Economics and Business International Conference Proceeding
Vol. 1 No. 2, pp. 213-228, August, 2024

The Effect of Governance and Audit Quality on Earnings Quality in Basic Materials Sector Companies

Ira Winastuti[1], Nurcahyono Nurcahyono[2]
Department of Accounting, University Muhammadiyah Semarang
Email: irawinastuti54@gmail.com

ARTICLE INFORMATION

Publication information

Research article

HOW TO CITE

Winastuti, I., & Nurcahyono, N. (2024). The Effect of Governance and Audit Quality on Earnings Quality in Basic Materials Sector Companies. Economics and Business International Conference Proceeding, 1(2), 213-228.

This is an open-access article.
License: Attribution-Noncommercial-Share Alike (CC BY-NC-SA)

Received: July 20, 2024
Accepted: July 25, 2024
Published: August 1, 2024

ABSTRACT

This study aims to determine the influence of governance and audit quality on profit quality in basic materials sector companies listed on the Indonesia Stock Exchange (IDX) in 2021-2023. The population in this study is Basic goods sector companies listed on the Indonesia Stock Exchange (IDX) in 2021-2023. This study uses a purposive sampling technique. 14 companies were obtained so that the number of samples used was 42 observation data. The analysis used in this study is multiple regression analysis using SPSS version 26 as the calculation tool. Based on the results in this study, it shows that independent commissioners have a negative effect on the quality of profits. Meanwhile, the audit committee, institutional institutions, audit quality, capital structure, and leverage have no effect on the quality of profits.

Keywords: independent commissioner, audit committee, institutional structure, audit quality, capital structure and leverage.

INTRODUCTION

In this era of globalization, competition between the business world is getting tighter in various fields. This situation is due to economic growth and the rapid increase in technological advancement. Therefore, companies must be able to compete and maintain their operations. The company chooses information sources that allow external parties to evaluate its performance, in particular financial statements. Financial statements are a tool to convey financial information made by companies (Fardhiatul Elma & Nuswandari, 2020). The information in a company's financial statements is a basic need for current and potential investors to make an investment decision. Useful information for making decisions is relevant information. Having relevant information allows investors to make reasonable decisions so that the information obtained is in line with expectations. One of the accounting information that is still a big concern for investors is accounting information about income (Nurcahyono & Sinarasri, 2023).

The most frequently emphasized information in financial statements is profit because it shows how well the business is performing over a period of time, which is important for stakeholders when making decisions. The more profitable the company, the better stakeholders see the performance of the management team. Therefore, management often prepares financial statements using various alternative accounting techniques (Hartoko Sri & Astuti Adik AA, 2021). Contract objectives can be achieved by using profit information as the basis for decision-making regarding corporate governance procedures and internal wage distribution. To make the right investment decisions, investors need to have access to high-quality earnings information (Isynuwadhana & Rahmawati, 2023).

Profit quality is information about the characteristics of a company's financial performance that are relevant to the specific decision of the decision-maker. Specifically, reported profit refers to the level of profit reported in the income statement, where profit is considered to be of good quality if it reflects future profit. The high quality of profits shows that investors are interested in profit information (Br Tarigan, 2022). Meanwhile, poor profit quality can lead to failures in customer factors, such as lenders and banks, thereby lowering the value of the organization. The greater the disruptive influence felt on accounting profit, the lower the nature of accounting profit (Khasanah & Kartika, 2022).

Profit quality is a top priority for financial report users. Profit is a source of information from financial statements that can reflect the performance of a company, which is needed by stakeholders in a certain period of time to consider decision-making, profits that have good quality will encourage stakeholders to assess the company's performance well (Harwandita et al., 2023). Profit information is a reference for external parties because it can make company managers as internal parties more aware of the conditions within the company to take advantage of opportunities to increase company profits in an unhealthy way (Alfitri et al., 2022; Khansa et al., 2022). This is made possible by opportunities that can encourage leaders to implement results management practices that prioritize personal gain. As a result, the reported profit does not reflect the actual state of the company and the quality of the profits generated is low (Fardhiatul Elma & Nuswandari, 2020). This condition makes the quality of profits a topic that deserves attention. There are several factors that affect the quality of profits such as independent commissioners, audit committees, ownership institutions, audit quality, and other factors.

The phenomenon that occurred in mining companies in the Basic material sector listed on the Indonesia Stock Exchange occurred at PT Timah which experienced a decline in profit from 2021 to 2023. The decrease in revenue from PT Timah where in 2021 it had

earned IDR 14.6 trillion. However, in 2022, it plummeted to only get IDR 12.3 trillion and declined again in 2023, which only earned IDR 8.3 trillion in revenue. In 2021, PT Timah was able to reap a profit of IDR 1.3 trillion. However, it has decreased in 2022 to only make a profit of IDR 1 trillion. Worse, in 2023, PT Timah actually suffered losses of up to IDR 450 billion. As is known, PT Timah is being hit by a case of alleged corruption in the tin commodity trading system in the mining business license (IUP) area of PT Timah Tbk in 2015-2022. As a result of this alleged corruption, ecological losses are estimated at Rp 271 trillion.

Independent commissioners are auditors who are not members of management, major shareholders, or officials and do not have a direct relationship with major shareholders (Nathaniel, 2023). Independent commissioners as part of the implementation of good corporate governance in the company, commissioners act as supervisors and controllers of management activities so that management does not deviate from applicable regulations, minimize signs of managerial performance that aim to achieve personal profits and ensure that shareholders get their rights because of asymmetric information which means that management has more control over financial reporting information that owned by the owner or organization (Yanto Sri & Metalia Desy, 2021). Organizational leadership is a tool to measure, direct, and lead organizational leaders. The management duties and responsibilities of the management of organizational management institutions in Indonesia are inadequate (Timoty et al., 2023). The larger the number of heads, the greater the benefit of the checks and restrictions on the data necessary for the work of the dangers of the executive, arguing that the number of individuals in the judiciary allows organizations to be free from government restrictions by keeping a closer eye on them (Khasanah & Kartika, 2022).

Research conducted (Pratomo & Alma, 2020) (Immanuel & Hasnawati, 2022) (Khasanah & Kartika, 2022) independent commissioners have a negative effect on the quality of profits. Here the manager will act as an agent. The manager is responsible to the independent commissioner who acts as the main manager of a company. The increase in the number of independent commissioners also reduces the ability of managers to guarantee profit management results. Meanwhile, according to (Nathaniel, 2023) (Isynuwadhana & Rahmawati, 2023) (Yanto et al., 2021), independent commissioners have no effect on the quality of profits. This shows that the existence of independent commissioners in the company is only a symbol of good corporate governance for investors to have confidence that the company will provide reliable information or reports, so as to bring positive signals to investors, and can indicate that the affiliated parties in the company are more dominating and able to control (Fitriana et al., 2024; Herianto et al., 2023). Independent commissioners who act as supervisors, all actions of the board of directors are not maximized, thus reducing the objectivity and independence of reports.

An audit committee is a body headed by a commissioner who is at least partially responsible to the supervisory board or commissioner, and two experts who are not employed by the SOE concerned but are independent in reporting and carrying out their duties (Utami et al., 2021). The independence of the audit committee may be useful when the external auditor has a dispute with management. An important quality for the effectiveness of the audit committee is independence.The Blue Ribbon Committee (BRC) to improve the effectiveness of the audit committee is to mandate the director of independence to serve on the audit committee. A number of elements, including the economy, are closely related to the independence of the audit committee (Isynuwadhana & Rahmawati, 2023).

Research conducted (Lauvania Juwita, 2020) (Utami et al., 2021) (Melina, 2021) the audit committee has no effect on the quality of profits. This happens because the formation of the company audit committee is only motivated by government regulations. This shows that the audit committee has not fulfilled its responsibility to oversee the administration of the company and support the board of commissioners, particularly with regard to internal controls, financial reporting systems, and corporate accounting regulations. Meanwhile, according to (Canovala et al., 2023) (Isynuwadhana & Rahmawati, 2023) (Handayani et al., 2021) the audit committee has a positive effect on the quality of profits. The responsibility of the audit committee is to support and enhance the supervisory role of the board of commissioners in the financial reporting process. This shows that the audit committee is an impartial body tasked with overseeing financial reporting procedures to minimize the manipulation of disclosed income information.

Institutional ownership is a shareholder that refers to owners such as the government, financial institutions, or other organizations that are not individuals in this situation, organizations or corporations act as principals and authorize managers to act as agents in carrying out actions related to profit management (Immanuel & Hasnawati, 2022). Institutional ownership is a mechanism that helps reduce internal conflicts in organizations, institutional ownership is trusted because it can monitor company policies and is more reliable in analyzing profit information. He can also buy most of the company's shares (Daryatno, 2021). Under the guidance of institutional owners, management can effectively display the company's performance and provide truly valuable financial statements that can improve the quality of profits aimed at investors and institutional owners (Fardhiatul Elma & Nuswandari, 2020).

Research conducted (Mergia et al., 2021) (Utami et al., 2021) (Immanuel & Hasnawati, 2022) institutional ownership has a negative effect on the quality of profits. This is due to the poor management of the company's operational costs, which has an impact on the profit of the institution. A high level of institutional ownership will result in low-quality profits, and vice versa. In contrast to research conducted by (Fardhiatul Elma & Nuswandari, 2020) (Pratomo & Alma, 2020) which states that institutional ownership has a positive effect on the quality of profits.

Audit quality is where if an auditor is willing to disclose his findings in the audit report and succeeds in revealing violations or fraud in a company, then the quality of the audit results will follow. By carefully examining financial statements, information risk can be reduced and decision-making accuracy can be improved (Syarli, 2021). The quality of profits shows how much information is offered regarding the performance of the organization. Due to the high caliber of revenue, users can provide relevant information about the success of a company, thus allowing them to make informed decisions (Ferdinand Wijaya, 2020). A quality audit is an audit conducted by a motivated and trained auditor, aware of the uncertainties inherent in auditing, implementing a well-designed audit process and properly adapting to the client's specific circumstances. High-quality audit practices improve the reliability of accounting data and help investors estimate the value of the company more accurately (Hartoko Sri & Astuti Adik AA, 2021).

Research conducted (Ferdinand Wijaya, 2020) (Br Tarigan, 2022) (Kristanti, 2022) audit quality has a positive effect on profit quality because the existence or magnitude of these independent variables is estimated to affect how well the company's discretionary accruals present the quality of profits. It is clear that there is a simultaneous influence on the quality of profits if the relationship or contribution of the influence of each independent variable is taken into account collectively. In contrast to research conducted by (Fardhiatul Elma & Nuswandari, 2020) (Rahmawati Dina & Aprilia Erika A, 2022) audit quality has no effect on profit quality.

Capital structure is the ratio of long-term debt to own capital (equity). The leverage ratio serves as a buffer for this capital structure, it is a measure of how much debt a company takes to finance its capital (Yuli Astuti et al., 2022). The more debt a company has, the more dynamic it will be. Increased investment indicates that there will be successful ventures in the future. The amount of debt and own capital used to finance the assets of a company is related to its capital structure. Businesses with solid and stable finances can be established through an efficient capital structure. In addition, capital structure is now a crucial issue that needs to be considered (Kristanti, 2022).

Research conducted (Br Tarigan, 2022) (Kristanti, 2022) (Rahmawati Dina & Aprilia Erika A, 2022) capital structure has a positive effect on profit quality. The quality of profits can be affected by the capital structure of a company. If a company's assets are financed more by debt than by its capital, then businesses with high debt levels can use debt costs to fund operations, allowing them to improve performance and generate optimal revenue while mitigating the risk of debt default. In contrast to the research conducted (Ferdinand Wijaya, 2020) (Khasanah & Kartika, 2022) the capital structure has a negative effect on the quality of profits.

The leverage ratio is a measure of how much a company is financed with debt. The leverage ratio looks at the extent to which a company is financed by debt or outsiders depicted by capital. A good company should have capital greater than the total debt (Christanty et al., 2023; Nurcahyono et al., 2023). A high level of leverage ratio indicates that the company is financed with high debt and this means that profitability increases, but on the other hand high debt will also increase the risk of bankruptcy (Sulianti, 2021). The low quality of the company's profit indicates the possibility of management carrying out profit management techniques. However, stable company earnings or profits can be affected if the high level of leverage is offset by increased company profitability and evidence of good financial management (Yanto Sri & Metalia Desy, 2021).

Research conducted (Yanto et al., 2021) (Yanto Sri & Metalia Desy, 2021) leverages a positive effect on profit quality. The stability of the company's revenue or profit will be affected by evidence that a high level of leverage can be achieved while maintaining controlled financial stability and increasing the company's profitability. In contrast to the research conducted (Sulianti, 2021) (Syarli, 2021) (Jefri Gunawan, 2020) leverage has no effect on the quality of profits. Due to the high level of leverage, companies must improve the quality of their financial reporting to remain visible to auditors and investors. This is highly dependent on the credibility of the company, so not all companies are able to complete these activities.

This research is a development of research (Saraswati & Puteri Ariestya A, 2023). The difference with previous research is the addition of variables of capital structure and leverage. This study also replaces the sector from previous research.

LITERATURE REVIEW

Agency Theory

Jensen and Meckling (1976) argue that the problem of agency is caused by the difference in interests between the principal and the management (agent) in the company. The agent manages the company according to the direction of the shareholders and reports its operations to the principal on a regular basis, while the principal provides the necessary facilities and cash for the agent to manage the business. These interactions cause agency conflicts (Utami et al., 2021). Because management

has more access to the company than the owner, the interaction between the two parties can result in an asymmetric situation or information imbalance (Pratomo & Alma, 2020). Agency theory describes how the owner of the company (shareholders) gives authority to the management to carry out business operations in accordance with the terms of the agreement (Kristianingrum et al., 2022). If both parties are interested in increasing the value of the company, then the management will act in the best interests of the owner (Kristanti, 2022). The principal of the company, who owns the money, wants a quick return on investment while still achieving the best possible results. On the other hand, the other party, namely the manager who acts as the agent of the company, wants to be rewarded for the work they have done on behalf of the principal and the company. According to this theory, each party seeks to advance its own personal interests for its own reasons (Daryatno, 2021).

The Influence of Independent Commissioners on Profit Quality

One example of the implementation of good corporate governance in a business is the appointment of an independent commissioner, who acts as a controller and supervisor of management performance, ensuring that management does not violate applicable regulations, minimizing signs that the manager is manipulating profits for his own benefit, and ensuring that shareholders receive their rights, given the existence of asymmetry information means that management has greater control over information related to financial statements compared to principals or organizations (Yanto et al., 2021). Independent commissioners are an important component of corporate governance, supporting sound business practices, overseeing operations, and improving the objectivity of financial reporting (Nathaniel, 2023).

In this situation, the manager will function as an agent and be accountable to an independent commissioner who serves as the principal of the company. The possibility of managers performing profit management also decreases with the increase in independent boards of commissioners (Immanuel & Hasnawati, 2022). Research (Pratomo & Alma, 2020) (Immanuel & Hasnawati, 2022) (Khasanah & Kartika, 2022) states that independent Commissioners have a negative effect on the quality of profits, because companies continue to manipulate revenue by increasing or decreasing profits.
H1 : Independent commissioners have a negative effect on the quality of profits.

The Influence of the Audit Committee on Profit Quality

Considering that the audit committee is one of the committees that has an important function in good corporate governance, the establishment of an audit committee is necessary. The board of directors establishes an audit committee. This group is in charge of selecting, evaluating the success of the business, and examining the financial records of the business. In addition, the audit committee is very involved in audit planning and resolving differences of opinion regarding accounting regulations (Jefri Gunawan, 2020). Research (Isynuwadhana & Rahmawati, 2023) and (Handayani et al., 2021) stated that the audit committee has a positive effect on the quality of profits. The reduction in profit management operations carried out by the audit committee is expected to improve the quality of profit in the company's financial statements (Nurcahyono et al., 2019; Pratiwi et al., 2022).
H2 : The audit committee has a positive effect on the quality of profits

The Effect of Institutional Ownership on Profit Quality

Institutions such as governments, financial institutions, and other organizations that are not individuals are considered to be the owners of the institution. In this situation, the business or organization takes the position of principal, giving the manager the power to act as an agent in carrying out profit management procedures. An increase in the value of a company's institutional ownership can result in fewer managerial decisions being

made regarding profit management. In this case, institutional holders reduce the likelihood that the information will deviate from the original because they believe institutional holders are more experienced in managing their investment portfolios (Immanuel & Hasnawati, 2022).

Large institutional shareholdings are powerless to stop management from manipulating results. This may be due to the failure of institutional investors to play their part in stopping profit management practices (Pratomo & Alma, 2020). Research (Yuli Astuti et al., 2022) (Hartoko Sri & Astuti Adik AA, 2021) states that institutional ownership has a negative effect on profit quality. This is due to the poor management of the company's operating costs, which has a bad impact on the institution's income. A high level of institutional ownership will result in low-quality profits, and vice versa. Again, research shows that institutional ownership of business supervision is one of the obstacles to the successful implementation of good corporate governance.
H3: Institutional ownership has a negative effect on the quality of profits.

The Effect of Audit Quality on Profit Quality
It has been proven that audit quality has a partial effect on the quality of profits. This means that a business that has the opportunity to grow will be able to increase its net profit in the future, meaning that the profit generated will continue to be larger than before. The declining discretionary accrual value indicates its quality (Canovala et al., 2023). According to the agency theory, agents have more information than principals, so a condition called asymmetry occurs. This asymmetric information condition increases the tendency to perform profit management. High-quality audits must be carried out to stop the current occurrence of profit management. (Ferdinand Wijaya, 2020). This statement is supported by research (Ferdinand Wijaya, 2020) (Br Tarigan, 2022)) (Kristanti, 2022) audit quality affects profit quality. The quality of the auditor determines its impact and capacity in identifying potential fraud that affects the quality of the company's revenue. The higher the quality of the audit, the higher the quality of the company's profits .
H4 : Audit quality has a positive effect on profit quality

The Effect of Capital Structure on Profit Quality
The capital structure of a company serves as an example of how its finances compare, specifically between capital obtained from long-term liabilities and its own capital (equity owned by shareholders), which is used to fund day-to-day operations (Kristanti, 2022). Companies with high debt levels can take advantage of debt costs to fund company operations so that they can improve performance and generate optimal income and can mitigate the risk of not being able to pay their debts. Capital structure can have an impact on the quality of profits if the company's assets are financed more by debt funds than by the company's capital (Yuli Astuti et al., 2022). This statement is supported by research (Br Tarigan, 2022) (Kristanti, 2022) (Yuli Astuti et al., 2022) which states that capital structure has a positive effect on profit quality. This shows how the capital structure and expected profits of the company are interrelated, and the company becomes more dynamic as the debt level increases. Therefore, the variable capital structure affects the quality of the company's profit.
H5 : Capital structure has a positive effect on the quality of profits

The Effect of Laverage on Profit Quality
The financial ratio, called leverage, compares or characterizes the relationship between a company's total debt and its capital and assets (Yanto et al., 2021). The company needs debt to increase its corporate value through expansion and increased operations. On the other hand, excessive debt can increase the risk of financial instability. Companies with significant leverage will be more likely to engage in unethical practices

carried out by their management, such as hiding information about the company's true financial situation to increase reported profits (Fardhiatul Elma & Nuswandari, 2020). This statement is supported by research (Fardhiatul Elma & Nuswandari, 2020) (Isynuwadhana & Rahmawati, 2023) stating that leverage has a negative effect on the quality of profits. Companies with high leverage make investors less confident in their reported profits because they are considered to pay more attention to debt payments than dividend payments.
H6: Leverage has a negative effect on the quality of profits.

RESEARCH METHOD

The type of research used in this study is a quantitative methodology with a descriptive approach. The quantitative descriptive research method aims to explain a phenomenon, event, symptom, and occurrence that occurs in a real, systematic and accurate manner that is investigated by collecting data, processing, analyzing and interpreting data in hypothesis testing. The purpose of this study is to confirm the influence of independent commissioners, audit committees, institutional ownership, audit quality, capital structure and leverage on the quality of profits in Basic materials sector companies listed on the Indonesia Stock Exchange (IDX) website in the 2021-2023 period. The population of this study is Basic goods sector companies listed on the IDX. The sampling method used is purposive sampling. The operational definition of variables is as follows.

Table 1. Variable Measurement

Variable	Measurement
Profit Quality	$\text{Kualitas Laba} = \frac{\text{Operating Cash Flow}}{\text{Net Income}}$
Independent Commissioner	$\text{Komisaris Independen} = \frac{\text{Jumlah Komisaris Independen}}{\text{Jumlah Anggota Dewan Komisaris}} \times 100\%$
Audit committee	$\text{Komite Audit} = \sum \text{Anggota Komite Audit}$
Institutional ownership	$\text{Kepemilikan Institusional} = \frac{\text{Jumlah Saham Institusional}}{\text{Jumlah Saham Yang Beredar}} \times 100\%$
Audit quality	$\text{ROA} = \frac{\text{Laba Bersih Sebelum Pajak}}{\text{Total Aset}} \times 100\%$
Capital structure	$(\text{DAR}) = \frac{\text{Total Debt}}{\text{Total Assets}} \times 100\%$
Laverage	$(\text{DER}) = \frac{\text{Total Liabilitas}}{\text{Total Ekuitas}} \text{x} 100\%$

The analysis method used in this study is multiple linear regression analysis, with the equation:

$$Y = \alpha + \beta 1\ x1 + \beta 2\ x2 + \beta 3\ x3 + \beta 4\ x4 + \beta 5\ x5 + \beta 6\ x6 + e$$

Y is the quality of the return; α indicates the value of the constant; β is the regression coefficient of each variable; X1 is an independent commissioner; X2 is the audit committee; X3 is institutional ownership; X4 is audit quality; X5 is the capital structure; and X6 is leverage.

RESULTS

Descriptive Statistical Analysis

The results of statistical descriptive analysis of the research sample can be seen in the table which shows that the minimum, maximum, mean, and standard deviation values for each variable used in this study.

Table 2. Descriptive Statistics

Variable	Minimum	Maximum	Mean	Std. Deviation
Profit Qualities	-38.31	11.25	0.3987	6.80057
Independent Commissioner	0.29	0.75	0.4146	0.11390
Audit Committee	3.00	5.00	3.1190	0.39524
Institutional	0.05	0.85	0.4911	0.23148
Audit Quality	-0.05	0.17	0.0429	0.05436
Capital Structure	0.02	0.82	0.4011	0.22524
Leverage	0.03	4.67	1.0012	1.01444

From table 1, the data shows significant variations in the profit quality variables in Basic goods sector companies on the Indonesia Stock Exchange (IDX) for the 2021-2023 period. This variable has the highest value of 11.25 and the lowest value of -38.31, with an average profit quality of 0.3987 and a standard deviation of 6.80057. An average value close to the maximum value (11.25) indicates that the majority of companies in the Basic goods sector have implemented good profit quality practices. Therefore, it can be concluded that a number of relevant indicators have been successfully implemented by companies in the Basic goods sector on the IDX.

The variable of independent commissioners with the highest value range of 0.75, and the lowest value of 0.29, with an average of independent commissioners of 0.4146 and a standard deviation of 0.11390. This result illustrates the fairly high level of variation in independent commissioners in the observed companies. The average number of independent commissioners is 37.2% of the total number of board of commissioners owned by the company, indicating that the standard is met, which is 30% of the number of independent commissioner members as a form of embodiment of the implementation of good corporate governance.

The audit committee variable with the highest score range of 5, and the lowest score is 3, with an average audit committee of 3.1190 and a standard deviation of 0.39524. The average value that is close to the minimum value (3) illustrates that companies in the Basic goods sector on the IDX have different capabilities from each other. The institutional variable with the highest value range of 0.85, and the lowest value is 0.05, with the institutional average of 0.4911 and the standard deviation of 0.23148. An average score close to the maximum value (0.85) indicates that overall, the institution of the company or organization tends to operate in an environment that has a good level of regulation, procedures, and compliance.

The audit quality variable with the highest value range of 0.17, and the lowest value of -0.05, with an average audit quality of 0.0429 and a standard deviation of 0.5436. The average score is close to the maximum value (0.17), indicating that in general, the quality of the audit conducted by the company is quite good. The capital structure variable with the highest value range of 0.85, and the lowest value of 0.02, with an average capital structure of 0.4911 and a standard deviation of 0.23148. The average value is close to the maximum value (0.85), indicating that the company has most of its capital invested

in the form of debt and assets. The variable leverage has a high value range of 4.67, and a low value of 0.03, with an average leverage of 1.0012 and a standard deviation of 1.01444. The average score is close to the maximum value (4.67), indicating that the company has a high ability to pay its short-term and long-term debts.

Multiple Linear Regression Analysis
This test aims to determine the influence between independent variables and dependent variables. In this study, multiple regression analysis processed with SPSS software was used (Ghozali, 2013). The following are the results of the multiple linear regression analysis test.

Table 3. Multiple Regression Test

Variable	Beta	Sig.
Independent Commissioner	-0.414	0.011
Audit Committee	0.253	0.136
Institutional	0.085	0.594
Audit Quality	-0.188	0.36
Capital Structure	-0.251	0.457
Leverage	-0.114	0.716
R Square	0.252	

DISCUSSION

The Influence of Independent Commissioners on Profit Quality
Based on table 2, the results were obtained that the independent commissioner variable had a beta coefficient value of -0.414 and a significance of 0.011 < 0.05. This means that independent commissioners have a negative effect on the quality of profits, so the first hypothesis (H1) which states that independent commissioners have a negative effect on the quality of profits, **is accepted**. This means that the findings of the independent commissioner on the supervisory function will reduce the quality of profits. The large proportion of independent board of commissioners is not able to reduce management in carrying out profit management actions. This can happen allegedly because the independent board of commissioners has not carried out its duties properly and because the number of boards of commissioners in a company usually aims to meet applicable regulations only.

This is in line with the agency theory which states that the existence of independent commissioners can reduce conflicts of interest in the agency theory because of the information asymmetry that causes management to have more control over information related to financial statements than the principal or organization. The Commissioner acts as a supervisor and controller of management performance. Through the large number of independent board of commissioners, it is hoped that the company's management will increase, so that its profit management actions will be reduced (Yanto et al., 2021). Supported by research conducted (Pratomo & Alma, 2020) which states that independent commissioners have a negative effect on the quality of profits.

The Influence of the Audit Committee on Profit Quality
The second hypothesis regarding the audit committee was obtained that the audit committee variable had a beta coefficient value of 0.253 and a significance value of 0.136 > 0.05. This means that independent commissioners have no effect on profit quality, so the second hypothesis (H2) which states that the audit committee has a significant positive effect on profit quality, **is rejected**. This means that the decrease or increase in

the number of audit committees has no influence on the increase or decrease in profit management. This happens because the purpose of the company in forming an audit committee is only to comply with government regulations.

The obligation to appoint an audit committee basically aims to empower the supervisory function of the board of commissioners to be more effective (Videsia et al., 2022). However, in reality, the fulfillment of these requirements is often only a formality and has not been interpreted as a necessity of healthy company management so that the role of the audit committee is not too significant in the supervision of the company's financial reporting. The results of this study are supported by research (Hartoko Sri & Astuti Adik AA, 2021; Utami et al., 2021) which stated that the audit committee had no influence on the quality of profits.

Institutional Influence on Profit Quality

The third hypothesis regarding institutional institutions was obtained as a result that the institutional variables had a beta coefficient value of 0.085 and a significance value of 0.594 > 0.05. This means that institutional ownership has no effect on the quality of profits, so the third hypothesis (H3) which states that institutional ownership has a negative effect, **is rejected**. Institutional ownership from abroad does not result in a decrease or improvement in the quality of the company's profits.

This research is in line with research conducted by (Daryatno, 2021) which states that institutional ownership has no effect on the quality of profits. For decision-makers in companies and investors, these results indicate that in certain contexts, institutional ownership does not need to be a major factor considered in assessing the quality of a company's profits (Handayani et al., 2023; Rahma et al., 2022). The focus can be shifted to other factors that may have more influence on the company's performance and success.

The Effect of Audit Quality on Profit Quality

The fourth hypothesis regarding audit quality was obtained that the audit quality variable had a beta coefficient value of -0.188 and a significance value of 0.36 > 0.05. This means that audit quality has no effect on profit quality, so the fourth hypothesis (H4) which states that audit quality has a positive effect is **rejected**. This is because investors do not pay attention to who the auditor who conducts the audit of the company's financial statements. The results of this study are not in line with the agency theory which explains that both owners and agents are assumed to have economic rationalization and are solely concerned with independent interests (focused on agents). Therefore, an independent third party is needed, namely a public accountant. This theory has the benefit of helping auditors to understand conflicts of interest that can arise between principals and agents. This research is supported by research conducted by (Rahmawati Dina & Aprilia Erika A, 2022) which states that audit quality has no effect on profit quality.

The Effect of Capital Structure on Audit Quality

The fifth hypothesis regarding capital structure is obtained that the variable capital structure has a beta coefficient value of -0.251 and a significance value of 0.457 > 0.05. This means that the capital structure has no effect on the quality of profits, so the fifth hypothesis (H5) which states that the capital structure has a positive effect is **rejected**. This indicates that in this case, the decision regarding the company's capital structure may not directly affect or improve the quality of the company's profits. For corporate financial management, this study indicates that they should not focus too much on capital structure in an effort to improve the quality of profits. The focus can be shifted to other

aspects such as operational efficiency, product innovation, or risk management to achieve a more significant improvement in the quality of profits (Evia et al., 2022).

The Effect of Leverage on Profit Quality

The sixth hypothesis regarding leverage is obtained that the leverage variable has a beta coefficient value of -0.114 and a significance value of 0.716 > 0.05. This means that leverage has no effect on the quality of profits, so the sixth hypothesis (H6) which states that leverage has a negative effect, **is rejected**. This is because Leverage has increased, not necessarily able to reduce the quality of profits, in other words, the high and low quality of profits in the Basic goods Sector is not always affected by leverage. The company's leverage will cause the company to improve the quality of its financial statements with the aim of maintaining good performance in the eyes of investors and auditors (Permatasari et al., 2023; Rahma et al., 2022). However, not all companies are able to carry out this activity because it depends a lot on the credibility of the company. The higher the level of leverage of a company, the higher the risk that the company accepts and not all companies are able to deal with these risks. This research is supported by research conducted by (Syarli, 2021) which states that leverage has no effect on the quality of financial statements.

CONCLUSION

This study aims to determine the empirical influence of independent commissioners, audit committees, institutional institutions, audit qualifications, capital structure and leverage on the quality of profits in Basic materials sector companies listed on the Indonesia Stock Exchange in 2021-2023. Based on the results and discussions, it was concluded that independent commissioners have a negative effect on the quality of profits, this is because the findings of independent commissioners on the supervisory function will reduce the quality of profits. The large proportion of independent board of commissioners is not able to reduce management in carrying out profit management actions. The audit committee has no effect on the quality of profits. This is because the purpose of the company in forming an audit committee is only to comply with government regulations.

Institutional institutions have no effect on the quality of profits. This is because institutional ownership does not need to be the main factor considered in assessing the quality of a company's profits. Audit quality has no effect on the quality of profits, because investors do not pay attention to who the auditor who conducts the audit of the company's financial statements. The capital structure has no effect on the quality of profits, because decisions regarding the company's capital structure may not directly affect or improve the quality of the company's profits. Leverage has no effect on the quality of profits, because Leverage increases not necessarily can reduce the quality of profits, in other words, the high or low quality of profits in the Basic goods Sector is not always affected by leverage.

This research has limitations that are taken into consideration. The limitations of this study do not provide an overview of the actual situation as a whole, especially since the observation period of this study is only 3 years. This study only used 14 companies in the Basic goods sector as a sample. Based on the findings and limitations of this study, suggestions that can be given for further research are to expand the scope of observation, increase the research sample, extend the research period by more than 3 years. Researchers can then add other broader variables that can affect the quality of profits

ACKNOWLEDGMENT

This article is the output of project-based learning in the "Seminar Proposal" and "Accounting Research Statistics" courses.

REFERENCES

Alfitri, D. N., Nugroho, W. S., & Nurcahyono, N. (2022). The Effect of Environment Performance, Capital Structure, and Company Size on Financial Performance. *MAKSIMUM: Media Akuntansi Universitas Muhammadiyah Semarang*, *12*(2), 175. https://doi.org/10.26714/mki.12.2.2022.175-184

Br Tarigan, S. (2022). PENGARUH PERSISTENSI LABA, STRUKTUR MODAL, KUALITAS AUDIT, DAN UKURAN PERUSAHAAN TERHADAP KUALITAS LABA (Studi Empiris pada Perusahaan Properti dan Real Estate yang Terdaftar di BEI periode 2015- 2019). Jurnal EBISTEK (Ekonomi Bisnis Dan Teknologi), 3.

Canovala, V., Setiawan, A., Wirawan, S., & Djajadikerta, H. (2023). Pengaruh Kualitas Audit, Pertumbuhan Laba, Ukuran Komite Audit, Dan Ukuran Perusahaan Terhadap Kualitas Laba. Journal Of Social Science Research, 3, 5863–5879.

Christabelle Santoso, C., & Handoko, J. (2022). PENGARUH INVESTMENT OPPORTUNITY SET, PERSISTENSI LABA, STRUKTUR MODAL TERHADAP KUALITAS LABA. In Equilibrium: Jurnal Ekonomi-Manajemen-Akuntansi (Vol. 18, Issue 2).

Christanty, L., Maharani, B., Nugroho, W. S., & Nurcahyono, N. (2023). Accounting Information Systems and Financial Literacy impact on SMEs ' Performance. *MAKSIMUM: Media Akuntansi Universitas Muhammadiyah Semarang*, *13*(1), 59–69.

Daryatno, A. B. (2021). BOARD DIVERSITY, UKURAN PERUSAHAAN, TAX AGGRESSIVENESS, DAN KEPEMILIKAN INSTITUSIONAL TERHADAP KUALITAS LABA (Vol. 23, Issue 2). http://jurnaltsm.id/index.php/JBA

Evia, Z., Santoso, R. E. Wi., & Nurcahyono, N. (2022). Pengalaman Kerja, Independensi, Integritas, Kompetensi dan Pengaruhnya terhadap Kualitas Audit. *Jurnal Akuntansi Dan Governance*, *2*(2), 141. https://doi.org/10.24853/jago.2.2.141-149

Fitriana, L., Sinarasri, A., & Nurcahyono, N. (2024). Factors Affecting Financial Statement Fraud in Banking Sector: A Agency Perspective. *MAKSIMUM: Media Akuntansi Universitas Muhammadiyah Semarang*, *14*(1), 102.

Sustainability Report. *Prosiding Seminar Nasional UNIMUS*, *5*, 432–444.

Fadilah Amin, N., Garancang, S., & Abunawas, K. (2023). KONSEP UMUM POPULASI DAN SAMPEL DALAM PENELITIAN. JURNAL PILAR: Jurnal Kajian Islam Kontemporer.

Fardhiatul Elma, E., & Nuswandari, C. (2020). Faktor Faktor Yang Mempengaruhi Kualitas Laba Pada Perusahaan Manufaktur Tahun 2017-2019. JURNAL AKUNTANSI PROFESI, 20. https://doi.org/10.23887/jippg.v3i2

Ferdinand Wijaya, C. (2020). Pengaruh Likuiditas, Struktur Modal, Ukuran Perusahaan, Prospek Pertumbuhan, Kualitas Audit Terhadap Kualitas Laba Perusahaan Batu Bar. JEMAP: Jurnal Ekonomi, Manajemen, Akuntansi, Dan Perpajakan, 3.

https://doi.org/10.26714/mki.14.1.2024.102-113

Handayani, J. R., Nurcahyono, N., Saadah, N., & Winarsih. (2023). Hexagon Fraud : Detection of Fraudulent Financial Statement in Indonesia. *International Conference on Business, Accounting, Banking, and Economics*, *1*, 263–276. https://doi.org/10.2991/978-94-6463-154-8

Herianto, R. O., Alfiana, B. Z., Apriliyanti, F., Nurcahyono, N., Jatiningsih, D. E. S., & Wijayanti, P. (2023). What is The Company's Motivation for Doing CSR? An Analysis of Manufacturing Companies. *MAKSIMUM: Media Akuntansi Universitas*

Muhammadiyah Semarang, *13*(2), 209. https://doi.org/10.26714/mki.13.2.2023.209-217

Khansa, L., Nugroho, W. S., & Nurcahyono, N. (2022). The Effect of Liquidity, Leverage, Profitability and Firm size on Financial Distress with GCG as a Moderation Variable. *MAKSIMUM: Media Akuntansi Universitas Muhammadiyah Semarang*, *12*(2), 143. https://doi.org/10.26714/mki.12.2.2022.143-153

Handayani, S., Sari, P., & Haryono, S. (2021). Pengaruh adopsi ifrs, komite audit terhadap kualitas laba pada perusahaan manufaktur di bursa efek Indonesia. In AKUNTABEL (Vol. 18, Issue 2). http://journal.feb.unmul.ac.id/index.php/AKUNTABEL

Hartoko Sri, & Astuti Adik AA. (2021). PENGARUH KARAKTERISTIK DEWAN KOMISARIS, KARAKTERISTIK KOMITE AUDIT, DAN KUALITAS AUDIT TERHADAP KUALITAS LABA. Jurnal Akuntansi Dan Bisnis, 21, 126–137.

Harwandita, F., Srimindarti, C., & Akuntansi, J. (2023). PENGARUH PROFITABILITAS, LIKUIDITAS, KOMITE AUDIT, UKURAN PERUSAHAAN TERHADAP KUALITAS LABA. In Jurnal Ilmiah Mahasiswa Akuntansi) Universitas Pendidikan Ganesha (Vol. 14, Issue 03).

Immanuel, G. R., & Hasnawati, H. (2022). PENGARUH KEPEMILIKAN INSTITUSIONAL, KEPEMILIKAN MANAJERIAL, DAN DEWAN KOMISARIS INDEPENDEN TERHADAP MANAJEMEN LABA. Jurnal Ekonomi Trisakti, 2(2), 1585–1594. https://doi.org/10.25105/jet.v2i2.14748

Isynuwadhana, D., & Rahmawati, M. G. (2023). Pengaruh Komite Audit, Komisaris Independen, Kepemilikan Institusional, Free Cash Flow, Dan Leverage. Jurnal Ekombis Review – Jurnal Ilmiah Ekonomi Dan Bisnis, 11, 433–443.

Jefri Gunawan. (2020). PENGARUH KONSERVATISME AKUNTANSI, KOMITE AUDIT, KOMISARIS INDEPENDEN, DAN LEVERAGE TERHADAP KUALITAS LABA PADA PERUSAHAAN SEKTOR INDUSTRI BARANG KONSUMSI DI BURSA EFEK INDONESIA.

Kristianingrum, A., Sukesti, F., & Nurcahyono, N. (2022). Pengaruh Mekanisme Good Corporate Governance, Kinerja Keuangan, dan Struktur Modal terhadap Pengungkapan

Khasanah, N., & Kartika, A. (2022). PENGARUH KOMISARIS INDEPENDEN, REPUTASI KAP, PERSISTENSI LABA DAN STRUKTUR MODAL TERHADAP KUALITAS LABA PERUSAHAAN SEKTOR FOOD AND BEVERAGE DI BURSA EFEK INDONESIA TAHUN. 16. https://binapatria.id/index.php/MBI

Kristanti, E. (2022). PENGARUH PERSISTENSI LABA, STRUKTUR MODAL, KUALITAS AUDIT, DAN UKURAN PERUSAHAAN TERHADAP KUALITAS LABA (Studi Empiris pada Perusahaan Properti dan Real Estate yang Terdaftar di BEI periode 2016-2020). Jurnal EBISTEK (Ekonomi Bisnis Dan Teknologi), 3.

Kusuma Wardani, D., & Anggrenita, V. (2022). PENGARUH LIKUIDITAS DAN PERSISTENSI LABA TERHADAP KUALITAS LABA DENGAN UKURAN PERUSAHAAN SEBAGAI VARIABEL MODERASI. Juremi: Jurnal Riset Ekonomi, 2.

Lauvania Juwita, C. (2020). ANALISIS PENGARUH KUALITAS AUDIT, KOMITE AUDIT, LIKUIDITAS DAN UKURAN PERUSAHAAN TERHADAP KUALITAS LABA PADA PERUSAHAAN SEKTOR PERTAMBANGAN DI BURSA EFEK INDONESIA. Jurnal FinAcc, 5.

Melina. (2021). PENGARUH UKURAN PERUSAHAAN, VOLATILITAS PENJUALAN, KOMITE AUDIT, DAN LIKUIDITAS TERHADAP KUALITAS LABA PADA PERUSAHAAN SEKTOR INDUSTRI DASAR DAN KIMIA DI BURSA EFEK INDONESIA. Jurnal FinAcc, 6, 489–500.

Mergia, R., Sulistyo, & Setiyowati, S. W. (2021). PENGARUH KEPEMILIKAN MANAJERIAL, KEPEMILIKAN INSTITUSIONAL, PROFITABILITAS DAN

MANAJEMEN LABA TERHADAP KUALITAS LABA. JURNAL RISET MAHASISWA AKUNTANSI (JRMA), 9, 1–9.

Nathaniel, S. (2023). PENGARUH KOMISARIS INDEPENDEN, UKURAN PERUSAHAAN, STRUKTUR MODAL DAN KOMITE AUDIT TERHADAP KUALITAS LABA PADA PERUSAHAAN SEKTOR PERTAMBANGAN DI BURSA EFEK INDONESIA.

Nurcahyono, N., Hariadi, B., & Mardiati, E. (2019). The Effect of Work Loads on Employee Performance With Job Satisfaction As A Mediation Variable. *Journal of Business Management and Economic Research*, *3*(8), 40–49. https://doi.org/10.29226/tr1001.2019.147

Nurcahyono, N., & Sinarasri, A. (2023). Earnings Management as an Finance Strategy for Company Image. *Jurnal Proaksi*, *10*(3), 337–351. https://doi.org/10.32534/jpk.v10i3.4476

Nurcahyono, N., Sinarasri, A., Pamungkas, I. D., & Hanum, A. N. (2023). May intellectual capital and corporate governance reduce the probability of financial distress? *Contaduria y Administracion*, *70*(1), 97–121. https://doi.org/10.22201/fca.24488410e.2025.5169

Pratomo, D., & Alma, N. (2020). Pengaruh Dewan Komisaris Independen, Kepemilikan Institusional, Kepemilikan Manajerial, Dan Kepemilikan Asing Terhadap Manajemen Laba (Studi Kasus Pada Perusahaan Sektor Pertambangan yang Terdaftar di Bursa Efek Indonesia Periode 2014-2018. Jurnal Politeknik Caltex Riau, 13, 98–107.

Permatasari, M., Nurcahyono, N., Bilqis, L. K., & Nugroho, W. S. (2023). The Effect of Good Corporate Governance and Financial Ratios on Financial Distress. *International Conference on Business, Accounting, Banking, and Economics*, *1*(1), 321–336. https://doi.org/10.2991/978-94-6463-154-8

Pratiwi, I., Hanum, A. N., & Nurcahyono, N. (2022). Pengaruh Earning Per Share, Total Assets Turnover, Pertumbuhan Penjualan dan Debt Equity Ratio Terhadap Harga Saham. *Jurnal Akuntansi, Perpajakan Dan Portofolio*, *02*(02), 39–50. https://journal.umpo.ac.id/index.php/JAPP/article/view/5584%0Ahttps://journal.umpo.ac.id/index.php/JAPP/article/download/5584/2405

Rahma, A. M., Nurcahyono, N., & Sinarasri, A. (2022). Moderating Effects of Institutional Ownership on the Relation Between Capital Structure. *International Conference on Business, Accounting, Banking, and Economics*, *1*, 293–306. https://doi.org/10.2991/978-94-6463-154-8

Rahmawati Dina, & Aprilia Erika A. (2022). PENGARUH PERTUMBUHAN LABA, KUALITAS AUDIT, PRUDENCE, STRUKTUR MODAL, DAN VOLUNTARY DISCLOSURE TERHADAP KUALITAS LABA (Studi Empiris Pada Perusahaan Indeks Kompas 100 yang terdaftar di Bursa Efek Indonesia Periode 2016-2020). Jurnal Revenue, Jurnal Akuntansi, 3, 383–394.

Saraswati, E., & Puteri Ariestya A. (2023). KUALITAS TATA KELOLA DAN AUDIT: DAPATKAH MENINGKATKAN KUALITAS LABA? Jurnal Reviu Akuntansi Dan Keuangan, 13.

Sari, R., & Sayadi, M. H. (2020). Pengaruh Ukuran Perusahaan terhadap Nilai Perusahaan dengan Moderasi Komite Audit. JURNAL ILMIAH EKONOMI GLOBAL MASA KINI.

Sulianti, V. (2021). ANALISIS PENGARUH UKURAN PERUSAHAAN, UMUR PERUSAHAAN DAN LEVERAGE TERHADAP KUALITAS LABA PADA PERUSAHAAN SEKTOR INDUSTRI BARANG KONSUMSI DI BURSA EFEK INDONESIA.

Syarli, Z. A. (2021). PENGARUH LEVERAGE, LIKUIDITAS, PROFITABILITAS, UKURAN PERUSAHAAN, UMUR PERUSAHAAN, DAN KUALITAS AUDIT TERHADAP KUALITAS LAPORAN KEUANGAN PERUSAHAAN. Bussman

Journal : Indonesian Journal of Business and Management, 1(3), 314–327. https://doi.org/10.53363/buss.v1i3.10

Timoty, N. F. M., Nurcahyono, N., Yasaputri, K., & Jatiningsih, D. E. S. (2023). Predicting the Risk of Financial Distress Using Intellectual Capital and Financial Ratio. In *International Conference on Business, Accounting, Banking, and Economics* (Vol. 1, pp. 228–245). International Conference on Business, Accounting, Banking, and Economics. https://doi.org/10.2991/978-94-6463-154-8_22

Utami, A., Nur Azizah, S., & Cinintya Pratama, B. (2021). PENGARUH KEPEMILIKAN MANAJERIAL, KEPEMILIKAN INSTITUSIONAL, KEPEMILIKAN PUBLIK, DEWAN KOMISARIS, DAN KOMITE AUDIT TERHADAP MANAJEMEN LABA (Studi Empiris Pada Perusahaan Indeks High Dividend 20 Di Bursa Efek Indonesia Tahun 2018-2019). RATIO: Reviu Akuntansi Kontemporer Indonesia, 2.

Yanto, S., Fakultas, A., Dan, E., Universitas, B., Tangerang, M., & Kurniawan, R. R. (2021). PENGARUH EARNING MANAGEMENT, INTENSITAS MODAL, LEVERAGE, DAN KOMISARIS INDEPENDEN TERHADAP KUALITAS LABA (Pada perusahaan indeks LQ45 yang terdaftar di Bursa Efek Indonesia periode 2014-2017) Desy Metalia. JAST Journal of Accounting Science and Technology, 1(1), 60–74.

Yanto Sri, & Metalia Desy. (2021). PERANAN EARNING MANAGEMENT, INTENSITAS MODAL, LEVERAGE, DAN GCG TERHADAP KUALITAS LABA. Jurnal Akuntansi Dan Keuangan, 5, 36–46.

Videsia, Y., Wibowo, R. E., & Nurcahyono, N. (2022). Pengaruh Profitabilitas Dan Ukuran Perusahaan Terhadap Ketepatan Waktu Pelaporan Keuangan. *Review of Applied Accounting Research*, *9*(2), 219–228. https://doi.org/10.32534/jpk.v9i2.2407

Yuli Astuti, T., Adi Nugraha, G., & Kemala Octisari, S. (2022). Pengaruh Struktur Modal, Pertumbuhan Laba, dan Komite Audit Terhadap Kualitas Laba Pada Perusahaan Industri Barang Konsumsi Yang Terdaftar Di BEI Tahun 2017-2020. Majalah Ilmiah Manajemen & Bisnis , 19.