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The Effect Of Audit Quality And Earnings Management On Financial Performance Of Food And Beverage Manufacturing Companies Listed On The Indonesia Stock Exchange (2020-2024)

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Abstract

This study aims to empirically analyze the effect of audit quality and earnings management, both partially and simultaneously, on financial performance among food and beverage manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. Utilizing an associative quantitative research design, secondary data were gathered from 25 audited financial statements selected through purposive sampling, generating 125 firm-year observations. Audit quality was measured using a dummy variable representing Big Four versus Non-Big Four public accounting firms, earnings management was calculated via Discretionary Accruals using the Modified Jones Model, and financial performance was proxied by Return on Assets (ROA). Multiple linear regression analysis was executed after confirming all classical assumption tests (Monte Carlo normality, multicollinearity, heteroscedasticity, and Cochrane-Orcutt autocorrelation correction). The empirical results reveal that: (1) Audit quality has a positive and statistically significant effect on financial performance ($\beta = 5.228$, $p = 0.033$); (2) Earnings management exhibits a positive and statistically significant effect on reported financial performance ($\beta = 50.292$, $p = 0.000$); and (3) Audit quality and earnings management simultaneously exert a significant impact on financial performance ($F = 11.991$, $p = 0.000$) with an Adjusted R Square of 15.1%. These findings provide valuable insights for investors, auditors, and corporate management regarding financial reporting integrity and corporate governance.

Keywords: *Audit Quality, Earnings Management, Financial Performance, Return on Assets (ROA), Food and Beverage Sector*

I. INTRODUCTION

The manufacturing industry, particularly the food and beverage subsector, serves as a cornerstone of Indonesia's national economic growth. According to statistics published by the Central Bureau of Statistics (BPS, 2024), total sales in the food and beverage industry reached IDR 998.37 trillion in 2023, employing over 9.8 million people. Despite global macroeconomic instability, inflationary pressures on raw material supply chains, and post-COVID-19 economic recovery dynamics, this subsector has demonstrated remarkable resilience (Amanta & Gupta, 2022). Consequently, public companies operating in this sector must maintain transparent financial governance to secure investor confidence on the Indonesia Stock Exchange (IDX).

In modern corporate governance, agency theory posits that self-interested managers (agents) may prioritize personal benefits over shareholder (principal) wealth maximization, leading to agency conflicts (Jensen & Meckling, 1976). Because management possesses privileged information regarding daily operations, information asymmetry enables managers to engage in opportunistic practices such as earnings management (Dechow et al., 1995; Debbianita et al., 2024). According to signaling theory, managers may manipulate accounting accruals to convey positive performance signals to the market or meet financial benchmarks (Spence, 1973). However, unmonitored earnings management can distort financial statements and mislead stakeholders regarding a firm's true financial health.

To mitigate agency costs and reduce information asymmetry, robust external monitoring mechanisms specifically high audit quality are essential (DeAngelo, 1981). Auditors affiliated with Big Four public accounting firms (PwC, Deloitte, EY, KPMG) possess higher technical expertise, sophisticated audit methodologies, and stronger reputation capital. These attributes enhance their capacity to restrict aggressive accounting treatments and enhance financial reporting integrity. Enhanced financial credibility lowers borrowing costs and enhances operational efficiency, thereby

boosting Return on Assets (ROA) (Setyawan et al., 2022; Judijanto, 2024). Furthermore, concurrently, signaling theory suggests that credible, audited financial reporting transmits favorable signals to external capital markets, diminishing perceived investment risk and improving valuation. Thus, the first hypothesis is formulated as follows:

H1: Audit quality has a positive effect on financial performance in food and beverage manufacturing companies listed on the IDX during 2020–2024.

Earnings management involves managerial discretion in structured transactions and financial reporting choices to alter reported net income (Dechow et al., 1995). In the short term, income-increasing discretionary accruals artificially elevate net accounting profits relative to total assets, leading to higher reported ROA figures (Pratama & Devi, 2021; Jamilah & Septiana, 2022). Consequently, the second hypothesis is stated as follows:

H2: Earnings management has a positive effect on financial performance in food and beverage manufacturing companies listed on the IDX during 2020–2024.

Although academic literature posits that audit quality enhances financial performance by bolstering investor confidence and reducing the cost of capital, previous empirical findings remain inconclusive. While Judijanto (2024) and Ilham & Arsiah (2025) identified a positive association between audit quality and firm performance, Apriani et al. (2020) found no statistically significant relationship. Similarly, regarding earnings management, Anggraini et al. (2021) observed adverse effects on long-term firm profitability, whereas Jamilah & Septiana (2022) documented a positive short-term impact on reported accounting returns.

External audit oversight and internal managerial discretion interact dynamically to shape final corporate accounting outputs. High audit quality regulates opportunistic behavior, while strategic accrual adjustments reflect managerial responses to market expectations, together explaining variations in accounting performance (Santoso, 2017). Therefore, the third hypothesis is proposed:

H3: Audit quality and earnings management simultaneously affect financial performance in food and beverage manufacturing companies listed on the IDX during 2020–2024.

This research addresses these empirical gaps by evaluating the partial and joint impacts of audit quality and discretionary earnings management on Return on Assets (ROA) within the food and beverage sector during the post-pandemic recovery phase (2020–2024).

II. METHOD

This study adopts a quantitative associative research design utilizing panel data from public companies listed on the IDX from 2020 to 2024. Out of 43 food and beverage manufacturing firms, 25 were selected using purposive sampling criteria, producing 125 firm-year observations ($N = 125$).

Table I. Sample Selection Summary

No	Selection	Firms
1	Food and beverage manufacturing companies listed on IDX (2020–2024)	43
2	Firms delisted or not continuously listed during 2020–2024	(12)
3	Firms with incomplete published audited financial statements	(1)
4	Firms missing essential data variables	(3)
5	Firms reporting in foreign currency or undergoing sector reclassification	(2)
Total Sample Firms		25
Total Observations (25 firms × 5 years)		125

A. Operationalization of Variables

1. Financial Performance (Y): Measured using Return on Assets (ROA), reflecting net profit generated per unit of total assets.

2. Audit Quality (X1): Measured using a dummy variable assigned a value of 1 if audited by a Big Four public accounting firm (Deloitte, PwC, EY, KPMG or their affiliates), and 0 otherwise.

3. Earnings Management (X2): Measured by Discretionary Accruals (DA) utilizing the Modified Jones Model (Dechow et al., 1995).

III. RESULTS AND DISCUSSION

A. Descriptive Statistics

The summary descriptive statistics for the 125 firm-year observations are presented in Table 2.

Table II. Descriptive Statistics Summary (N = 125)

Variable	Min	Max	Mean	Std. Deviation
Audit Quality (X1)	0.00	1.00	0.4000	0.49187
Earnings Management (X2)	-0.25	0.76	0.0236	0.11141
Return on Assets - ROA (Y) (%)	-48.88	94.36	7.9266	14.18124

The mean audit quality score of 0.4000 indicates that 40% of the sample observations engaged Big Four audit firms. Discretionary accruals averaged 0.0236, demonstrating moderate income-increasing accrual adjustments across the sector. Mean financial performance (ROA) stood at 7.93%.

B. Diagnostic Tests (Classic Assumptions)

Standard diagnostic tests were performed to verify model validity. The One-Sample Kolmogorov-Smirnov test yielded a Monte Carlo exact significance of 0.053 (> 0.05), satisfying the normality assumption. Multicollinearity was ruled out as Tolerance values reached 0.970 (> 0.10) and VIF was 1.031 (< 10). Spearman's rank correlation test yielded

p-values of 0.461 and 0.338 for X1 and X2 respectively, confirming the absence of heteroscedasticity. Finally, applying the Cochran Orcutt transformation resolved initial autocorrelation, resulting in a Durbin-Watson statistic of 1.925 (within the acceptable range $dU = 1.7406$ to $4 - dU = 2.2594$).

C. Regression Regression Results and Hypothesis Testing

Multiple linear regression analysis evaluated the research hypotheses. The empirical parameters are detailed in Tables 3 and 4.

Table III. Multiple Regression Analysis (Partial Test / t-Test)

Model/Variable	Unstd. Coeff. (B)	Std. Error	Standardized Beta	t-statistic	Sig. (p)
(Constant)	-0.002	1.169	-	-0.002	0.999
Audit Quality (X1)	5.228	2.423	0.181	2.158	0.033
Earnings Management (X2)	50.292	10.695	0.395	4.702	0.000

Table IV. Model Fit and Simultaneous Test (F-Test)

F-Statistic	Sig. F	R	R Square	Adjusted R Square
11.991	0.000	0.405	0.164	0.151

The estimated regression equation is specified as follows:

$$ROA = -0.002 + 5.228 (AQ) + 50.292 (EM) + \epsilon$$

Audit Quality and Performance (H1): Audit quality exhibits a positive coefficient ($\beta = 5.228$) with $t = 2.158$ and $p = 0.033$ (< 0.05). H1 is accepted, demonstrating that auditing by Big Four firms significantly boosts firm financial performance. Highly reputable audit firms enhance financial report credibility, reduce cost of capital, and promote internal operational discipline, thereby increasing ROA (Judijanto, 2024; Ilham & Arsiah, 2025).

Earnings Management and Performance (H2): Discretionary accruals yield a highly significant positive coefficient ($\beta = 50.292$) with $t = 4.702$ and $p = 0.000$ (< 0.05). H2 is supported. In the short term, managers utilize positive discretionary accruals to elevate reported operating net income, which mechanically increases reported ROA (Pratama & Devi, 2021; Jamilah & Septiana, 2022).

Simultaneous Impact (H3): The overall regression model is statistically significant with $F = 11.991$ and $p = 0.000$ (< 0.05). H3 is confirmed. The Adjusted R Square of 0.151 indicates that 15.1% of the variance in ROA is explained jointly by audit quality and earnings management, while 84.9% is governed by external variables (e.g., firm size, leverage, liquidity, and governance structures).

IV. CONCLUSIONS

This empirical investigation confirms that both audit quality and earnings management exert significant positive partial effects on reported financial performance (ROA) among listed food and beverage manufacturing companies in Indonesia (2020–2024). Simultaneously, these variables account for 15.1% of total performance variation.

Practical Implications: Corporate leadership should prioritize hiring high-caliber audit services to sustain market trust while ensuring discretionary accounting choices remain aligned with sustainable operational growth rather than short-term artificial earnings inflation. Investors must evaluate underlying accrual quality alongside headline ROA figures to make informed asset allocation decisions.

Future Research: Subsequent studies should incorporate additional explanatory variables such as board gender diversity, firm leverage, liquidity, and corporate governance metrics, while expanding the sample frame to other manufacturing subsectors across Southeast Asian emerging markets.

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