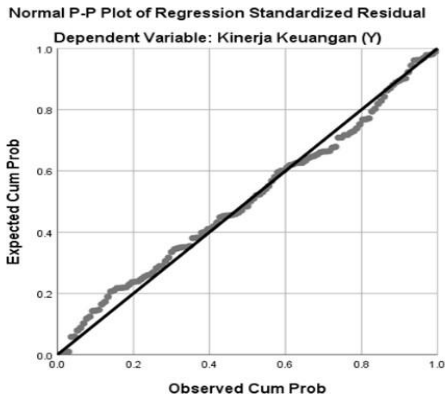

Figure 3 P-plot

Using a histogram graph test, the residual distribution shows a normal pattern and for P-plots the bar pattern and point distribution are around the diagonal line, indicating a near-normal distribution of residues.

Multicollinearity Test Results

Table 5 Multicollinearity Test

Model	**Collinearity Statistics**	
	Tolerance	**BRIGHT**
Audit Quality (X1)	.963	1.038
Earning Management (X2)	.821	1.218
Good Corporate overnance (X3)	.841	1.189

Explanation**:** The value of Variance Inflation Factor (VIF) < 10 and Tolerance > 0.1, indicates that there is no multicollinearity between variables.

Autocorrelation Test Results

Table 6 Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.662a	.439	.425	1.09715	2.237

Explanation: The coefficient of DW = 2.237 is located between the upper limit (du = 1.7574) and 4 – du = 2.2426, so no serial correlation is found in the residue / indicating no autocorrelation occurs

Heteroscidicity Test Results

Table 7 Heterosicidicity Test

Coefficientsa						
Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Itself .**
		B	**Std. Error**	**Beta**		
1	**(Constant)**	.928	.150		6.167	.000
	Audit Quality (X1)	-.010	.133	-.007	-.079	.937
	Earning Management (X2)	-.002	.004	-.047	-.468	.640
	Good Corporate Governance (X3)	-.012	.017	-.073	-.742	.459
a. Dependent Variable: ABS_RES						

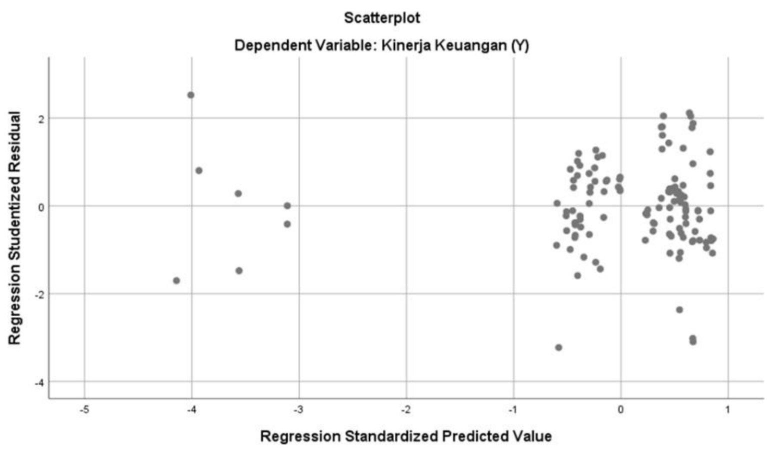

Figure 4 Graphic Scatterplot

Explanation:
Based on the image above, the points on the graph are spread out undirectionally and irregularly, meaning that the data in this study are avoided from the symptoms of heteroscedasticity and in the image the sig value of the X1 variable is 0.937, the sig value of the X2 variable is 0.640 and X3 (0.459) is more than 0.050, meaning that the independent variable data in this study is avoided from the symptoms of heteroscedasticity and is suitable for testing the research with a multiple linear regression test model. With the 2 Glejser methods and the scatterplot graph, no pattern was found indicating heteroscedasticity.

Linear Regression Test Results

Table 8 Linear Regression Test

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Itself.**
		B	**Std. Error**	**Beta**		
1	**(Constant)**	-.030	.231		-.129	.898
	Audit Quality (X1)	.795	.204	.270	3.897	.000
	Earning Management (X2)	.053	.007	.590	7.848	.000
	Good Corporate Governance (X3)	-.035	.026	-.101	-1.355	.178
a. Dependent Variable: Financial Performance (Y)						

Based on the regression results, the following equation model was obtained:
Y = a + bx1 + bx2 + bx3 + e
Y = -0.030 + 0.795x1 + 0.053x2 - 0.035x3 + e
The equation can be explained if the constant is -0.030, meaning that if the variables (X1) to (X3) have a value of zero (0) or the value is constant (constant), then the variable Y has a value of -0.030.

Information:
In variables X1 and X2, the positive efficiency of the Y variable indicates that the two one-way variables to the Y variable are different from X3, the negative value of X3 means that the direction of the relationship between X3 and the Y variable is not in the same direction.

- X_1 = Audit Quality
- X_2 = Earning Management
- X_3 = Good Corporate Governance

Determinant Test Results (R)

Table 9 Determinant Test (R)

Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.662a	.439	.425	1.09715
a. Predictors: (Constant), Good Corporate Governance (X3), Audit Quality (X1), Earning Management (X2)				

The value of $R^2 = 0.439$ means that 43.9% of the variation in financial performance can be explained simultaneously by audit quality, profit management, and GCG; The remaining 56.1% was influenced by other factors outside the model.

F Test Results

Table 10 Test F

ANOVA						
Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Itself.**
1	Regression	113.764	3	37.921	31.503	.000b
	Residual	145.651	121	1.204		
	Total	259.416	124			

The results of the F test showed that the F value was calculated at 31.503 > 2.68 with a significance of 0.000 < 0.05, which means that simultaneously audit quality, earning management, and GCG together had a significant effect on financial performance.

T Test Results

Table 11T Test

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Itself.**
		B	**Std. Error**	**Beta**		
1	**(Constant)**	-.030	.231		-.129	.898
	Audit Quality (X1)	.795	.204	.270	3.897	.000
	Earning Management (X2)	.053	.007	.590	7.848	.000
	Good Corporate Governance (X3)	-.035	.026	-.101	-1.355	.178

1. **Audit Quality (X_1):** Based on the t-test table above, the influence of variable X1 on variable Y is 0.000 < 0.050 while for the t-value calculated is 3.897 > t table (**1.97976**), where Ho is rejected

and Hypothesis 1 is accepted, which means that there is an influence of variable X1 on Variable Y.

2. **Earning Management (X_2):** Based on the t-test table above the influence of variable X2 on variable Y of 0.000 < 0.050 while for the calculated t-value of 7.848 > t table (**1.97976**), where Ho is rejected and Hypothesis 2 is accepted, which means that there is an influence of variable X2 on Variable Y.
3. **Good Corporate Governance (X_3):** Based on the t-test table above the influence of variable X3 on variable Y of 0.178 > 0.050 while for the calculated t-value of -1.355 < t table (**1.97976**), where Ho is accepted and Hypothesis 3 is rejected which means that there is no influence of variable X3 on Variable Y

DISCUSSION

The results of this study reinforce the findings of DeAngelo (1981) that high audit quality is positively correlated with increased credibility of financial statements, which leads to increased investor confidence and financial performance. Companies audited by large KAP show more stable performance due to stricter and independent oversight. Significant results on earnings management indicate that profit management practices, if carried out within reasonable corridors and do not violate accounting principles, can still improve the company's performance image. This is in accordance with the opinion of Scott (2015) who states that earning management can be used for contractual efficiency purposes, as long as it is not done in a manipulative manner.

However, the insignificance of Good Corporate Governance to financial performance shows that the existence of GCG mechanisms such as independent board of commissioners or institutional ownership does not necessarily guarantee the achievement of better financial performance. This can be caused by the non-optimal implementation of GCG or it is still symbolic (box-ticking) and not substance. Overall, this research contributes to explaining the dynamics of the influence of internal supervisory factors (audit, profit management, and GCG) on company performance, especially in the food and beverage sector which is a vital sector during times of crisis and economic recovery.

CONCLUSION

This study aims to analyze the influence of audit quality, earning management, and good corporate governance on the financial performance of food and beverage companies listed on the Indonesia Stock Exchange for the 2019–2023 period. Based on the results of data analysis and previous discussions, several conclusions can be drawn as follows:

1. **Audit quality** has a significant positive effect on financial performance. These results show that the use of external auditors from reputable Public Accounting Firms (KAPs), particularly the Big Four KAPs, plays an important role in increasing the credibility of financial statements. This credibility then has an impact on increasing investor confidence and managerial decision-making efficiency, which further improves the company's financial performance.
2. **Earning management** also has a significant positive effect on financial performance. These findings indicate that profit management on a reasonable scale can provide a positive perception of company performance, especially in the context of facing external pressures such as the pandemic. Nevertheless, it should be noted that this practice must remain within ethical boundaries and not lead to manipulation to the detriment of stakeholders.

3. **Good corporate governance** does not show a significant influence on financial performance. Although GCG is considered an important mechanism in controlling managerial behavior and improving corporate accountability, in this study the implementation of GCG has not directly contributed to improving financial performance. This can be due to the still weak quality of implementation of GCG principles substantially, or the lack of effective supervision in practice in the field.

LIMITATIONS

The limitations in this study lie in the limited number of independent variables and the scope of the sector that focuses only on the food and beverage industry. Therefore, for further research, it is recommended to include additional variables such as capital structure, foreign ownership, and the size and age of the company. In addition, the expansion of the coverage of the industrial sector is also expected to provide more generalized results.

The practical implications of this study are the importance of companies to improve audit quality and manage profit management practices wisely to remain within a legitimate and transparent framework. For regulators and capital market authorities, the results of this study are important inputs to increase the effectiveness of supervision over the implementation of GCG and encourage the implementation of governance principles that are more substantial than symbolic.

Thus, this research contributes to the development of literature in the field of accounting, especially related to the determinants of financial performance, and becomes a consideration for companies and investors in making strategic decisions.

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