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THE EFFECT OF EARNINGS GROWTH, AUDIT QUALITY, INVESTMENT OPPORTUNITY SET ON EARNINGS QUALITY OF FINANCIALS SECTOR COMPANIES ON THE INDONESIA STOCK EXCHANGE

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Abstract:
This study examines the effect of earnings growth, audit quality, and investment opportunity set on earnings quality in financial sector companies on the Indonesia Stock Exchange for the 2016-2020 period. Earning growth variable is measured by the earnings growth index, the dummy variable measures audit quality, MVBVA measures the investment opportunity set, and QER measures earnings quality. This type of research is a quantitative effect research using secondary data. The sampling technique used was non-probability sampling with a purposive sampling method, resulting in 34 companies as research samples from 103 companies. The data analysis technique in this study is multiple linear regression using the SPSS 26 program. The partial results show that earnings growth has a significant and positive effect on earnings quality, and audit quality and investment opportunity set do not affect earnings quality. The study's results show that earnings growth, audit quality, and investment opportunity sets affect earnings quality.

Keywords: Effect, Earnings Quality, Growth, Audit Quality, Investment Opportunity Set.
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INTRODUCTION

Financial statements are a relevant source of information that depicts a company's performance over an accounting period. One of the most important components of financial statements, which serves as a reference and is eagerly awaited by investors, is information regarding the company's earnings in the income statement. Information concerning earnings must possess quality characteristics, also known as earnings quality, as it determines the sustainability of the company's operations. Puteri and Saraswati (2021) stated that manipulated financial statements will affect earnings quality, resulting in low earnings quality for the company.

In Indonesia, the act of manipulating earnings in financial statements is not something new, as seen in the case of PT Garuda Indonesia Tbk (GIAA), wherein the 2018 financial statements, Garuda recorded a net profit supported by a collaboration with PT Mahata Aero Teknologi amounting to US$239.94 million or equivalent to IDR 3.48 trillion. The funds were still in the form of receivables with a contract period of 15 years ahead, but they were already booked in the first year and recognized as revenue. As a result, the company, which had previously incurred losses, reported a profit. A similar case occurred with PT Hanson International Tbk (MYRX), where the company recognized revenue through the full accrual method for the sale of ready-to-build plots worth a gross amount of IDR 732 billion in the 2016 financial statements, leading to an overstatement of the company's financial statements for the 2016 fiscal year, amounting to IDR 613 billion.

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Manipulating earnings will harm a company's earnings quality, leading to a decrease in earnings quality. Considering these cases, it is crucial and interesting to investigate the factors that influence earnings quality. This research focuses on earnings growth, audit quality, and investment opportunity.

According to Astuti et al. (2022), earnings growth is when a company experiences an increase in earnings indicated by a percentage. Earnings growth is closely related to earnings quality. High earnings growth indicates good financial performance of the company, but the quality of earnings information must also be maintained to reflect the company's actual performance. Previous research on the influence of earnings growth on earnings quality has been conducted, but the results need to be more consistent. According to Astuti et al. (2022) and Sumertiasih and Yasa (2022), earnings growth significantly and positively influences earnings quality. However, according to Rahmawati and Aprilia (2022), and Benarda and Desmita (2022), earnings growth does not impact earnings quality.

Audit quality refers to the quality of the examination conducted by auditors. Various factors, including the size of the Public Accounting Firm, can influence audit quality. The larger the Public Accounting Firm, the better the audit quality it produces. Large Public Accounting Firms, such as those affiliated with the big four, have an excellent reputation for providing high-quality audit services. The big four Public Accounting Firms help ensure companies comply with all applicable regulations and accounting standards, enhancing investor confidence and earnings quality. Previous research on the impact of audit quality on earnings quality has yielded different results. According to Hartoko and Astuti (2021), and Juwita (2020), audit quality significantly and positively impacts earnings quality. However, according to Rahmawati and Aprilia (2022) and Sorialam et al. (2022), audit quality does not impact earnings quality.

Investment Opportunity Set (IOS), according to Irawan and Apriwenni (2021), is an indicator that depicts the breadth of investment opportunities or growth opportunities for a company. The magnitude of the investment opportunity set helps companies identify investment projects that will generate greater profits, leading to long-term growth and earnings quality. Previous research on the influence of investment opportunity set on earnings quality has been conducted, but the results must be more consistent. Widmasari et al. (2019) and Yasa et al. (2019) show that the investment opportunity set significantly and positively influences earnings quality. However, according to Kepramareni et al. (2021) and Wulandari et al. (2021), the investment opportunity set does not impact earnings quality.

Previous research on the influence of earnings growth, audit quality, and investment opportunity set on earnings quality has shown research gaps and the existence of phenomena, indicating the need for further research on this issue.

METHODS

Types of Research. This research is a quantitative study of influence. Furthermore, this research utilizes secondary data to test hypotheses regarding the influence of independent variables, namely earnings growth, audit quality, and investment opportunity set, on the dependent variable, earnings quality. The analysis of this quantitative research emphasizes numerical data that are processed using statistical methods.

Population and Sample. The population in this research consists of all financial sector companies listed on the Indonesia Stock Exchange from 2016 to 2020, totaling 103 companies. The sample used comprises financial sector companies selected by the researcher based on specific criteria through purposive sampling, resulting in 34 companies as the research sample.

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Sampling Method. The sampling method employed in this study is non-probability sampling. The type of sample used is purposive sampling, which is selected based on predetermined criteria. The intended criteria include:

1. Financial sector companies listed on the Indonesia Stock Exchange from 2016 to 2020.
2. Companies that did not generate negative net profit from 2016 to 2020.
3. complete data can be available to measure earnings growth, audit quality, investment opportunity set, and earnings quality.

Table 1 shows the characteristics of a sample.

Table 1. Samples Criteria

No.	Samples Criteria	Total
1.	Financial sector companies listed on the Indonesia Stock Exchange	103
2.	Companies that generated consecutive negative profits from 2016 to 2020	(51)
3.	Companies with incomplete data related to the measurement of the examined variables	(18)
	Number of samples of financial sector companies	34
	Number of research samples of financials sector companies in 5 years / during 2016-2020	80

Source: Data Processed, 2023

Definition and Measurement of Variables. The dependent variables in this study are earnings growth, audit quality, and investment opportunity set, while the independent variable is earnings quality. Earnings quality is measured using the quality of earnings ratio, with the formula:

$$QER = \frac{\text{Operating Cash}}{\text{Flow Net Income}}$$

Source: Hasanuddin et al., (2021)

One of the independent variables in this study is earnings growth, which is measured using the earnings growth index as follows:

$$Earnings\ Growth\ Index\ = \frac{\text{Net Income (y)} - \text{Net Income (y} - 1)}{\text{Net Income (y} - 1)}$$

Source: Sumertiasih dan Yasa (2022)

The second independent variable is audit quality. The formula for calculating audit quality utilizes the size of the Public Accounting Firm, where the size of the Public Accounting Firm is measured using a dummy variable. In this case, Public Accounting Firms affiliated with the big four accounting firms (Price et al. (PWC), Ernst & Young (EY), Deloitte, and Klynveld Peat Marwick Goerdeler (KPMG)) are assigned a value of 1, while Public Accounting Firms affiliated with non-big four firms are assigned a value of 0.

$$\text{Audited by a big four public accounting firm} = 1$$
$$\text{Audited by a Non} - \text{big four public accounting firm} = 0$$

Source: Puteri dan Saraswati (2021)

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The third independent variable is the investment opportunity set, which is measured using the Market Value to Book Value of Asset Ratio (MVBVA), with the formula:

$$MVBVA = \frac{(\text{Total Aset} - \text{Total Equity}) + (\text{Outstanding Shares x Closing Price})}{\text{Total Asset}}$$

Source: Wulandari et al., (2021)

Types, Sources, and Data Collection Methods. The type of data used in this research is quantitative data, specifically numeric data. The data source is obtained indirectly through intermediary media. The data collection method used is a documentary method, which involves gathering data (documents) in the form of annual financial reports published by companies on the official website of the Indonesia Stock Exchange, www.idx.co.id

RESULT AND DISCUSSION

Descriptive Statistical Test. This test describes each variable's minimum, maximum, mean, and standard deviation data. The results of the descriptive statistical test can be seen in the following table 2.

1. Earnings growth has a minimum value of 0.02 and a maximum value of 6.66, with an average earnings growth of 3.996, a standard deviation of 0.88143, and a total of 80 observations.
2. Audit quality has a minimum value of 0.00 and a maximum value of 1.00, with an average audit quality of 0.5625, a standard deviation of 0.49921, and a total of 80 observations.
3. The investment opportunity set has a minimum value of 0.29 and a maximum value of 5.09, with an average investment opportunity set of 1.2643, a standard deviation of 0.76034, and a total of 80 observations.
4. Earnings quality has a minimum value of 0.02 and a maximum value of 188.38, with an average earnings quality of 7.0719, a standard deviation of 25.63225, and a total of 80 observations.

Table 2. Descriptive Statistical Test

	N	Minimum	Maximum	Mean	Std. Deviation
Earnings Growth	80	.02	6.66	.3996	.88143
Audit Quality	80	.00	1.00	.5625	.49921
Investment Opportunity Set	80	.29	5.09	1.2643	.76034
Earnings Quality	80	.02	188.38	7.0719	25.63225

Source: Data Processed SPSS 26, 2023

Outlier Test. The descriptive statistical analysis indicates that the data for the variables earnings growth, audit quality, and investment opportunity set could be more representative due to the presence of outlier data. An outlier is a data point that deviates significantly from the rest of the observations. To ensure the representativeness of the data, some observations need to be removed. This study employed Z-scores and case-wise diagnostics as outlier tests.

Z-score testing was conducted, with the range of values classified as outlier data being -2.5 > Z > 2.5. The outlier test results using Z-scores indicated that seven observations must be eliminated. The outlier data are as follows:

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1. Sample 9, PT Bank CIMB Niaga Tbk (BNGA) in 2016, with a Z-score value of 3.93721 for the variable earnings growth.
2. Sample 10, PT Batavia Prosperindo Internasional Tbk (BPII) in 2016, with a Z-score value of 3.16405 for the variable investment opportunity set.
3. Sample 18, PT Star Petrochem Tbk (STAR) in 2016, has a Z-score value of 4.98700 for the variable earnings quality.
4. Sample 34, PT Batavia Prosperindo Internasional Tbk (BPII) in 2017, has a Z-score value of 4.71600 for the variable investment opportunity set.
5. Sample 41, PT Star Petrochem Tbk (STAR) in 2017, with a Z-score value of 7.07344 for the variable earnings quality.
6. Sample 49, PT Batavia Prosperindo Internasional Tbk (BPII) in 2018, has a Z-score value of 5.03165 for the variable investment opportunity set.

Sample 76, PT Bank Tabungan Negara (Persero) Tbk (BBTN) in 2020, with a Z-score value of 7.10253 for the variable earnings growth.

After eliminating the outlier data with Z-scores, 156 observations remained as the sample. However, it was found that this still needed to be improved as undetected outlier data caused the data to deviate from normal distribution. Therefore, this study used casewise diagnostics as a second step to detect outliers.

Casewise diagnostics testing is one of the methods used to identify outliers, where data with a standard deviation less than -2.5 or greater than 2.5 are categorized as outlier data.

Table 3 shows that samples 14 and 35 are categorized as outliers because the standard deviation of their respective observations is greater than 2.5. After eliminating these two samples, the remaining sample size is 71.

Table 3. Outlier Test with Casewise Diagnostics (1)

Casewise Diagnostics

Case Number	Std. Residual	Earnings Quality	Predicted Value	Residual
14	2.779	17.04	6.0446	10.99542
35	6.090	27.70	3.6018	24.09817

a. Dependent Variable: Earnings Quality Source: Data Processed SPSS 26, 2023

Based on Table 4, it can be concluded that the 63rd sample is categorized as an outlier because the standard deviation of the observation is greater than 2.5. After eliminating this sample, the remaining samples amount to 70.

Table 4. Outlier Test with Casewise Diagnostics (2)

Casewise Diagnostics

Case Number	Std. Residual	Earnings Quality	Predicted Value	Residual
63	2.764	8.73	2.5567	6.17325

a. Dependent Variable: Earnings Quality Source: Data Processed SPSS 26, 2023

Based on Table 5, it can be concluded that the 39th sample is categorized as an outlier because the standard deviation of the observation is greater than 2.5. After eliminating this sample, the amount of the remaining sample to 69.

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Table 5. Outlier Test with Casewise Diagnostics (3)
Casewise Diagnostics

Case Number	Std. Residual	Earnings Quality	Predicted Value	Residual
39	2.683	7.48	1.8148	5.66518

a. Dependent Variable: Earnings Quality Source: Data Processed SPSS 26, 2023

Classic assumption test. The normality test was conducted using the one-sample Kolmogorov-Smirnov test by examining the significant value in Asymp. Sig. (2-tailed) > 0.05. Table 6 shows that the Asymp. Sig. (2-tailed) value is 0.175, which means it is > 0.05, indicating that the data is normally distributed.

Table 6. Normality test: One-sample Kolmogorov-Smirnov
One-Sample Kolmogorov-Smirnov Test

N		69
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	1.95724685
Most Extreme Differences	Absolute	.097
	Positive	.097
	Negative	-.076
Test Statistic		.097
Asymp. Sig. (2-tailed)		.175[c]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction. Source: Data Processed SPSS 26, 2023

The multicollinearity test can be seen in Table 7, which shows that the tolerance values > 0.10 and the VIF values < 10. Therefore, the variables earnings growth, audit quality, and investment opportunity set used in this study do not exhibit multicollinearity.

Table 7. Multicollinearity Test
Coefficients

Model		Tolerance	VIF
1	Earnings Growth	.983	1.017
	Audit Quality	.966	1.035
	Investment Opportunity Set	.982	1.018

a. Dependent Variable: Earnings Quality Source: Data Processed SPSS 26, 2023

The heteroscedasticity test was conducted using the rank Spearman correlation method by examining the significance values at Sig. (2-tailed) > 0.05. Table 8 shows that the Sig. (2-tailed) the earnings growth variable values are 0.208, audit quality is 0.540, and investment opportunity set is 0.669. Therefore, it can be concluded that there is no heteroscedasticity issue in the data because the Sig. (2-tailed) values for each independent variable are > 0.05.

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Table 8. Heteroscedasticity Test

Variable	Sig. (2-tailed)	Description
Earnings Growth	.208	No Heteroscedasticity
Audit Quality	.540	No Heteroscedasticity
Investment Opportunity Set	.669	No Heteroscedasticity

a. Dependent Variable: Earnings Quality Source: Data Processed SPSS 26, 2023

Multiple Linear Regression Analysis. Based on Table 9, the multiple linear regression analysis shows the formation of the regression model equation as follows: Y = 0.816 + 4.928 x1 + 0.007 x2 + 0.262 x3.

1. The constant value is 0.816, which means that when x1, x2, and x3 are all zero, the value of Y is 0.816.
2. The regression coefficient of variable x1 is 4.928, indicating that for every unit increase in x1, Y will increase by 4.928, assuming that the values of other independent variables remain constant.
3. The regression coefficient of variable x2 is 0.007, indicating that for every unit increase in x2, Y will increase by 0.007, assuming that the values of other independent variables remain constant.
4. The regression coefficient of variable x3 is 0.262, indicating that for every unit increase in x3, Y will increase by 0.262, assuming that the values of other independent variables remain constant.

Table 9. Multiple Linear Regression Coefficients

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.816	.888		.919	.362
	Earnings Growth	4.928	.930	.552	5.300	.000
	Audit Quality	.007	.506	.001	.013	.990
	Investment Opportunity Set	.262	.616	.044	.425	.672

a. Dependent Variable: Earnings Quality Source: Data Processed SPSS 26, 2023

Hypothesis Test. The Ftable in this study is 2.75. Based on table 10 shows that the F count is 9.620 with a significance value of 0.000. Suppose the significance value is less than 0.05 (0.000 < 0.05) and the Fcount is greater than the Ftable (9.620 > 2.75). This result indicates that earnings growth, audit quality, and investment opportunity set simultaneously affect earnings quality.

Table 10. F Test Results
ANOVAa

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	115.663	3	38.554	9.620	.000 b
	Residual	260.495	65	4.008		
	Total	376.158	68			

a. Dependent Variable: Earnings Quality

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b. Predictors: (Constant), Investment Opportunities Set, Earnings Growth, Audit Quality Source: Data Processed SPSS 26, 2023

Table 11 shows an adjusted R square of 0.276, meaning that 27.6% of the variation in earnings growth is explained by earnings growth, audit quality, and investment opportunity set. In comparison, the remaining 72.4% is influenced by other factors outside the scope of this study.

Table 11. Coefficient Determinant Test
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.555a	.307	.276	2.00190

a. Predictors: (Constant), Investment Opportunity Set, Earnings Growth, Audit Quality
b. Dependent Variable: Earnings Quality Source: Data Processed SPSS 26, 2023

This study discusses four variables with a sample size of 69 data points and a significance level of 0.05, resulting in a table of 1.99714. Based on Table 12, the results of the significance test of individual parameters can be explained as follows:

1. Table 12 shows that earnings growth has a count of 5.300 with a significance level of 0.000. Since the significance level is less than 0.05 (0.000 < 0.05) and the count is greater than the table (5.300 > 1.99714), H01 is rejected, and HA1 is accepted. This means that earnings growth significantly and positively affects earnings quality.
2. Table 12 shows audit quality has a count of 0.013 with a significance level of 0.990. Since the significance level is greater than 0.05 (0.990 > 0.05) and the count is less than the table (0.013 < 1.99714), H02 is accepted, and HA2 is rejected. This means that audit quality does not significantly affect earnings quality.
3. Table 12 shows that the investment opportunity set has a count of 0.425 with a significance level of 0.672. Since the significance level is greater than 0.05 (0.672 > 0.05) and the count is less than the table (0.425 < 1.99714), H03 is accepted, and HA3 is rejected. This means that the investment opportunity set only significantly affects earnings quality.

Table 12. T Test Results
Coefficients

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.816	.888		.919	.362
	Earnings Growth	4.928	.930	.552	5.300	.000
	Audit Quality	.007	.506	.001	.013	.990
	Investment Opportunity Set	.262	.616	.044	.425	.672

a. Dependent Variable: Earnings Quality Source: Data Processed SPSS 26, 2023

Effect of earnings growth on earnings quality. Since the significance level is less than 0.05

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(0.000 < 0.05) Moreover, the count is greater than the table (5.300 > 1.99714), H01 is rejected, and HA1 is accepted, indicating that earnings growth has a significant and positive effect on earnings quality. Positive earnings growth will significantly and positively affect earnings quality. Companies that successfully increase their profits from year to year will likely experience an improvement in earnings quality. Positive earnings growth accompanied by earnings quality will also increase investor confidence in the integrity of the company's management. Therefore, through earnings quality, companies can easily attract capital from external sources as investors positively respond to it. This study is consistent with the research conducted by Kurniawan and Aisah (2020), which states that there is an influence between earnings growth and earnings quality due to the positive response by investors, who are users of financial statements, to information on the company's earnings quality. As a result, investor confidence in the company's earnings growth increases, leading to higher earnings quality.

Effect of audit quality on earnings quality. Since the significance level is greater than 0.05 (0.990 > 0.05) Moreover, the count is less than the table (0.013 < 1.99714), H02 is accepted, and HA2 is rejected, indicating that audit quality does not significantly affect earnings quality. The lack of influence of audit quality on earnings quality means that the size of the Public Accounting Firm in producing audits of the company's financial statements, in this case, the Big Four Public Accounting Firms with their excellent reputation, does not affect the company's earnings quality. This condition also means no difference between the audits conducted by the Big Four Public Accounting Firms and the Non-Big Four Public Accounting Firms. This is based on the execution of audits where both the Big Four and Non-Big Four Public Accounting Firms carry out audits performed by auditors from Indonesia. This study is consistent with the research conducted by Rahmawati and Aprilia (2022), which states that there is no influence between audit quality and earnings quality because investors ignore which auditor conducts the audit.

Effect of earnings growth on earnings quality. Since the significance level is less than 0.05 (0.000 < 0.05) Moreover, the count is greater than the table (5.300 > 1.99714), H01 is rejected, and HA1 is accepted, indicating that earnings growth has a significant and positive effect on earnings quality. Positive earnings growth will significantly and positively affect earnings quality. Companies that successfully increase their profits from year to year will likely experience an improvement in earnings quality. Positive earnings growth accompanied by earnings quality will also increase investor confidence in the integrity of the company's management. Therefore, through earnings quality, companies can easily attract capital from external sources as investors positively respond to it. This study is consistent with the research conducted by Kurniawan and Aisah (2020), which states that there is an influence between earnings growth and earnings quality due to the positive response by investors, who are users of financial statements, to information on the company's earnings quality. As a result, investor confidence in the company's earnings growth increases, leading to higher earnings quality.

Effect of audit quality on earnings quality. Since the significance level is greater than 0.05 (0.990 > 0.05) Moreover, the count is less than the table (0.013 < 1.99714), H02 is accepted, and HA2 is rejected, indicating that audit quality does not significantly affect earnings quality. The lack of influence of audit quality on earnings quality means that the size of the Public Accounting Firm in producing audits of the company's financial statements, in this case, the Big Four Public Accounting Firms with their excellent reputation, does not affect the company's earnings quality. This condition also means no difference between the audits conducted by the Big Four Public Accounting Firms and the Non-Big Four Public Accounting Firms. This is based on the execution of audits where both the Big Four and Non-Big Four Public Accounting Firms carry out audits performed by auditors

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from Indonesia. This study is consistent with the research conducted by Rahmawati and Aprilia (2022), which states that there is no influence between audit quality and earnings quality because investors ignore which auditor conducts the audit.

CONCLUSION

There is a significant and positive influence between earnings growth and earnings quality. Companies that successfully increase their profits from year to year will enable them to experience an improvement in earnings quality. There is no influence between audit quality and earnings quality. The size of the Public Accounting Firm in producing financial statement audits for companies, particularly the Big Four firms with a strong reputation, does not affect earnings quality. There is no influence between investment opportunity set and earnings quality. Companies that successfully improve production efficiency and reduce production costs through investment project decisions do not affect the increase or decrease in the company's earnings quality.

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