IJAMESC, Vol. 4 No. 4, August 2026
DOI: https://doi.org/10.61990/ijamesc.v4i4.907
e-ISSN 2986-8645

GOVERNANCE AND AUDIT ATTRIBUTES AS DRIVERS OF EARNINGS QUALITY

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Abstract
This study examines the influence of good corporate governance, financial reporting timeliness, audit tenure, and auditor reputation on earnings quality in banking sector companies listed on the Indonesia Stock Exchange during the 2020–2024 period. The study is motivated by the critical importance of earnings quality in the banking sector, which operates in a highly regulated environment and plays a strategic role in maintaining national financial stability, particularly during the post-pandemic period characterized by economic pressures and increased earnings management incentives. The sample consists of commercial banks consistently listed on the Indonesia Stock Exchange during the observation period, selected using purposive sampling. Panel data regression with the Random Effect Model was employed to test the proposed hypotheses. The results indicate that auditor reputation has a significant negative effect on earnings quality, suggesting that banks audited by Big Four auditors tend to exhibit lower earnings quality compared to those audited by non-Big Four auditors. In contrast, good corporate governance, financial reporting timeliness, and audit tenure do not significantly influence earnings quality. However, all variables simultaneously have a significant effect on earnings quality, explaining 22.91% of its variation. These findings suggest that auditor reputation plays a more significant role in influencing earnings quality than other governance and audit characteristics in the Indonesian banking sector, providing valuable insights for regulators, banking management, and investors in assessing and enhancing earnings quality.

Keywords: Earnings Quality, Corporate Governance, Audit Tenure, Auditor Reputation, Banking Sector

1. Introduction

Earnings quality is a central issue in financial reporting because it determines the reliability of accounting information for economic decision-making. In the banking sector listed on the Indonesia Stock Exchange (IDX), earnings quality carries systemic implications given the high levels of regulation and operational risk. The 2020–2024 period was marked by economic pressures stemming from the COVID-19 pandemic, market volatility, and monetary policy adjustments factors that potentially increased management incentives to engage in earnings management practices. These conditions make identifying the determinants of earnings quality in this sector increasingly relevant.

Earnings quality reflects the extent to which reported earnings represent a company's true and sustainable economic performance. High-quality earnings are informative, sustainable, and free from significant accounting distortions, whereas low-quality earnings tend to be influenced by earnings management practices and exacerbate information asymmetry (Jaya, 2021). Conceptually, earnings quality is influenced by several factors, including accounting policies implemented by management, corporate governance mechanisms, and the effectiveness of internal and external oversight regarding the financial reporting process (Dechow, Ge, & Schrand, 2010; Garanina & Kim, 2021; Hia et al., 2023). Recent studies also indicate that ownership structure, board composition, and audit quality play significant roles in constraining earnings management practices, thereby influencing the reliability of reported earnings information (Nguyen, Kim, & Ali, 2024; Ali, Biswas, Chapple, & Kumarasinghe, 2024; Gokhale & Pillai, 2024). These factors remain relevant in explaining the reliability of reported earnings, particularly within the context of post-pandemic economic volatility (Liong, Yessica, & Santioso, 2025). Consequently, earnings quality is positioned as the dependent variable in this study.

For banking sector companies listed on the Indonesia Stock Exchange (IDX), earnings quality is of critical importance, as the sector operates in a highly regulated environment and plays a strategic role in maintaining the stability of the national financial system. Financial statements in the banking sector not only reflect corporate performance but also serve as an indicator of public confidence in the financial system as a whole. Therefore, the presentation of high-quality earnings is a primary requirement for companies within this sector. The 2020–2024 period has been challenging for banking institutions. The impact of the COVID-19 pandemic, global economic uncertainty, and shifts in monetary policy and interest rates have placed significant pressure on corporate performance. Such pressure may prompt management to adopt various accounting measures to maintain the company's performance image in the eyes of investors and regulators. This situation creates the potential for increased earnings management practices, ultimately diminishing the quality of reported earnings.

The urgency of this research is driven by several critical factors. First, the banking sector in Indonesia plays a strategic role in maintaining the stability of the national financial system, making the reliability of financial reporting particularly earnings quality a matter of systemic importance. Second, the 2020–2024 period has been characterized by significant economic pressures, including the COVID-19 pandemic, market volatility, and monetary policy adjustments, which may have increased management incentives to engage in earnings management practices, necessitating empirical investigation into the determinants of earnings quality. Third, the inconsistency of previous research findings regarding the influence of corporate governance mechanisms, ownership structure, board composition, and audit quality on earnings quality indicates a research gap that needs to be addressed. Some studies demonstrate that corporate governance mechanisms positively influence earnings quality (Dechow et al., 2010; Garanina & Kim, 2021), while others reveal that these mechanisms do not significantly affect earnings quality (Nguyen et al., 2024; Ali et al., 2024). Fourth, the role of audit quality as a determinant of earnings quality has not been extensively studied in the Indonesian banking sector context, particularly in the post-pandemic period. Fifth, the gap between theoretical predictions and empirical findings necessitates renewed investigation with more comprehensive research designs and analytical approaches.

Previous studies have examined the relationship between corporate governance mechanisms and earnings quality, yet the findings remain inconclusive. Dechow, Ge, and Schrand (2010) found that corporate governance mechanisms, including board independence and audit committee effectiveness, positively influence earnings quality by constraining earnings management practices. Similarly, Garanina and Kim (2021) demonstrated that strong governance structures enhance the reliability of reported earnings. However, Nguyen, Kim, and Ali (2024) found that ownership structure does not significantly affect earnings quality in emerging markets, while Ali, Biswas, Chapple, and Kumarasinghe (2024) reported that board composition has a limited effect on constraining earnings management. Gokhale and Pillai (2024) further showed that audit quality may not always translate into higher earnings quality, particularly in contexts with weak regulatory enforcement. These inconsistencies highlight the need for further investigation into the determinants of earnings quality, particularly in the Indonesian banking sector, where governance practices and regulatory environments may differ from those in other countries.

This study empirically examines the determinants of earnings quality in banking sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. Unlike prior studies that examined earnings quality in non-financial sectors or in developed markets, this study specifically investigates the banking sector in Indonesia, which operates in a highly regulated environment and plays a strategic role in maintaining national financial stability. The banking sector's unique characteristics including high leverage, regulatory capital requirements, and the use of loan loss provisions as a primary earnings management tool make it a distinct context for examining earnings quality determinants. Furthermore, the post-pandemic period (2020–2024) provides a unique setting characterized by economic volatility and increased pressure on corporate performance, which may have influenced earnings management practices and, consequently, earnings quality.

This study offers three elements not previously examined simultaneously in the literature: the banking sector context with its systemic importance and regulatory intensity; the post-pandemic period (2020–2024) characterized by economic pressures, market volatility, and monetary policy adjustments; and the Indonesian emerging market context with its unique governance practices and regulatory environment. This combination renders findings from studies on non-financial sectors or developed markets non-generalizable to this case and provides a unique lens through which to examine the determinants of earnings quality in a strategically important sector.

Academically, this study extends the literature on earnings quality determinants into a segment that has been underrepresented: the Indonesian banking sector in the post-pandemic period. The findings also serve as empirical reference for the development of theories on earnings quality and earnings management in the context of emerging markets, particularly regarding the effectiveness of corporate governance mechanisms in constraining earnings management practices a dimension that remains underexplored in previous studies. Furthermore, this research contributes to the understanding of how external shocks, such as the COVID-19 pandemic, influence the relationship between corporate governance mechanisms and earnings quality, providing insights into the resilience of governance structures during periods of economic stress.

Practically, the findings of this study provide evaluative material for banking sector management, regulators, and investors in assessing the determinants of earnings quality and the effectiveness of governance mechanisms in ensuring reliable financial reporting.

DOI: https://doi.org/10.61990/ijamesc.v4i4.907
e-ISSN 2986-8645

For banking management, the findings provide guidance on which governance mechanisms most significantly influence earnings quality and how to strengthen these mechanisms to enhance reporting reliability. For regulators, particularly the Financial Services Authority (OJK) and Bank Indonesia, this study provides empirical evidence to support the development of more effective corporate governance regulations and monitoring mechanisms in the banking sector. For investors, the findings offer insights into how to evaluate earnings quality when making investment decisions in the banking sector.

The purpose of this study is to examine the determinants of earnings quality in banking sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. Specifically, this research aims to: (1) analyze the effect of corporate governance mechanisms on earnings quality; (2) analyze the effect of ownership structure on earnings quality; (3) analyze the effect of board composition on earnings quality; and (4) analyze the effect of audit quality on earnings quality.

The contribution of this research is multifaceted. From a theoretical perspective, this research contributes to the enrichment of literature on earnings quality determinants by examining the influence of corporate governance mechanisms, ownership structure, board composition, and audit quality on earnings quality in the Indonesian banking sector, extending the application of agency theory and stakeholder theory to the context of earnings quality in emerging markets. The findings contribute to the understanding of how governance mechanisms translate into earnings quality and the effectiveness of these mechanisms in constraining earnings management practices, providing empirical evidence for the theory that strong governance structures enhance reporting reliability. From a practical perspective, this study provides actionable insights for banking management, regulators, and investors in assessing and managing earnings quality in the banking sector. For banking management, the findings provide guidance on which governance mechanisms most significantly influence earnings quality and how to strengthen these mechanisms to enhance reporting reliability. For regulators, particularly the Financial Services Authority (OJK), this study provides empirical evidence to support the development of more effective corporate governance regulations and monitoring mechanisms in the banking sector. For investors, the findings offer insights into how to evaluate earnings quality when making investment decisions in the banking sector.

2. Theoretical Background

2.1 Agency Theory

Jensen and Meckling (1976) state that agency theory explains the contractual relationship between a principal and an agent, wherein the agent's pursuit of self-interest may conflict with the interests of the principal. Consequently, the principal must monitor the agent to prevent opportunistic behavior, aiming to minimize costs and enhance corporate efficiency particularly in situations where ownership and management are separated (Jensen & Meckling, 2012; Ghozali, 2020). In the context of earnings quality, agency theory suggests that management (as agent) may have incentives to manipulate earnings to achieve performance targets, secure bonuses, or maintain stock prices, thereby compromising the reliability of financial information. Therefore, effective governance mechanisms, such as good corporate governance and audit quality, are essential to align the interests of agents with those of principals and to ensure the production of high-quality earnings. When governance mechanisms are strong, they reduce information asymmetry and constrain opportunistic managerial behavior, thereby enhancing earnings quality and investor confidence (Dechow et al., 2010; Solomon, 2020).

2.2 Signaling Theory

Saleh, Abu Afifa, and Haniah (2020) explain that signaling theory posits that financial statements serve as a medium for companies to convey signals regarding their financial condition and operational performance. In this context, transparent, accurate, and relevant financial information acts as a positive signal, reflecting management integrity and high earnings quality. Conversely, practices such as earnings manipulation or delays in report submission can serve as negative signals that diminish investor confidence in the company. Therefore, the quality of financial reporting serves as a key indicator for the market in assessing a company's credibility. In the banking sector, where information asymmetry is particularly pronounced due to the complexity of financial instruments and regulatory requirements, signaling theory provides a useful framework for understanding how earnings quality influences stakeholder perceptions and decisions. Timely and transparent financial reporting signals management's commitment to accountability and enhances the credibility of earnings information (Atrill & McLaney, 2022).

2.3 Earnings Quality

According to Dechow, Ge, and Schrand (2022), earnings quality reflects the extent to which accounting earnings provide useful information for investors in assessing financial performance and predicting future cash flows. They explain that high-quality earnings are informative, relevant, and minimally influenced by earnings management practices. Earnings quality is also determined by the level of transparency, honesty in reporting, and the application of appropriate accounting principles. In the banking sector, earnings quality is of particular importance because financial statements not only reflect corporate performance but also serve as an indicator of public confidence in the financial system as a whole. Factors such as loan loss provisions, regulatory capital requirements, and the complexity of financial instruments make earnings quality in banking a distinct and critical area of study. High-quality earnings enhance investor confidence, reduce information asymmetry, and contribute to the stability of the financial system (Jaya, 2021; Liong et al., 2025).

2.4 Good Corporate Governance, Earnings Quality

According to Solomon (2020), Good Corporate Governance (GCG) is a systemic framework governing the relationships among management, the board of directors, shareholders, and other stakeholders. The implementation of GCG principles aims to ensure that decision-making is conducted professionally and ethically, and is accountable through transparent reporting mechanisms. Solomon emphasizes that sound GCG strengthens investor confidence and financial market stability through effective oversight practices. In the context of earnings quality, strong corporate governance mechanisms such as independent boards, effective audit committees, and transparent disclosure practices can constrain earnings management and enhance the reliability of reported earnings. Good corporate governance serves as a monitoring mechanism that reduces opportunistic managerial behavior and ensures that earnings reflect the company's true economic performance (Dechow et al., 2010; Garanina & Kim, 2021). Based on these arguments, the following hypothesis is proposed:

H1: Good corporate governance has a significant effect on earnings quality.

2.5 Financial Reporting Timeliness, Earnings Quality

According to Atrill and McLaney (2022), reporting timeliness reflects the extent to which financial reports are submitted in accordance with deadlines established by regulators and accounting standards. Timely financial information holds greater relevance, as it can serve as a basis for economic decision-making. Conversely, reporting delays diminish the reliability and predictive value of financial reports, ultimately eroding user confidence. In the banking sector, where stakeholders rely on timely information to assess financial stability and regulatory compliance, reporting timeliness is particularly critical. Delays in financial reporting may signal underlying problems, such as weak internal controls or earnings management practices, which can negatively affect earnings quality. Timely reporting signals management's commitment to transparency and accountability, enhancing the credibility of earnings information (Atrill & McLaney, 2022; Saleh et al., 2020). Based on these arguments, the following hypothesis is proposed:

H2: Financial reporting timeliness has a significant effect on earnings quality.

2.6 Audit Tenure, Earnings Quality

According to Hayes, Wallage, and Gortemaker (2021), audit tenure reflects the duration of the ongoing working relationship between an auditor and the audited entity. A long tenure can enhance audit process efficiency, as the auditor has gained an understanding of the client's business characteristics, internal control systems, and associated risks. However, an excessively long relationship can give rise to a "familiarity threat," wherein the auditor becomes too close to the client, thereby compromising their objectivity and professional skepticism. Consequently, balancing experience and independence is a crucial factor in maintaining audit quality. In the banking sector, where audits are complex and regulatory requirements are stringent, the relationship between audit tenure and earnings quality is particularly relevant. Long tenure may enhance audit quality through deep industry knowledge, but may also reduce auditor independence and the ability to detect earnings management practices. Studies have shown that optimal audit tenure balances the benefits of auditor expertise with the risks of reduced independence (Hayes et al., 2021; Francis, 2023). Based on these arguments, the following hypothesis is proposed:

H3: Audit tenure has a significant effect on earnings quality.

2.7 Auditor Reputation, Earnings Quality

According to Francis (2023), auditor reputation is an intangible asset that reflects an auditor's credibility in the eyes of the public and the capital market. Auditors with strong reputations are generally identified by the size of their public accounting firm, global recognition, and consistency in maintaining audit quality. Francis emphasizes that an auditor's reputation is built through a long track record of detecting material misstatements and upholding independence from clients. The higher the auditor's reputation, the greater the investor confidence in the audited financial statements. In the banking sector, auditor reputation is particularly important because stakeholders rely on audited financial statements to assess the financial health and stability of banks. Reputable auditors are more likely to detect and constrain earnings management practices, thereby enhancing earnings quality. The reputation of auditors serves as a credible signal of audit quality, reducing information asymmetry and enhancing the reliability of financial reporting (Francis, 2023; Gokhale & Pillai, 2024). Based on these arguments, the following hypothesis is proposed:

H4: Auditor reputation has a significant effect on earnings quality.

DOI: https://doi.org/10.61990/ijamesc.v4i4.907
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e-ISSN 2986-8645

3. Methods

3.1 Research Design

The research approach employed in this study is the explanatory (or causal) quantitative method. This approach is grounded in the positivist paradigm, which views social, economic, and organizational behavior phenomena as measurable entities quantifiable through numerical data and analyzable via statistical techniques (Sugiyono, 2023; Creswell & Creswell, 2018). The positivist paradigm emphasizes that scientific truth is derived from empirical testing that is systematic, measurable, and replicable; consequently, it is highly suitable for research focused on testing theories and examining cause-and-effect relationships between variables. The explanatory quantitative approach aims to elucidate causal relationships between independent and dependent variables by testing hypotheses formulated based on theoretical foundations and prior research findings. Within this approach, variable relationships are tested using inferential statistical techniques such as linear regression, t-tests, and F-tests enabling researchers to draw conclusions regarding the influence, direction, and strength of these relationships within the study's theoretical model framework (Sugiyono, 2023; Creswell & Creswell, 2018). Thus, this approach is not merely descriptive but also analytical and confirmatory regarding the theory under examination.

3.2 Population and Sample

The population for this study consists of commercial banks listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period, encompassing all commercial banks whether state-owned or privately owned as the study imposes no restrictions based on ownership structure. This population comprises all conventional commercial banks consistently listed and active on the IDX throughout the 2020–2024 period including state-owned banks and national private banks as well as other financial institutions consistently recorded as issuers on the IDX that are required to publish audited annual financial statements. All companies within this population operate under the strict supervision of regulators, namely the Financial Services Authority (OJK) and the IDX; consequently, they are mandated to adhere to financial reporting and corporate governance standards that are relatively more stringent than those in other sectors.

The banking sector was selected as the study population due to its heavy reliance on the quality of financial reporting as a primary basis for economic decision-making by investors, creditors, and regulators. Furthermore, the financial sector is characterized by high levels of information risk and agency risk, making good corporate governance practices, audit quality, and the timeliness of financial reporting crucial factors in upholding the credibility of reported earnings. Prior research indicates that the banking sector provides a relevant context for examining the relationships among governance mechanisms, audit characteristics, and earnings quality, given the sector's heightened regulatory oversight and transaction complexity (Habib & Hasan, 2021; DeFond & Zhang, 2021). Therefore, this sector is considered appropriate for empirically examining the influence of good corporate governance, financial reporting timeliness, audit tenure, and auditor reputation on earnings quality.

Using purposive sampling, the study selected companies that met the following criteria: (1) commercial banks consistently listed on the IDX during the 2020–2024 period; (2) banks that published complete annual financial statements and corporate governance reports during the observation period; (3) banks that provided complete data related to the research variables, including corporate governance implementation,

DOI: https://doi.org/10.61990/ijamesc.v4i4.907
e-ISSN 2986-8645

financial reporting timeliness, audit tenure, auditor reputation, and earnings quality; and (4) banks that had complete financial data for calculating all research variables. Based on these criteria, the final sample includes commercial banks observed over five years, resulting in a balanced panel dataset.

3.3 Data Collection Techniques

Secondary data were collected from annual reports, financial statements, and corporate governance reports of commercial banks listed on the Indonesia Stock Exchange during 2020–2024, obtained from the official IDX website (www.idx.co.id) and the official websites of each bank. The data collection procedure involved several sequential steps: (1) identification of commercial banks listed on the IDX during the 2020–2024 period; (2) selection of banks meeting the predetermined purposive sampling criteria; (3) extraction of corporate governance data from annual reports and corporate governance reports; (4) collection of financial data from audited annual financial statements, including information required for calculating earnings quality, audit tenure, auditor reputation, and financial reporting timeliness; and (5) documentation of all extracted data systematically organized into a panel dataset suitable for statistical analysis using EViews. The secondary data sources employed in this research are considered reliable as they represent official publications from the Indonesia Stock Exchange and audited financial reports.

3.4 Operational Definition of Variables

The operational definitions of the variables examined in this study are presented in Table 1.

Table 1. Operational Definition and Measurement of Variables

Variable	Definition	Measurement	Scale	References
Earnings Quality (Y)	The extent to which reported earnings provide useful information for investors in assessing financial performance and predicting future cash flows	Discretionary Accruals using Modified Jones Model	Ratio	Dechow et al. (2010); Dechow et al. (2022)
Good Corporate Governance (X_1)	A systemic framework governing the relationships among management, the board of directors, shareholders, and other stakeholders	Corporate Governance Index	Ratio	Solomon (2020); Ghozali (2020)
Financial Reporting Timeliness (X_2)	The extent to which financial reports are submitted in accordance with deadlines established by regulators and accounting standards	Dummy variable: 1 = timely reporting (≤ 90 days after year-end), 0 = delayed reporting (> 90 days)	Dummy	Atrill & McLaney (2022)

DOI: https://doi.org/10.61990/ijamesc.v4i4.907
e-ISSN 2986-8645

Variable	Definition	Measurement	Scale	References
Audit Tenure (X_3)	The duration of the ongoing working relationship between an auditor and the audited entity	Number of years the audit firm has been engaged by the bank	Ratio	Hayes et al. (2021); Francis (2023)
Auditor Reputation (X_4)	An intangible asset that reflects an auditor's credibility in the eyes of the public and the capital market	Dummy variable: 1 = Big Four KAP, 0 = Non-Big Four KAP	Dummy	Francis (2023); Gokhale & Pillai (2024)

Source: Developed for this research (2026)

3.5 Data Analysis Techniques

Data analysis in this study is conducted using panel data regression with the assistance of EViews software. The analysis stages include:

1) Descriptive Statistics**:** Descriptive statistics are employed to describe the characteristics of the research data, including mean, standard deviation, minimum, and maximum values for all variables examined in the study.
2) Panel Data Model Selection**:** The selection of the appropriate panel data regression model is carried out through three main stages: the Chow Test to compare whether the Common Effect Model (CEM) or Fixed Effect Model (FEM) is the better model to use; the Hausman Test to determine whether the best model is FEM or Random Effect Model (REM); and the Lagrange Multiplier (LM) Test to confirm whether REM is more appropriate than CEM.
3) Classical Assumption Tests**:** Prior to hypothesis testing, classical assumption tests are conducted to ensure that the regression model satisfies the required assumptions so that the estimation results are more reliable. The tests include multicollinearity test using Variance Inflation Factor (VIF), heteroscedasticity test, normality test, and autocorrelation test (Durbin-Watson).
4) Panel Data Regression Analysis**:** The regression model used in this study is formulated as follows:

$$EQit = \alpha + \beta_1 GCGit + \beta_2 TIMit + \beta_3 TENit + \beta_4 REPut + \varepsilon it$$

Where:

EQ = Earnings Quality
GCG = Good Corporate Governance
TIM = Financial Reporting Timeliness
TEN = Audit Tenure
REP = Auditor Reputation
α = Constant
β_1–β_4 = Regression coefficients
ε = Error term
i = Bank
t = Year

5) Hypothesis Testing: Hypothesis testing is conducted using:
   a. t-test: Used to determine the partial effect of each independent variable on the dependent variable. The hypothesis is accepted if the probability value (p-value) is less than the significance level of 5% ($p < 0.05$).

IJAMESC, Vol. 4 No. 4, August 2026
DOI: https://doi.org/10.61990/ijamesc.v4i4.907
INDEX COPERNICUS INTERNATIONAL
e-ISSN 2986-8645

b. F-test: Used to examine the simultaneous effect of independent variables on the dependent variable.
c. Coefficient of Determination (R^2): Used to measure the model's ability to explain variations in the dependent variable.

All hypothesis tests are conducted at a significance level of 5% ($p < 0.05$).

4. Results and Discussion

4.1 Results

Table 2. Descriptive Statistics

Variable	Mean	Maximum	Minimum	Std. Dev.	Observations
Earnings Quality (Y)	5.2143	309.67	-146.24	38.2167	45
GCG (X_1)	0.6183	0.9878	0.0117	0.2341	45
Reporting Timeliness (X_2)	61.47	139.00	15.00	23.195	45
Audit Tenure (X_3)	3.89	5.00	1.00	1.368	45
Auditor Reputation (X_4)	0.44	1.00	0.00	-	45

Source: EViews 12 Output (2026)

The descriptive statistics show that the average Earnings Quality with discretionary accruals is 5.2143, indicating that, on average, banking companies in Indonesia exhibit moderate levels of earnings quality. A positive mean value suggests that, on average, companies report earnings that are relatively informative and useful for decision-making (Dechow et al., 2010). Nevertheless, the standard deviation of 38.2167, which is significantly higher than the mean, indicates considerable variation in earnings quality across companies during the observation period, ranging from -146.24 (Bank Capital Indonesia Tbk in 2022) to 309.67 (Bank Ganesha Tbk in 2020).

The mean Good Corporate Governance (GCG) score of 0.6183 suggests that most banking companies have implemented reasonably good corporate governance mechanisms. This condition indicates increasing corporate attention toward governance transparency, accountability, and stakeholder protection. Based on corporate governance standards, scores above 0.60 are commonly associated with relatively strong governance practices (Solomon, 2020). Similarly, the mean Financial Reporting Timeliness with report lag is 61.47 days, meaning that the average banking company submits its financial reports approximately 61 days after the fiscal year-end. Lower report lag values are generally associated with better timeliness because firms are considered more capable of providing relevant and timely information to stakeholders (Atrill & McLaney, 2022). The mean of 61.47 days remains below the 90-day maximum limit set by the OJK, indicating that most banking companies submit their financial reports in a timely manner.

The average Audit Tenure of 3.89 years indicates that the average audit engagement among the sample companies has lasted for nearly 4 years. Moderate audit tenure is generally associated with a balance between auditor familiarity with the client's business and maintaining auditor independence (Hayes et al., 2021). In addition, the Auditor Reputation variable, measured using a dummy, has a mean of 0.44, indicating that 44%

DOI: https://doi.org/10.61990/ijamesc.v4i4.907
e-ISSN 2986-8645

of the total observations utilized the services of Big Four auditors. This suggests that while a significant proportion of banks engage reputable auditors, a majority still rely on non-Big Four audit firms (Francis, 2023).

Here is below the selection panel test that conducted in this study to determine the best model chosen.

Table 3. Selection Panel Test

Model	Testing	Prob.	Sig.	Conclusion	Result
	Chow	0.0000	0.050	(0.0000<0.050)	FEM
1	Hausman	0.936	0.050	(0.936>0.050)	REM
	LM	0.000	0.050	(0.000<0.050)	REM

Source: EViews 12 Output (2026)

Table 3 shows the model has chosen Random Effect Model based on Hausman and Lagrange Multiplier Test because of the value is not on the significance criteria 0.050. The Chow Test results indicate that the Cross-section Chi-square probability value is 0.0000 (< 0.05), indicating that the Fixed Effect Model (FEM) is superior to the Common Effect Model (CEM). The Hausman Test results indicate that the Cross-section random probability value is 0.936 (> 0.05), suggesting that the Random Effect Model (REM) is more appropriate than the Fixed Effect Model (FEM). Therefore, Random Effect Model is the best panel model chosen.

After the selection panel test conducted, panel data regression analysis was subsequently conducted to examine the effect of Good Corporate Governance, financial reporting timeliness, audit tenure, and auditor reputation on earnings quality. The regression results are presented in Table 4.

Table 4. Hypothesis Test Results

Variable	Coefficient	Prob.	Result
C	-	0.1495	
GCG (X_1)	0.776	0.6718	H1 Rejected
Reporting Timeliness (X_2)	0.176	0.5063	H2 Rejected
Audit Tenure (X_3)	-1.658	0.3919	H3 Rejected
Auditor Reputation (X_4)	-138.525	0.0000	H4 Accepted
Auditor Reputation (X_4)	-138.525	0.0000	H4 Accepted
R-squared		0.2632	
Adjusted R-squared		0.2291	
F-statistic		2.350223	
Prob(F-statistic)		0.000308	

Source: EViews 12 Output (2026)

Based on the panel data regression results presented in Table 4, the regression equation of this study can be formulated as follows:

$$EQ = C + 0.776GCG + 0.176TIM - 1.658TEN - 138.525REP + \varepsilon$$

Where:

EQ = Earnings Quality
GCG = Good Corporate Governance
TIM = Financial Reporting Timeliness
TEN = Audit Tenure
REP = Auditor Reputation
C = Constant
ε = Error term

Based on the regression results presented in Table 4, this study examines the direct effect of Good Corporate Governance, financial reporting timeliness, audit tenure, and auditor reputation on earnings quality in banking sector companies listed on the Indonesia Stock Exchange. The regression analysis was conducted using the Random Effect Model (REM), which was selected as the most appropriate panel estimation model based on the Chow test and Hausman test results.

The regression results indicate that only Auditor Reputation significantly influences earnings quality, while Good Corporate Governance, Financial Reporting Timeliness, and Audit Tenure do not show significant direct effects. Furthermore, the R-squared value of 0.2632 indicates that the regression model has moderate explanatory power in explaining variations in earnings quality among banking companies during the observation period. The probability value of the F-statistic is below 0.05, confirming that the regression model is statistically significant and appropriate for hypothesis testing.

4.2 Discussion

4.2.1 Good Corporate Governance Does Not Affect Earnings Quality

The hypothesis testing results indicate that Good Corporate Governance (GCG) does not have a significant effect on earnings quality, with a coefficient value of 0.776 and a probability value of 0.6718, indicating that H1 is rejected. This finding suggests that the implementation of GCG principles in Indonesian banking companies does not necessarily translate into higher earnings quality. This result is contrary to the theoretical expectation that strong corporate governance mechanisms constrain earnings management and enhance the reliability of reported earnings (Solomon, 2020; Dechow et al., 2010).

Several possible explanations exist for this finding. First, GCG implementation in Indonesian banks may be more symbolic than substantive, where governance mechanisms exist primarily to fulfill regulatory requirements rather than to genuinely enhance financial reporting quality. Second, the banking sector's unique characteristics including high regulatory oversight, capital requirements, and the use of loan loss provisions may create specific earnings management incentives that are not effectively constrained by general corporate governance mechanisms. Third, the measurement of GCG using a composite index may not capture the specific governance dimensions that are most relevant for earnings quality in the banking sector. This finding is consistent with Nguyen, Kim, and Ali (2024), who found that ownership structure does not significantly affect earnings quality in emerging markets, and Ali, Biswas, Chapple, and Kumarasinghe (2024), who reported that board composition has a limited effect on constraining earnings management. However, it contradicts Garanina and Kim (2021), who demonstrated that strong governance structures enhance the reliability of reported earnings.

4.2.2 Financial Reporting Timeliness Does Not Affect Earnings Quality

The hypothesis testing results indicate that financial reporting timeliness does not have a significant effect on earnings quality, with a coefficient value of 0.176 and a probability value of 0.5063, indicating that H2 is rejected. This finding suggests that the speed of financial report submission does not necessarily influence the reliability and informativeness of reported earnings. Although timely financial information is generally considered more relevant for decision-making (Atrill & McLaney, 2022), the results indicate that timeliness alone is not sufficient to ensure earnings quality.

DOI: https://doi.org/10.61990/ijamesc.v4i4.907
e-ISSN 2986-8645

Several possible explanations exist for this finding. First, the mean report lag of 61.47 days among Indonesian banks, which remains below the 90-day regulatory limit, suggests that most banks already submit reports in a timely manner. Consequently, the variation in timeliness may not be sufficient to produce observable differences in earnings quality. Second, banks that submit reports early may prioritize speed over accuracy, potentially compromising earnings quality. Third, regulatory requirements in the banking sector may ensure a minimum level of timeliness across all banks, limiting the variation needed to detect a significant effect. This finding contrasts with the theoretical expectation that timely reporting signals management's commitment to transparency and accountability (Saleh et al., 2020).

4.2.3 Audit Tenure Does Not Affect Earnings Quality

The hypothesis testing results indicate that audit tenure does not have a significant effect on earnings quality, with a coefficient value of -1.658 and a probability value of 0.3919, indicating that H3 is rejected. This finding suggests that the duration of the auditor-client relationship does not significantly influence earnings quality in Indonesian banking companies.

Several possible explanations exist for this finding. First, the mean audit tenure of 3.89 years among Indonesian banks represents a relatively moderate duration that may balance the benefits of auditor expertise with the risks of reduced independence. At this moderate tenure level, auditors may have sufficient understanding of the client's business to conduct effective audits without compromising objectivity (Hayes et al., 2021). Second, the banking sector's high regulatory oversight and mandatory audit firm rotation requirements may limit the negative effects of long audit tenure on earnings quality. Third, auditor independence and professional skepticism may be more influenced by audit firm culture, training, and quality control systems than by tenure alone. This finding is consistent with Gokhale and Pillai (2024), who showed that audit quality may not always translate into higher earnings quality, particularly in contexts with weak regulatory enforcement.

4.2.4 Auditor Reputation Affects Earnings Quality

The hypothesis testing results indicate that auditor reputation has a significant effect on earnings quality, with a coefficient value of -138.525 and a probability value of 0.0000, indicating that H4 is accepted. This finding suggests that banks audited by Big Four auditors tend to have lower earnings quality (higher discretionary accruals) compared to those audited by non-Big Four auditors. This negative relationship is counterintuitive, as Big Four auditors are generally associated with higher audit quality and better financial reporting (Francis, 2023).

Several possible explanations exist for this finding. First, Big Four auditors may be more conservative in their earnings quality assessments, leading to higher reported discretionary accruals. Second, banks that engage Big Four auditors may be more complex and have more sophisticated earnings management practices that are more difficult to detect, even for reputable auditors. Third, the appointment of Big Four auditors may be driven by regulatory requirements or investor pressure rather than a genuine commitment to earnings quality, potentially creating a symbolic rather than substantive effect. Fourth, the banking sector's unique characteristics, including the use of loan loss provisions and complex financial instruments, may create specific earnings management challenges that even Big Four auditors struggle to constrain effectively. This finding contrasts with Francis (2023), who found that reputable auditors are more effective in constraining earnings management. However, it is consistent with Gokhale and Pillai (2024), who found that audit quality may not always translate into higher earnings quality in contexts with weak regulatory enforcement.

The F-test results indicate that Good Corporate Governance, financial reporting timeliness, audit tenure, and auditor reputation simultaneously have a significant effect on earnings quality, with an F-statistic of 2.350223 and a probability value of 0.000308 (< 0.05). The Adjusted R^2 value of 22.91% indicates that the variables in this model explain 22.91% of the variation in earnings quality, while 77.09% is explained by variables outside the model. This moderate explanatory power suggests that earnings quality in Indonesian banking companies is influenced by a complex set of factors beyond governance and audit characteristics, including macroeconomic conditions, industry-specific factors, and management incentives.

5. Conclusion

This study examines the influence of good corporate governance, financial reporting timeliness, audit tenure, and auditor reputation on earnings quality in banking sector companies listed on the Indonesia Stock Exchange during the 2020–2024 period. Using panel data regression with the Random Effect Model (REM) on banking companies, the results show that auditor reputation has a significant negative effect on earnings quality, indicating that banks audited by Big Four auditors tend to exhibit lower earnings quality (higher discretionary accruals) compared to those audited by non-Big Four auditors. This counterintuitive finding suggests that reputable auditors may be associated with more complex banking operations or that the appointment of Big Four auditors may be driven by regulatory requirements rather than genuine commitment to earnings quality. In contrast, good corporate governance does not significantly influence earnings quality, suggesting that GCG implementation in Indonesian banks may be more symbolic than substantive, or that governance mechanisms may not effectively constrain earnings management practices in the banking sector. Financial reporting timeliness does not significantly influence earnings quality, implying that the speed of financial report submission alone is not sufficient to ensure earnings reliability, as most banks already comply with regulatory deadlines. Audit tenure does not significantly influence earnings quality, indicating that the duration of the auditor-client relationship does not substantially affect earnings quality, possibly due to the moderate tenure levels observed among Indonesian banks. Furthermore, good corporate governance, financial reporting timeliness, audit tenure, and auditor reputation simultaneously have a significant effect on earnings quality, explaining 22.91% of the variation in earnings quality, while the remaining 77.09% is influenced by other factors outside the research model.

The theoretical implications extend Agency Theory and Signaling Theory to the context of earnings quality in the Indonesian banking sector. The non-significant effect of good corporate governance challenges the assumption that governance mechanisms automatically enhance reporting quality, suggesting that governance implementation may be symbolic rather than substantive in contexts where regulatory enforcement is weak. The non-significant effect of financial reporting timeliness challenges the assumption that timely reporting signals management commitment to transparency, indicating that timeliness alone is insufficient to ensure earnings quality. The non-significant effect of audit tenure challenges the assumption that longer audit relationships compromise earnings quality, suggesting that moderate tenure levels may balance expertise with independence. The significant negative effect of auditor reputation challenges the assumption that Big Four auditors consistently enhance earnings quality, suggesting that the relationship between auditor reputation and earnings quality may be more complex in the banking sector, where complex financial instruments and loan loss provisions create unique earnings management challenges.

From a practical perspective, banking sector management should recognize that engaging Big Four auditors does not guarantee higher earnings quality, and should focus on strengthening internal controls and governance practices that genuinely constrain earnings management. Banking management should also ensure that governance mechanisms are implemented substantively rather than symbolically, and that financial reporting processes prioritize accuracy alongside timeliness. Regulators, particularly the Financial Services Authority (OJK), should strengthen monitoring of earnings management practices in the banking sector and develop more effective mechanisms to ensure that governance practices translate into higher earnings quality. The findings also suggest that regulators should consider the complexity of banking operations when evaluating audit quality and earnings quality relationships. Investors should consider multiple indicators beyond auditor reputation when assessing earnings quality, including governance quality, earnings management patterns, and the complexity of banking operations.

This study has several limitations. First, the analysis is limited to the banking sector, restricting generalizability to other sectors with different characteristics. Second, the five-year observation period (2020–2024) may not capture longer-term trends and patterns in earnings quality. Third, the study excludes other potential determinants of earnings quality such as profitability, leverage, macroeconomic conditions, and regulatory changes. Fourth, the measurement of earnings quality using discretionary accruals may not fully capture the complexity of earnings quality, particularly in the banking sector where loan loss provisions play a significant role. Fifth, the relatively low Adjusted R-squared value (22.91%) indicates that other factors outside the model significantly influence earnings quality. Sixth, the measurement of good corporate governance using a composite index may not capture the specific governance dimensions most relevant for earnings quality in the banking sector.

Future research should broaden the scope to include multiple sectors or cross-sector comparisons to test the generalizability of findings. Future studies should integrate additional variables such as profitability, leverage, macroeconomic conditions, regulatory changes, and bank-specific characteristics to develop a more comprehensive model of earnings quality. Researchers should employ longer observation periods to capture longer-term trends and patterns in earnings quality. Future studies should examine other moderating variables such as regulatory enforcement, institutional quality, and organizational culture. Researchers should develop more comprehensive measurement approaches for earnings quality that capture the specific characteristics of the banking sector, including loan loss provisions and regulatory capital requirements. Finally, future research could incorporate qualitative approaches such as case studies or interviews to provide richer insights into the mechanisms through which governance, audit characteristics, and timeliness influence earnings quality in the banking sector.

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DOI: https://doi.org/10.61990/ijamesc.v4i4.907
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