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THE EFFECT OF AUDIT QUALITY AND CORPORATE GOVERNANCE MECHANISMS ON FIRM VALUE

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Abstract

This study conducts an empirical analysis of the impact of audit quality and corporate governance mechanisms on firm value, utilizing data from banking companies. Audit quality is measured by the change of public accounting firms, corporate governance mechanisms are measured by the size of the board of commissioners, and firm value is measured using Tobin's Q. This study employs a quantitative approach. The results indicate that audit quality influences firm value, and corporate governance mechanisms—measured by the size of the board of commissioners—also affect firm value.

Keywords: *Audit, Mechanism, Governance, Firm, Value*

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INTRODUCTION

Company value refers to the overall worth of a business, taking into account its assets, liabilities, and potential for future growth (Indriyani, 2017). It is a key metric used by investors, analysts, and stakeholders to evaluate the financial health and performance of a company. Understanding and accurately assessing a company's value is essential for making informed investment decisions and strategic business planning (Rahayu & Sari, 2018). By analyzing various factors such as revenue, profit margins, market share, and brand reputation, stakeholders can determine the true value of a company and its potential for long-term success.

Audit quality is a crucial factor in assessing the reliability of a company's financial information. It also plays a vital role for stakeholders when making investment decisions or other decisions concerning the company. Therefore, it is essential for auditors to ensure that the audits they conduct are of high quality and trustworthy (Lailatul & Yanthi, 2021). In this regard, applicable auditing standards and auditor competence are key factors that must be considered.

Corporate governance refers to the system of rules, practices, and processes by which a company is directed and controlled. It encompasses the relationships among stakeholders, including shareholders, management, board of directors, employees, customers, suppliers, and the community (Tahar & Rachmawati, 2020). Effective corporate governance is crucial for organizations as it helps to ensure transparency, accountability, and ethical behavior in decision-making processes. It also plays a key role in enhancing the company's reputation, attracting investors, and ultimately driving long-term success and sustainability.

Empirical studies regarding the relationship between audit quality and firm value have been conducted previously. Holly et al. (2023) examined manufacturing companies listed on the IDX from 2018 to 2020, finding that audit quality influences firm value. Firdarini (2023) studied food and beverage sector companies listed on the IDX between 2018 and 2021; the results indicated that audit quality does not affect firm value. Meanwhile, empirical research has also been conducted on the relationship between corporate governance mechanisms—specifically using board of commissioners size as a proxy—and firm value. Ahmad et al. (2020) studied manufacturing companies listed on the IDX from 2016 to 2018 and found that the size of the board of commissioners influences firm value. Khoirunnisa and Aminah (2022) conducted an empirical study using a sample of companies listed on the Kompas 100 Index, finding that the size of the board of commissioners affects firm value.

This research aims to conduct empirical testing regarding the influence of audit quality and corporate governance mechanisms on company value. This research uses banking companies listed on the Indonesia Stock Exchange (IDX) in 2021-2025 as research objects. Furthermore, the proxies used in this research are auditor turnover, board of commissioners size, and Tobin's-q.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory is a concept that examines the relationship between principals and agents in business organizations. In this theory, the principal is the owner or shareholder of the company, while the agent is the individual hired to make decisions on behalf of the principal. The main issue addressed by agency theory is the potential conflict of interest that arises when the agent's goals do not align with those of the principal. This can lead to issues such as moral hazard, where the agent may act in their own self-interest rather than in the best interest of the principal (Jensen & Meckling, 1976).

Audit Quality

The impact of auditor rotation on audit quality has been a topic of much debate and research in the field of accounting and auditing (Purnomo & Aulia, 2019). Some studies suggest that auditor rotation can improve audit quality by bringing in fresh perspectives and reducing the risk of auditor independence issues. On the other hand, there are also concerns that frequent rotation of auditors may lead to a lack of continuity and institutional knowledge, potentially compromising the quality of the audit process. In this section, we will explore the various arguments and evidence surrounding the impact of auditor rotation on audit quality (Yulaeli, 2022).

Audit quality is a critical component of the financial reporting process, ensuring that the information presented is accurate and reliable. It involves the evaluation of a company's internal controls, financial statements, and overall compliance with regulations. High-quality audits provide assurance to stakeholders that the information they rely on is trustworthy and free from material misstatement. In this section, we will discuss the key factors that contribute to audit quality and the importance of maintaining high standards in the auditing profession (Indriyani, 2017).

Corporate Governance Mechanism

Corporate governance refers to the system of rules, practices, and processes by which a company is directed and controlled (Rahayu & Sari, 2018). It encompasses the relationships among stakeholders, such as shareholders, management, employees, customers, suppliers, and the community at large. Effective corporate governance is essential for maintaining the trust of investors, protecting the interests of stakeholders, and ensuring the long-term success of the company (Tahar & Rachmawati, 2020). The board of commissioners plays a crucial role in corporate governance by overseeing the management of the company, setting strategic direction, and monitoring performance to ensure that the company operates in the best interests of shareholders and other stakeholders.

The board of commissioners is a group of individuals appointed to represent the interests of shareholders and oversee the management of the company. They are responsible for setting the strategic direction of the company, monitoring performance, and ensuring that the company operates in a responsible and ethical manner (Indriyani, 2017). The board of commissioners is also responsible for appointing and evaluating the performance of the company's executives, including the CEO and other senior management. Additionally, they play a key role in overseeing the company's risk management processes and ensuring that appropriate controls are in place to protect the interests of shareholders and other stakeholders.

Firm Value

Tobin's q is a financial metric that measures the relationship between a company's market value and its replacement cost (Yulaeli, 2022). It is calculated by dividing the market value of a company's assets by the replacement cost of those assets. This metric is important in assessing a company's value because it provides insight into whether a company is overvalued or undervalued in the market (Ahmad et al., 2020). By comparing Tobin's q to a benchmark value of 1, investors can determine if a company is trading at a premium or discount relative to its underlying assets. Additionally, Tobin's q can also be used to evaluate the efficiency of a company's investment decisions and overall financial health.

Tobin's q is a ratio that compares a company's market value to its replacement cost (Tahar & Rachmawati, 2019). It is used by investors and analysts to determine whether a company is overvalued or undervalued in the market. By comparing the market value of a company to the cost of replacing its assets, Tobin's q provides insight into the efficiency of a company's investments and its overall performance in the market. This ratio is especially important in assessing company value because it takes into account both the market value of a company's assets and the cost of replacing those assets, providing a more comprehensive view of a company's true worth. The relationship between Tobin's q and company performance is crucial for investors looking to make informed decisions about where to allocate their resources (Yulaeli, 2022).

The Effect of Audit Quality On Firm Value

Agency theory posits the existence of information asymmetry between the principal and the agent regarding a company's information (Jensen & Meckling, 1976). In this context, an agent may change auditors with the aim of enhancing firm value. Research by Fallah et al. (2022) found that audit quality does not affect firm value, whereas research by Holly et al. (2023) found that audit quality does influence firm value. Therefore, the first hypothesis of this study is:
H1: Audit quality affects firm value

The Effect of Size of Board Commissioners on Firm Value

According to Jensen & Meckling (1976), information asymmetry between the principal and the agent creates the potential for the agent to dominate and control the firm. In this context, insufficient oversight by the board of commissioners—the body responsible for supervising the company—impacts firm value. Research by Ahmad et al. (2020) found that the size of the board of commissioners influences firm value, whereas research by Thendean & Meita (2019) found no such influence. Therefore, the second hypothesis of this study is:
H2: The size of the board of commission inflluences firm value.

RESEARCH METHOD

This study employs a quantitative research method. Sugiyono (2012) explains that the quantitative research method is grounded in the philosophy of positivism and is used to study specific populations or samples. The sampling technique utilizes data downloadable from the Indonesia Stock Exchange.

This study uses secondary data. Secondary data refers to information obtained from pre-existing sources. The secondary data utilized consists of annual reports from banking companies for the period of 2021–2025.

The data analysis conducted consists of classical assumption tests and hypothesis testing. The classical assumption tests comprise tests for normality, multicollinearity, autocorrelation, and heteroscedasticity. Subsequently, multiple linear regression analysis is used to test the hypotheses. The multiple regression analysis equation is formulated as follows:
Equation 1: Y1 = + 1X1 + 2X1Z + ε
Equation 2: Y2 = + 1X2 + 2X2Z + ε
Equation 3: Y3 = + 1X1 + 2X2 + ε
Explanation:
Y = Firm Value
X1 = Audit Quality
X2 = Size of Board Commisioners
β1, β2 = Coefficient

RESULT AND DISCUSSION

The following are the results of the descriptive statistical analysis.

Table 1. Statistics Descriptive

	Audit Quality	**Size of Board Commissioners**	**Firm Value**
Mean	45.87898	0.678098	1.876566
Median	0.500000	0.677777	0.988776
Maximum	1.000000	5.000000	5.998770
Minimum	0.000000	1.000000	0.009333
Standard Deviation	1.887555	0.776555	1.888609
Sum	80	80	80

Source: Data is Processed (2026)

The audit quality variable has a mean value of 45.87898, while the median value is 0.500000. The maximum and minimum values are 1.000000 and 0.000000, respectively, and the standard deviation is 1.887555.

The board of commissioners size variable has a mean value of 0.678098, while the median value is 0.677777. The maximum and minimum values are 5.000000 and 1.000000, respectively, and the standard deviation is 0.776555.

The firm value variable has a mean value of 1.876566, while the median value is 0.988776. The maximum and minimum values are 5.998770 and 0.009333, respectively, and the standard deviation is 1.888609.

Regression Data Panel Test Result

Table 2. Data Panel Test Result

Effects Test	**Statistic**	**d.f.**	**Prob.**
Cross-section F	12.098990	(87.888)	0.0000
Cross-section Chi-square	600.999760	80	0.0000

Source: Data is Processed (2026)

Based on these results, a probability value of < 0.05 was obtained; therefore, the null hypothesis (H0) is rejected, and the fixed-effects model is used.

Table 3. Fixed-Effects Model

Test Summary	**Chi-Square Statistic**	**Chi-Square d.f.**	**Prob.**
Cross-section random	9.778654	3	0.0781

Source: Data is Processed (2026)

The results indicate that the probability value is greater than 0.05; therefore, the null hypothesis (H0) is accepted, and this study employs the random effects model.

Multicollinearity Test

Table 4. Muticollinearity Test

	Audit Quality	**Size of Board Commissioners**	**Firm Value**
Audit Quality	1.000000	0.157998	0.557888
Size of Board Commissioners	0.118978	1.000000	0.787890
Firm Value	0.456556	0.556733	1.000000

Source: Data is Processed (2026)

Based on the table above, no multicollinearity was found among the variables used in this study. This is because no value exceeded 0.9, except for the same variable.

Regression Test Result

Table 5. Regression Test Result

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob**
C	0.667665	0.333452	1.702460	0.0875
Audit Quality	0.010789	0.076008	3.670700	0.0051
Size of Board Commissioners	0.024367	0.089601	0.089070	0.8901
Firm Value	1.090800	0.889230	2.660789	0.0477
Effects Specification				
		S.D.		Rho
Cross-section random		1.909080		0.8810
Idiosyncratic random		0.337801		0.1004
Weighted Statistics				
R-squared	0.088010	Mean dependent var	0.266001	
Adjusted R-squared	0.060001	S.D. dependent var	0.400881	
S.E. of regression	0.411000	Sum squared resid	32.00199	
F-statistic	3.100123	Durbin-Watson stat	1.200780	
Prob(F-statistic)	0.003222			
Unweighted Statistics				
R-squared	0.057000	Mean dependent var	1.420111	
Sum squared resid	327.0091	Durbin-Watson stat	0.100888	

Source: Data is Processed (2026)

The table above shows that audit quality has a probability value of 0.0051, and its coefficient value is 0.010789. Meanwhile, the board of commissioners size variable has a probability value of 0.8901 and a coefficient value of 0.024367. Furthermore, the firm value variable has a probability value of 0.0477 and a coefficient value of 1.090800.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

Based on the analysis above, it can be concluded that audit quality influences firm value. Furthermore, the size of the board of commissioners—serving as a proxy for the corporate governance mechanism variable—also affects firm value. This study supports the research conducted by Holly et al. (2023) and Ahmad et al. (2020).

Recommendations

Suggestions for future research include considering using more data. Next, you can use data from different types of companies. Other proxies can also be considered for use in future studies.

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