

ABSTRACT

This study aims to determine the direct relationship between audit quality, earnings management, and company performance, as well as the indirect (mediation) effect of earnings management practices in the relationship between audit quality and company performance of companies listed on the Indonesia Stock Exchange.

The population of this study are industrials sector companies listed on the Indonesia Stock Exchange in 2016-2021, with a total sample of 179 companies-years. Regression analysis and sobel test was used in this study and research data were obtained from annual reports.

The findings of this study indicate that audit firm size and audit tenure have positive and negative effects on earnings management practices, respectively. Earnings management practices have a negative effect on two proxies for company performance (ROA and ROE), but have no effect on EPS. Audit firm size has a positive and significant effect on ROA and ROE, and audit tenure has a negative effect on EPS. Furthermore, earnings management practices mediate the relationship between audit quality and two proxies for firm performance, namely ROA and ROE, but do not have a mediating effect on the relationship between audit quality and EPS proxies.

Keywords: Firm Performance, Earnings Management, Audit Firm Size, Audit Firm Tenure