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The Effect of Earning Management, Growth Opportunity, and Capital Structure on Company Value with Audit Quality as Moderating Variable

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Abstract:

Purpose: *This study examines the effect of earnings management, growth opportunity, and capital structure on firm value.*
Design/Methodology/Approach: *Audit quality moderates the relationship between earnings management, growth opportunities, and capital structure with firm value, using more recent data and absolute difference test analysis methods. The type of research used by the researcher is quantitative research. Quantitative research is research that emphasizes more on testing theories by measuring research variables expressed by numbers and analyzing data using statistical procedures. The objects used are all manufacturing companies listed on the Indonesia Stock Exchange (IDX) in the 2015-2019 period. This study uses secondary data in the form of data from the Indonesia Stock Exchange (IDX) in 2015-2019.*
Findings: *The results of this study found that earnings management actions taken will give a favorable reaction which will have an impact on increasing the value of the company, which is reflected in the company's stock price, so that when the objectives of the manager and the owner of capital are different, then the management will harm the owner of the capital, by behaving unethically and committing accounting fraud. Meanwhile, the growth opportunity variable as proxied by the market to book assets (MTBA) has a positive and significant effect on firm value.*
Practical implications: *This study finds that audit quality does not moderate the effect of earnings management, growth opportunity, and capital structure on firm value. Big-4 KAP cannot limit earnings management practices that impact increasing the value of its client's company; besides, the companies audited by Big-4 KAP also do not affect changes in capital structure and company growth.*
Originality value: *From the results of this study, recommendations that can be given to investors or shareholders are that investors should analyze the company's financial condition, for example, the accrual rate used to profit.*

Keywords: *Earning management, growth, capital structure, audit quality, firm value.*

JEL classification:

Paper type: *Research article.*

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1. Introduction

Firm value is an investor's perception of its success, which is often associated with the performance of its shares. A high firm value indicates that the market not only believes in current conditions but also in its prospects (Hamam *et al.*, 2020). The purpose of the company's financial management is to increase its value reflected in the stock price (Fama, 1978). Increasing the value of the company means maximizing the wealth or welfare of shareholders.

According to Ghalandari (2013) every company value can be associated with stock prices, so investors decide to invest by paying attention to company value. According to (Alpi, 2017) firm value is an investor's perception of the level of success in managing resources. For companies listed on the capital market, the stock price is an indicator of its value.

In maximizing the company's value, there will be a conflict of interest between managers and shareholders (company owners), which is often referred to as the agency problem. It happens because managers put personal interests first. On the other hand, shareholders do not like the personal interests of managers. This can increase costs for the company, resulting in a decrease in company profits and its effect on stock prices, thereby reducing the value of the firm's value (Jensen and Meckling, 1976).

However, the information gap between Managers and Principals (stakeholders) makes party managers superior in terms of information control. The existence of information gaps between agents and principals will allow managers to carry out earnings management (Richardson, 2000). Earnings management is selecting accounting policies to prepare financial statements by management to achieve specific objectives (Lee, 2020). Earnings management is carried out by abusing the accrual component in the financial statements.

Efforts to eliminate Earnings Management in the management of the business world are to realize good corporate governance, which is expected to find a balance between various interests that can provide benefits for the company as a whole and ultimately increase the company's value. Earnings management arises due to agency problems, namely the misalignment of interests between managers and company owners due to information asymmetry. Information asymmetry is a condition where there is an imbalance in the acquisition of information between management and shareholders where management has more information than external parties.

In addition, several factors that can affect the company's value include growth opportunity and capital structure. The relationship between capital structure policies and firm value is interesting because the concept of capital structure was initiated by Modigliani and Miller, who claims that the firm's capital structure is not a factor in its value. They assert that linking leverage with firm value is irrelevant (Modigliani

and Miller, 1958). See the weakness of this concept, revisions were made to consider tax savings considerations (Modigliani and Miller, 1963). The concept of capital structure was further developed by Stiglitz (1969) and Myers (1984) who explained that debt has an optimal limit.

Moreover, the use of debt must consider the risk of possible failure to consider the costs of bankruptcy and transaction costs. Furthermore, it illustrates that the company has an optimal level of debt and tries to adjust its debt level when it is in an over or under-leveraged position towards optimal leverage. Under stable conditions, firms adjust their debt to their long-term average debt (Myers and Majluf, 1984)).

Ross (1977) stated that in the relationship between capital structure and firm value related to information asymmetry, managers with informational advantages have incentives to signal their personal information through their choice of debt level Ross (1977) were the first to address the function of debt signaling mechanisms. Where information asymmetry exists between management and investors, which also explains why existing investors avoid issuing new equity, asymmetric information will be taken into account how management will take appropriate action regarding signals perceived by outside investors.

When management issues new debt, it is considered a positive signal and positively affects stock prices. Empirical evidence that supports the concept of information asymmetry has been carried out by (Salehi and Biglar, 2009). Dang (2013) found a negative relationship between leverage and firm value. In addition, Rahman (2018) dan (Dang *et al.*, 2019), in their research, study the effect of growth, capital structure, firm size, and profitability on firm value. The results do not support the positive effect of capital structure on firm value. In addition, the growth factor also does not affect firm value.

The concept of capital structure that has been discussed is a form of approach that emphasizes balance without considering the company's prospects. McConnell and Servaes (1995) describes the capital structure related to growth opportunities. They also explain that the optimal capital structure can shift with changes in growth opportunity. For firms with 'high growth,' firm value is negatively correlated with leverage, while for firms with 'low growth,' firm value is positively correlated with leverage. Debt policy and equity ownership structure 'issues' and how they matter differ between firms. Empirical evidence reveals that companies with high investment opportunities tend to use low debt ratios (Vijayakumaran and Vijayakumaran, 2019; Nguyen *et al.*, 2019; Danila *et al.*, 2020).

The relationship between investment opportunities and firm value was clarified by (Stulz, 1990). Chen (2005) examines the effect of debt structure on the firm value given different growth opportunities with firms. The market value of each company does not depend on its capital structure, given the assumption that the capital market is perfect. It observes that the optimal capital structure is closely related to the

company's growth potential and several other variables, such as the size and characteristics of the industry.

Building on the argument that the firm value of high-growth firms is negatively correlated with leverage, while for low-growth firms, the value of firms is positively correlated with leverage, they observe that growth opportunities can affect the optimal capital structure. The reason is that optimal leverage can shift along with changes in growth opportunities that cause changes in the agency costs of debt and the costs of managerial discretion.

Based on the explanations described above as well as the guidelines for research that has been done previously regarding the previously mentioned variables, researchers are interested in conducting further research on the Effect of Earning Management, Growth Opportunity and Capital Structure on Firm Value Moderated by Audit Quality in Companies Listed on the Indonesia Stock Exchange.

2. Literature Review and Hypothesis Development

2.1 Earning Management and Firm Value

Earnings management is generally defined as an effort made by company managers to intervene or influence the information contained in financial statements to deceive stakeholders who want to know these conditions and a company's performance (Sulistyanto, 2008). Earnings management displays a conflict of interest between principals (shareholders) and agents (managers), and in this way, the most hypotheses that explain this miracle are agency theory (Diri, 2017).

Jensen and Meckling, 1976) suggest that there is a contractual relationship between managers as agents and business owners in agency theory as principles. The relationship between agent and principle can create a conflict of interest when shareholders and managers focus on different aspects of the company's horizon.

Managers who manage the company will know more information about the company and the company's prospects in the future than shareholders. This unbalanced information will trigger the emergence of a condition called information asymmetry. Information asymmetry will encourage managers to present incorrect information, especially if the information is related to the manager's performance measurement (Kori and Rasmini, 2017). Information asymmetry is one form of agency problem where agency problems will cause agency costs because the principal wants to ascertain whether agents make decisions that are in their interests.

The earnings management pattern depends on the motivation and goals to be achieved by the manager. Companies will tend to use accounting methods to produce financial statements with lower profit reporting if they have incurred high costs for political purposes (Sidartha and Erawati, 2017).

According to Watts and Zimmerman (1990), who put forward positive accounting theory, especially the political cost hypothesis, which states that earnings management practices tend to be carried out by companies under tremendous political pressure from the government. Government costs in terms of social responsibility are one of the causes of poor earnings management practices. They were carried out by the company (Ardiani and Sudana, 2018), then the first hypothesis is proposed as follows:

H1: There is a negative influence between earning management on firm value.

2.2 Growth Opportunity and Firm Value

Growth opportunity is defined as the prospect of the availability of profitable investment opportunities (Danila *et al.*, 2020). This investment opportunity is the availability of investment options that can generate future net cash flows. The prospect of this profit is an opportunity that will increase the value of the company. The company's growth opportunity cannot be observed directly, so a proxy must be used. The indicator that is often used to describe investment opportunities is IOS.

The concept of IOS was introduced by Myers (1977), according to him, the company's value is a combination of the assets owned and the selection of investments to be made. This concept is crucial because it can measure future growth potential, so it is relevant for predicting the wealth of company owners.

Graver dan Graver (1993) financing, dividends, and compensation policies. Firm growth opportunity is related to policy spending on almost all expenditures, for example, capacity expansion, new product introductions, company acquisitions, investment in advertising, and asset replacement (Gaver and Gaver, 1993). It was further explained that IOS is determined by choice of business line based on its competitive advantage.

Each company is actually in different conditions. IOS for each company will be different. (Kallapur and Trombley (1999) explained that the main determinants of IOS are industry factors, such as barriers to entry and product life cycles. Barriers to entry are factors that can hinder competitors' entry into the industry. Industries with short and successful product lives require investment, research and development and a skilled researcher.

In terms of proxies for growth opportunity, Gaver and Gaver suggest six proxies that can be used to measure investment opportunities: (1) Market to book value asset ratio, (2) Market to book value equity ratio, (3) R&D expenditure to book value asset ratio, (4) Income/price ratio, (5) The variance of the firm's total return, (6) The frequency with which firms are included in the ownership of growth-oriented mutual funds.

In addition, Kallapur and Trombley (1999) explain the concept of investment set IOS, i.e., opportunity to invest for expansion, new product, cost reduction and its effect on firm value. Review previous research on the theoretical relationship between IOS and optimal contracting due to shareholder/debt holder conflicts, agency costs, and performance measurement problems; and empirical research on its relation to company policies on financing, dividends, and compensation (Murwaningsari and Rachmawati, 2017).

They classify IOS into three main categories: 1) Price-based proxies; This approach is based on the premise that a company's growth opportunity is partially indicated in stock prices, including companies with growth opportunities whose market value is higher than their book value. 2) Investment-based proxy; Based on this approach, is the premise that high investment activity is positively related to IOS. 3) Size of variance; This measure is based on the idea that investment options become more valuable when using size variability to estimate growing options.

Adam and Goyal (2008) evaluated the performance of several proxy variables for a firm's investment opportunity set. The results show that, on a relative scale, market-to-book asset ratios have the highest information content of investment opportunities. Even though both are market-to-bookequity and income-price ratios related to investment opportunities do not contain existing information that has not been contained in the market asset to book ratio.

Barclay *et al.* (2006) stated that the market to record asset ratio is the most suitable proxy for investment opportunities. Hermuningsih (2014), in his research, uses four proxies as indicators of growth opportunity: Investment for Sale (INVOS), Price-earnings ratio (PE), Total Market to Asset Book (MTBA), and Market to Total Equity Book (MTBE).

In his research, a positive relationship between growth opportunities and firm value was found. Kim *et al.* (2018) used an R&D proxy in their research, which found a positive relationship between growth opportunity and firm value. Companies with growth opportunities have a positive effect on firm value, and conversely, companies without growth opportunities have a negative effect, then the next hypothesis is proposed as follows:

H2: There is a positive influence between MTBA and MTBE on firm value.

2.3 Capital Structure and Firm Value

Capital structure is an interesting issue for further research (Nguyen *et al.*, 2020). There is much debate about what factors determine capital structure policies; the theory built has not found agreement because it is based on different assumptions. Each factor has a different impact, depending on the conditions and position of the company (Myers, 2003). Capital structure means the proportion of debt used in the

company (debt ratio). Capital structure policy is a strategic policy because it is related to company risk (Zampeta, 2015). The use of debt can increase the risk of bankruptcy because the company must bear a fixed burden. On the other hand, debt can save tax payments from interest costs paid (tax-deductible).

Therefore, the company must optimize its capital structure by taking these two interests into account. The relationship between capital structure and firm value was first proposed by Modigliani and Miller in their proposition, which states that capital structure and firm value are irrelevant (Modigliani and Miller, 1958). After receiving criticism, revisions were made to account for tax savings. According to them, the accumulation of sustainable tax savings will increase the company's value (Modigliani and Miller, 1963).

Responding to the concept of capital structure developed by Stiglitz (1969), companies may not use their debit to its full potential. The use of debt must take into account bankruptcy costs and transaction costs. Firms have optimal debt levels and try to adjust their debt levels when they are overutilized towards optimal leverage (Myers, 1977). Based on the discussion above, the following hypothesis is formulated:

H3: There is a positive influence between capital structure on firm value.

2.4 The Influence between Earning Management and Firm Value Moderated by Audit Quality

External auditors are independent parties who act as intermediaries between principals as recipients of information and agents as distributors of information through the company's financial statements (Zerni, 2012). Quality audits are audit activities that carry out their functions well, especially in controlling company activities which must be complied with by applicable regulations in the preparation of financial statements (Hoag *et al.*, 2017) and other related regulations such as tax regulations (Riguen, Koubaa, and Jarboui, 2017).

Apart from the audit process, by its function, audit quality is also measured using individual auditors, such as the size of the auditor's firm company, auditor specialization, and years of service (Meckfessel and Sellers, 2017; Nagy, 2014). Audit quality will be able to withstand earnings management and tax planning activities carried out by the company to produce reliable and accurate information that investors and other stakeholders can use, and this ultimately increases the value of the company for the better (Nazir and Afza, 2018; Afza and Nazir, 2014).

Quality audits are mainly carried out by independent auditors who make reliable financial statements because they are free from the interests required by Management. The characteristics of the audit committee have a significant positive role for KAP (Afza and Nazir, 2014).

One of the audit functions as a controller can be overcome by companies' audit quality of earnings management actions in manipulating information (Alhadab and Clacher, 2018; Ahmad and Suhara, 2016; Ashtiani *et al.,* 2016; Utomo *et al.,* 2019). Based on the theoretical review, thus, the following hypothesis is presented:

H4: There negative effect between earning management and firm value moderated by audit quality.

2.5 The Influence between Growth Opportunity and FirmVvalue Moderated by Audit Quality

The subsequent information asymmetry means that growth firms adopt particular strategies to monitor managers, including internal audit departments. Carcello *et al.* (2005) suggest that more significant information asymmetry increases the need for more significant investment in IA to bond or monitor agents. Further, high-growth firms are more likely to encounter problems with internal control requiring more excellent monitoring and assistance from internal auditors (Carcello *et al.,* 2005).

However, it is not simply the existence of IA that is important, as demonstrated by (Davidson *et al.,* 2005), but the quality and effectiveness of the internal audit department that is important for firms with uncertain investment opportunities. The IA must have the training and experience that links the evaluation of the risks associated with uncertain growth opportunities to the firm‟s strategies that achieve positive outcomes.

Internal audit quality is a primary factor influencing internal audit contribution to firm performance in the high-risk conditions of high growth opportunities. Consequently, we expect a positive association between IAQ and firm performance for high-growth firms, thus the following hypothesis is presented:

H5: There negative effect between growth opportunity and firm value moderated by audit quality.

2.6 The Influence between Capital Structure and Firm Value Moderated by Audit Quality

Audit quality can be defined as the ability of the auditor to find errors or fraud in the accounting system and pressure from clients to close the books openly even if errors occur. Audit quality also defines the combined probability of an auditor's ability to find (identity) and report a material misstatement of the client's financial reporting.

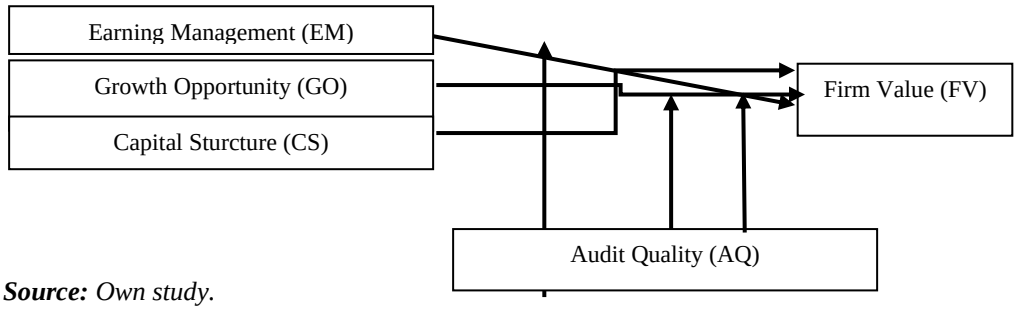
According to Copley and Doucet (1993), state audit quality is compliance with professional standards for reporting and fieldwork. According to the Indonesian Institute of Accountants (IAI), this is in line with the definition of audit quality according to the Indonesian Institute of Accountants (IAI), which states that audits

carried out by auditors can be qualified if they meet auditing requirements or standards set by IAI. Herusetya (2009) found that the auditor's reputation, as measured by the KAP measure, was positively related to the quality of financial reporting.

Francis and Yu (2009) suggested that the larger the KAP size, the higher the audit quality produced. Rusmin (2010) also states that companies audited by large KAPs (Big Four) have lower discretionary accruals than companies audited by small KAPs (Non-Big Four). Thus the following hypothesis is presented:

H6: There negative effect between capital structure and firm value moderated by audit quality.

Figure 1. *In our conceptual framework, we describe the variables that affect firm value.*



Source: *Own study.*

3. Methodology

3.1 Sample and Data Collection

The type of research used by the researcher is quantitative research. Quantitative research is research that emphasizes more on testing theories by measuring research variables expressed by numbers and analyzing data using statistical procedures. The objects used are all manufacturing companies listed on the Indonesia Stock Exchange (IDX) in the 2015-2019 period. This study uses secondary data in the form of data from the Indonesia Stock Exchange (IDX) in 2015-2019.

In this study, the population used as research is manufacturing companies listed on the IDX during the 2013-2017 period, namely 193 companies. This research uses the purposive sampling method. Purposive sampling is done by taking samples based on specific criteria. Based on certain criteria as follows: 1) Manufacturing companies listed on the Indonesia Stock Exchange in the 2015-2019 period; 2) Manufacturing companies that present consecutive financial statements ending every December 31 during the 2015-2019 research period; 3) Manufacturing companies that have positive profits during the 2015-2019 research period, then 55 companies match the

variables in this study so that the total sample in this study was 272 during the period of this study.

3.2 Operational Definition and Variable Measurement

Firm Value determined as a firm value in public, it measured by Tobin's Q like the research of Desai and Dharmapala (2009), Yorke *et al.* (2016), Appolos and Kwarbai (2016) with the measurement that Tobins' Q = (MV + TL) / TA, where MV firm share in the market, TL is book value for total liabilities and TA is the book value of the asset.

Earnings Management is an activity of manage profit with accrual measurement; this study adopted measurement of discretionary accruals by Kothari *et al.* (2005) used by Murwaningsari *et al.* (2015) and is a development of Modified Jones (1991) where Discretionary Accrual is the result of DACit = TACit/TAit-1 – (α1 (1/TA it-1)+α2(ΔREVit/TA it- 1-ΔRECit/TAit-1)+α3 (PPEit/TAit-1)+αROAit.

Meanwhile, the growth opportunity variable is proxied by the market to book Total Assets (MTBA) with the formula for total market capitalization plus debt divided by total assets, and market to book total equity (MTBE) with the formula for total market capitalization divided by total equity. In a measure the structure variable, it is calculated by the formula of total debt divided by total assets.

3.3 Data Analysis Technique

We used multiple regressions analysis to test the hypotheses. Smart PLS is applied as a statistics software. To prove that there is an effect of sustainability innovation, organizational learning on the performance of companies with a competitive advantage as moderating will be tested with a regression model with an absolute difference value test with the following equation:

$$Q = \alpha + \beta 1EM + \beta 2MTBA + \beta 3MTBE + \beta 4MTBE + \beta 5AQ * EM + \beta 5AQ * MTBA + \beta 6AQ * MTBE + \beta 7AQ * CS + \beta 8LEV + \beta 8SIZE + e \quad (1)$$

Explanation:

Q	: Tobins Q
EM	: Earning Management
MTBA	: Market To Book Total Asset
MTBE	: Market To Book Total Asset
CS	: Capital Structure
LEV	: Leverage
SIZE	: Company Size
e	: error

4. Result and Discussion

4.1 Descriptive Statistics

Based on Table 1, the Tobins Q variable (firm value) shows an average of 2.429%, which means that the average firm value is 2.429%. The lowest company value is 0.12%, and the highest is 23.29%, with a standard deviation of 3.16915%. In general, investors prefer companies with a Q ratio value above one because it shows that investment in assets generates profits that provide a higher value than investment expenditure.

The EM (Earning Management) variable shows the minimum value is -14.08, and the maximum value is 1.54. The average value of earnings management is 4.447, while the standard deviation is 2.7073. This shows that earnings management behavior is relatively low (average below 1) with a lower variation. The earnings management value close to 0 indicates that the sample companies always carry out earnings management in recording and compiling financial information.

Table 1. *Descriptive statistics*

Variable	N	Min	Max	Mean	Std. Deviation
Tobins Q	257	0.120	7.140	1.75420	1.335409
EM	257	-0.340	0.250	0.01397	0.071675
MTBA	257	0.116	7.144	1.75406	1.335308
MTBE	257	0.004	8.795	1.95669	1.799403
CS	257	0.015	1.000	0.39662	0.197415
AQ	257	1.000	2.000	1.42023	0.494559
Valid N (listwise)	257				

Source: *Own study.*

The growth opportunity variable, which is proxied through the MTBA (Market to Books Total Assets) indicator, shows the minimum value is 0.12, and the maximum value is 23.29. The average value of earnings management is 2.3838, while the standard deviation is 3.05781. While the growth opportunity variable is proxied through the MTBE (Market to Books Total Equity) indicator, the minimum value is 0.00, and the maximum value is 82.45. The average value of earnings management is 3.5511, while the standard deviation is 8.45328.

The CS (Capital Structure) variable shows the minimum value is 0.01, and the maximum value is 1.00. The average value of earnings management is 0.4038, while the standard deviation is 2.20021. Variable AQ (audit quality) as a moderating variable shows the minimum value is 0.00 and the maximum value is 1.00.

The average value of earnings management is 0.5818, while the standard deviation is 2.49416. While the LEV (leverage) variable as the first control variable shows the minimum value is 0.02 and the maximum value is 4.03. The average value of

earnings management is 0.5837, while the standard deviation is 0.36896. While the SIZE (company size) variable as the first control variable shows the minimum value is 25.80, and the maximum value is 34.74. The average value of earnings management is 29.3146, while the standard deviation is 1.91241.

4.2 Hypothesis Testing

For hypothesis 1, based on Table 2, where the significance value for each earning management variable has a significance value of 0.033 (< 0.05) with the t-count value of -2.142, this result shows that earnings management has a positive and significant effect on firm value. Thus, this proves that managers' earnings management actions impact the survival of the company, thus H1 is accepted.

Table 2. *The Influence of Earnings Management, growth opportunity and capital structure on Firm Value with Audit Quality as Moderating Variable*

Variable	Prediction	Coefficients	t-statistics	Sig	
EM	-	0.682	-2.142	0.033	*
MTBA	+	0.371	4528.869	0.000	*
MTBE	+	0.356	-0.142	0.681	
CS	+	0.931	-1.573	0.117	
AQ*EM	-	0.060	-0.686	0.093	
AQ*MTBA	-	0.584	0.065	0.948	
AQ*MTBE	-	0.620	-0.162	0.872	
AQ*CS	-	0.065	-0.217	0.828	

Note: *******Significant at the 5% level.*
Source: *Own study.*

Hypothesis 2 on the growth opportunity variable proxied by the market to book assets (MTBA) shows a significance value of 0.000 with an at-count of 4528.869; this result shows that the growth opportunity variable proxied by the market to book assets (MTBA) has a positive and significant effect on the value company. Meanwhile, market to book equity (MTBE) has a significance value of 0.681 with an at-count of -1,142. These results indicate that the growth opportunity variable proxied by the market to book equity (MTBE) has a negative and insignificant effect on firm value.

Hypothesis 3 on the capital structure variable, the significance value is 0.117 with an at-count of -1.573; this result shows that the capital structure has a positive but not significant effect on firm value so that changes in capital structure occur in the company do not affect the firm value. Thus H3 is rejected.

Hypotheses 4, 5 and 6 based on the results of Moderating Regression Analysis (MRA) with the residual test, where the audit quality variable as a moderating variable of earning management, growth opportunity, and capital structure on firm value does not have a significant effect because the values are 0.093, 0.948, 0.872

and 0.828, respectively. In other words, audit quality does not help increase firm value and increase stakeholder confidence in companies that carry out earnings management, growth opportunities, and capital structure on firm value. However, the F test of all variables simultaneously has a significant and significant effect on firm value.

5. Conclusion

This study examines the effect of earnings management, growth opportunity, and capital structure on firm value. Audit quality moderates the relationship between earnings management, growth opportunities, and capital structure with firm value, using more recent data and absolute difference test analysis methods. The study results show that earning management and capital structure has a positive but not significant effect on firm value; this means that earnings management actions and changes in a capital structure made by managers will not impact firm value.

Based on agency theory, agency relationships can lead to conflicts of interest between owners (investors) and managers (agents). Contracts are made in the hope of minimizing the conflict of interest. The results of this study found that earnings management actions taken will give a favorable reaction which will have an impact on increasing the value of the company, which is reflected in the company's stock price, so that when the objectives of the manager and the owner of capital are different, then the management will harm the owner of the capital, by behaving unethically and committing accounting fraud.

Meanwhile, the growth opportunity variable as proxied by the market to book assets (MTBA) has a positive and significant effect on firm value. This study finds that audit quality does not moderate the effect of earnings management, growth opportunity, and capital structure on firm value. Big-4 KAP cannot limit earnings management practices that impact increasing the value of its client's company; besides, the companies audited by Big-4 KAP also do not affect changes in capital structure and the growth of a company.

This study has several limitations; firstly, the companies sampled in this study are only companies in the manufacturing sector. Therefore, for future research to provide broader and better generalization power, it is hoped that it can involve all industrial sectors. Second, the model in this study only uses earnings management, growth opportunity, capital structure, audit quality, and firm value variables.

Therefore, it is hoped that future research can internalize other relevant variables in determining firm value. From the results of this study, the implication that can be given to the company is that management should be able to analyze the short-term and long-term impact on earnings management so that the company seeks to increase the value and growth of the company . Meanwhile, from the results of this study, recommendations that can be given to investors or shareholders are that

investors should analyze the company's financial condition, for example, the accrual rate used to profit.

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