



# Uncovering The Relationship Between Audit Opinion, Financial Performance on Firm Value.

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**ABSTRACT**

This study examines the relationship between financial performance, audit opinions, and firm value, with a focus on understanding how audit opinions mediate this relationship. Drawing on a sample of firms listed on the Indonesia Stock Exchange (IDX) between 2018 and 2023, the study employs Structural Equation Modeling with Partial Least Squares (SEM-PLS) to analyze the proposed relationships. The findings reveal that while financial performance does not directly impact firm value, it is strongly positively associated with audit opinions, suggesting that better financial performance reduces agency risks and increases the likelihood of favorable audit outcomes. Audit opinions, in turn, are significantly associated with firm value, highlighting their role in enhancing investor confidence and the credibility of financial information. However, the mediating role of audit opinions in the relationship between financial performance and firm value was determined to be statistically insignificant, indicating that other factors also contribute to firm valuation. The study concludes that both financial performance and audit opinion significantly influence firm value, emphasizing the importance of considering both financial and non-financial factors in corporate valuation. The findings underscore the complexity of firm value determinants and provide insights into the interplay between financial performance, audit opinions, and market valuation in emerging markets.

## INTRODUCTION

The connection between audit opinions and firm value, especially in the context of financial performance, is an important area of research in accounting and finance. Audit opinion serves as a critical signal to stakeholders regarding the reliability of a company's financial statements, which can significantly influence investment decisions and, consequently, the firm's value. Furthermore, the audit opinion, which represents the conclusion reached by an independent auditor regarding the fairness of a company's financial statements, serves as a vital indicator of financial health and accountability. Stakeholders, including investors, creditors, and regulatory bodies, heavily rely on this opinion to make informed decisions about their engagement with the (Moalla 2016).

Audit opinions, particularly unqualified opinions, are generally viewed positively by investors and can enhance firm value. Research indicates that companies receiving unqualified audit opinions tend to experience positive market reactions, as such opinions signify that the financial statements provide a true and fair view of the company's financial position (Sağlar & Gizer 2023). Companies audited by reputable public accounting firms and receiving unqualified audit opinions are likely to see an increase in stock prices, reflecting heightened investor confidence (Tahinakis & Samarinas 2016). (Aldhanarisha & Herliansyah 2023) state that adverse opinions on financial statements can indicate potential financial difficulties, leading to decreased investor confidence and lower stock prices. Moreover, studies show that the market reacts negatively to announcements of qualified opinions, as these often signal financial issues or uncertainties regarding a company's going concern status (Bayo Flees & Mouselli 2023; Hsu et al. 2011).

In addition to audit opinions, a company's financial performance is a significant factor influencing investment decisions and the market's perception of firm value (Setiawanta et al. 2021). On the other hand, financial performance is often seen as a direct driver of firm value. Positive financial outcomes, such as profitability, liquidity, and efficient asset management, typically signal strong future growth prospects, which can enhance the company's value in the eyes of investors (Purnama

et al. 2024). Furthermore, the ability to maintain stable financial performance over time can enhance the company's reputation and attractiveness to potential investors, which is a crucial factor in determining its overall market value (Rahmi et al. 2023).

The relationship between financial performance and audit opinions has been a key focus in accounting and auditing research. Financial indicators such as profitability, liquidity, and leverage are significant determinants of audit opinions, influencing auditors' decisions to issue either qualified or unqualified reports (Zarei et al. 2020). Previous studies have shown that financial ratios such as the current ratio and debt-to-equity ratio are significantly associated with the likelihood of receiving a modified audit opinion, as companies with weaker financial performance are more likely to receive qualified reports (Gaganis et al. 2007; Moalla 2016). These findings underscore the importance of financial performance in maintaining auditor confidence, which is crucial for stakeholders who rely on transparent and reliable financial information.

The relationship between financial performance and firm value has been extensively documented in the finance literature, with profitability, liquidity, and efficiency often highlighted as key drivers of a company's market value (Harmono et al. 2023). Strong financial performance typically reflects a company's ability to generate sustainable revenue and manage resources effectively, attracting investors and enhancing market valuation (Alghifari et al. 2022). However, financial performance alone may not fully explain variations in firm value, as market perceptions are also shaped by non-financial factors such as governance quality, risk disclosure, audit quality, and audit opinions (Alghifari et al. 2022). Therefore, it can be concluded that a positive audit opinion can strengthen the impact of strong financial performance on firm value by validating the reliability of the reported figures, while a negative audit opinion may diminish this relationship by raising concerns about the company's transparency and risk profile.

In creating firm value, both financial and non-financial factors are highly influential (Darmiathi & Anzib 2020). Internal factors such as financial performance and governance, as well as external

factors such as audit quality and audit opinions, are also necessary in shaping firm value (Purnama et al. 2024). The relationship between audit opinions and firm value has many aspects. Audit opinions not only reflect the financial health of a company but also influence market expectations and future prospects (Gaganis et al. 2007a). A good audit opinion will enhance investor confidence, signal lower financial risk, and is often associated with improved financial performance, which can increase the firm's market value (Bayo Flees & Mouselli 2023).

The connection between audit opinions, financial performance, and firm value in the context of Indonesia requires a closer examination to better understand how these elements interact and influence the overall market valuation of a company. With several studies on audit opinions, financial performance, and firm value in Indonesia focusing on specific industries, such as research by (Dewi Ratna Swari et al. 2023; Luthfiah & Suherman 2018; R. Win & Hasibuan 2024) this study will be broader by using 600 companies listed on the Indonesian Stock Exchange. This research will investigate the indirect impact of financial performance on firm value. By examining the mediating effect of audit opinion in the relationship between financial performance and firm value, this study aims to provide deeper insights into how audit quality and financial performance contribute to firm valuation in emerging markets.

This article is structured to provide a clear and systematic exploration of the research topic. The second section reviews relevant literature, critically analyzes previous studies, and formulates the hypotheses that guide the investigation. The third section outlines the research methodology, including the design of the empirical model, the selection of the research sample, and the measurement of variables. The following section presents and discusses the analysis results, interpreting their implications in the context of the hypotheses and existing literature. Finally, the conclusion synthesizes the findings, highlights their significance, and offers recommendations for future research and practice.

## LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The agency theory suggests that the ownership

structure of a firm can influence the magnitude of agency costs. (Michael & Meckling 1976) developed the agency theory that posits agency costs arise due to this conflict of interest between the principal and the agent. They argued that the separation of ownership and control in public companies can lead to agency problems, where managers may act in their own interests rather than the interests of the shareholders (Masthuroh et al. 2023; Ming & Wang 2018; Savitri 2018). The agency theory posits that agency costs arise due to this conflict of interest between the principal and the agent (Chu 2011; Olarewaju et al. 2017; Yang 2019). Agency theory posits that conflicts of interest may arise between managers (agents) and shareholders (principals) due to information asymmetry. Auditing serves as a control mechanism to address this issue by providing an impartial verification of the financial data disclosed by managers. From the agency theory perspective, firms with heightened agency conflicts tend to require higher quality audits to mitigate these challenges (Fossung et al., 2022). Moreover, the theory suggests that modified audit opinions may indicate poor financial reporting quality and diminished creditworthiness, resulting in elevated shareholder-debtholder agency costs and a greater reliance on debt contracts to manage these costs (A. E. Ji 2019).

(Spence 1973) introduced signaling theory that focuses on how one party (the sender) conveys information about itself to another party (the receiver) to reduce information asymmetry. Audit opinions can signal the quality of a firm's financial reporting and the effectiveness of its internal controls (Tahinakis & Samarinas 2016). A modified or qualified audit opinion can indicate the presence of accounting irregularities or financial distress, which can negatively impact firm value (Moalla & Baili 2019). Signaling theory highlights that audit opinions provide critical signals to stakeholders regarding a firm's financial health and performance (Krismiaji & Sumayyah 2023). A modified audit opinion can serve as a warning to investors and creditors, suggesting financial distress or unreliable financial reporting, which may negatively impact the firm's valuation (Moalla & Baili 2019). On the other hand, an unmodified (clean) audit opinion conveys trust in the firm's financial statements, which can enhance its perceived value (Tahinakis & Samarinas 2016b).

The relationship between audit opinions and

firm value has been a focal point of research in accounting and finance. Audit opinions, particularly modified or going-concern opinions, serve as critical indicators of a firm's financial health and risk profile. Research indicates that the prior year's audit opinion significantly influences the current year's opinion. Firms that received a modified opinion in the previous year are more likely to receive a similar opinion in the current year if their financial condition has not improved (Olimsar 2022). This continuity in audit opinions reflects auditors' assessments of the firm's ongoing financial viability and can lead to a decline in firm value due to increased perceived risk among investors (Sari & Batin 2022). Furthermore, firm size moderates the relationship between financial distress and the acceptance of going concern audit opinions. Larger firms are often seen as more capable of overcoming financial difficulties, reducing the likelihood of receiving a modified opinion compared to smaller firms (Hakiki 2022).

The incremental information content of audit opinions also plays a significant role in market valuation. The type of audit opinion issued can provide valuable insights to investors, influencing stock returns and overall firm value (Tahinakis & Samarinas 2016a). Firms that receive a going concern modified audit opinion, for example, may experience negative stock price reactions, reflecting investor concerns about their future viability (Beams et al. 2016). Additionally, managerial overconfidence can complicate the relationship between audit opinions and firm value. Overconfident managers may downplay financial difficulties, prompting auditors to issue modified opinions more frequently (G. Ji & Lee 2015). The reputation of the audit firm and auditor characteristics also play a role. High-quality audit firms, such as the Big Four, are less likely to issue modified opinions, enhancing client value (Chiang et al. 2015). However, firms that switch auditors in search of favourable opinions may face scrutiny, potentially reducing firm value if the new auditor issues a modified opinion (Chen et al. 2015).

On the other hand, The relationship between financial performance and firm value has been a focal point of research in corporate finance, with various studies highlighting the multifaceted nature of this interaction. Financial performance, commonly evaluated using metrics like return on assets (ROA) and return on equity (ROE), is widely

regarded as a key factor influencing firm value. (Hasbiyadi 2021) highlights the substantial impact of financial performance on firm value, noting that good corporate governance and intellectual capital also contribute significantly to this relationship. Likewise, (Jannah & Sartika 2022) confirms that financial performance positively and significantly affects firm value, underscoring the strong correlation between robust financial indicators and higher market valuations. (Imronudin 2023) indicates that while financial performance positively influences firm value, capital structure can have a negative effect, suggesting that firms must carefully manage their financial policies to optimize their market valuation. This is echoed by (Luthfiah & Suherman 2018) who found that financial performance significantly affects firm value, although ownership structures did not moderate this relationship effectively.

## HYPOTHESES DEVELOPMENT

### Financial performance on firm value

According to agency theory, the relationship between financial performance and firm value is underpinned by the alignment of interests between management and shareholders, which can mitigate agency conflicts (Michael & Meckling 1976). Financial performance, often measured by profitability ratios such as return on assets (ROA) or return on equity (ROE), reflects the efficiency and effectiveness of management in utilizing resources, which subsequently enhances investor confidence and firm valuation (Nawaiseh 2017). Strong financial performance signals investors about the firm's effectiveness in resource utilization and revenue generation, thereby enhancing firm value (Keter et al. 2024). Financial performance serve as an important signal to investors about a company's growth potential and future prospects, which can then impact its valuation in the market (Kepramareni et al. 2023).

(Miswanto & Oematan 2020) highlights that improved financial performance can lead to increased firm value, particularly in the context of Indonesian manufacturing companies, where efficient asset utilization directly correlates with stock price appreciation. Additionally, companies with strong financial performance tend to have higher firm values (Luthfiah & Suherman 2018). In line with agency theory, these outcomes align

managerial accountability with shareholder wealth maximization, ensuring sustainable value creation. Based on this understanding, it is hypothesized that higher financial performance positively and significantly impacts firm value.

**H1:** Financial performance has a positive and significant effect on firm value.

### **Audit opinion on firm value**

The agency theory underscores the importance of reducing information asymmetry between management and stakeholders by providing reliable and transparent financial reports (Michael & Meckling 1976). According to agency theory, audit opinions serve as a critical mechanism for reducing information asymmetry between these parties, thereby influencing investor perceptions and firm value (Yolandita & Cahyonowati 2022). The connection between audit opinions and firm value is further supported by findings that suggest audit opinions contain incremental information that can influence market reactions. Specifically, the type of audit opinion whether unqualified or qualified can significantly affect stock prices (Sağlar 2023). The firms that receive unqualified opinions are generally viewed more favorably, leading to increased stock prices and higher valuations, while qualified opinions can lead to negative market reactions (Tahinakis & Samarinas 2016).

Moreover, the quality of the audit itself plays a pivotal role in shaping firm value. High-quality audits, often associated with larger and more reputable auditing firms, are expected to enhance the credibility of financial statements, thereby positively influencing investor confidence and firm value (Azahra 2024). Conversely, lower audit quality can lead to skepticism among investors, potentially resulting in a decrease in firm value (Zakaria & Arafat 2018). Based on this understanding, it is hypothesized Audit opinion positively and significantly impacts firm value.

**H2:** Audit opinion has a positive and significant effect on firm value.

### **Financial Performance on Audit Opinion**

The relationship between a firm's financial performance and the type of audit opinion it receives can be understood through the lens of agency theory, which emphasizes the conflict of interest between management (agents) and shareholders

(principals). According to agency theory, auditors serve as intermediaries to reduce information asymmetry and ensure that management's financial reporting aligns with shareholders' interests (Jensen & Meckling 1976). Strong financial performance, characterized by high profitability, robust liquidity, and efficient management of financial resources, signals reduced agency risk, leading to a higher likelihood of unqualified audit opinions (Özcan 2016). Additionally, Empirical studies suggest that firms exhibiting strong financial performance, characterized by high profitability and robust liquidity, are more likely to receive unqualified audit opinions. This correlation indicates that auditors perceive well-performing firms as lower risk, thereby warranting favorable audit opinions. For instance, research conducted in the Egyptian audit market found that a client's financial performance has a significant negative relationship with the likelihood of receiving a qualified audit opinion, implying that better-performing companies are less prone to such opinions (Diab et al. 2021).

Conversely, firms with poor financial performance are at a higher risk of receiving qualified audit opinions. Auditors may interpret indicators such as declining profitability, liquidity issues, or financial distress as red flags, prompting the issuance of qualified opinions to reflect potential concerns about the firm's financial health. This perspective is supported by studies highlighting that financial distress Substantially enhances the probability of obtaining a going concern audit opinion, which can further exacerbate negative perceptions surrounding a firm's value (Nurhidayah et al. 2024). Therefore, it is hypothesized that There is a significant relationship between a firm's financial performance and audit opinion

**H3:** Financial performance has a positive and significant on audit opinion

### **Audit opinions mediate the relationship between financial performance and firm value**

The impact of audit opinion, specifically qualified versus unqualified opinions, on the relationship between financial performance and firm value is a critical area of research in accounting and finance. Audit opinions serve as significant indicators of a firm's financial health and can influence investor perceptions, thereby impacting firm value. Research indicates that firms with unqualified audit opinions tend to exhibit better financial performance metrics,

which positively influences their overall value. For instance, firms with higher liquidity and profitability are more likely to receive unqualified opinions, suggesting that robust financial health correlates with favorable audit outcomes (Özcan 2016). This relationship is further supported by findings demonstrating a positive association between financial performance and firm value, with financial performance acting as a mediating variable in this context (Wijaya & Ratnasari 2023). Additionally, the presence of an effective audit committee enhances financial performance, subsequently boosting firm value, further reinforcing the mediating role of financial performance in the audit opinion-firm value nexus (Wijaya & Ratnasari 2023).

Conversely, qualified audit opinions are often associated with financial distress and poor performance. Studies show that firms experiencing financial difficulties are more likely to receive going concern opinions, which can negatively impact their perceived value in the market (Anggarini 2023). This inverse relationship underscores the potential for qualified opinions to act as a risk signal to investors, thereby diminishing firm value (Hoti 2023). Furthermore, financial distress significantly raises the chances of obtaining a going concern audit opinion, which exacerbates negative perceptions surrounding a firm's value (Anggarini 2023). These findings highlight the pivotal role of audit opinions as indicators of financial stability and their influence on the firm value-financial performance dynamic. Based on this understanding, it is hypothesized audit opinions moderate the relationship between financial performance and firm value.

**H4:** audit opinions mediate the relationship between financial performance and firm value

## RESEARCH METHOD

### Research Design

This study adopts a quantitative research design to investigate the impact of audit opinion and financial performance on firm value, with audit opinion acting as a mediating variable. The research utilizes Structural Equation Modeling with Partial Least Squares (SEM-PLS) to analyze the proposed relationships. SEM-PLS is particularly suitable for this study due to its robustness in handling complex models and its ability to manage non-normal data distributions, making it a preferred method in financial research (Henseler et al. 2015).

### Sample and Data Collection

The study relies on secondary data obtained from the annual reports and financial statements of the selected companies, which are publicly available on the IDX website. Data pertaining to audit opinions, financial performance indicators, and firm value are meticulously extracted for subsequent analysis. The study's population consists of companies listed on the Indonesia Stock Exchange (IDX) between 2018 and 2023. The sample is selected using a purposive sampling method based on specific criteria: 1) Companies that have consistently published audited financial statements from 2019 to 2023; 2) Companies that disclose audit opinions, financial performance metrics, and firm value data in their annual reports; 3) Companies with complete data for the variables of interest during the observation period.

This sampling method ensures the selection of firms that provide reliable and comprehensive data necessary for the analysis. Table 1 shows the sampled firms selection process which involves excluding samples if the sample has missing data.

Table 1. Sample Selection

Panel A: Sample selection process	
Selection criteria	Observations
Initial observations – companies that disclosed audit opinion, ROA, Tobin's Q variable in period 2018 – 2023	4,651
<b>Excluded:</b>	
Companies with missing data or incomplete information about all the variables used.	(1,439)
<b>Final observations</b>	<b>3,212</b>

*This table reports the sample selection for the period 2018 – 2023.*

### Variables and Measurement

#### Dependent Variable

Firm value reflects a company's ability to provide its stakeholders with satisfactory returns on their investments. In this study, firm value was assessed using Tobin's Q, a metric extensively employed in prior research (Tobin J 1969). Firm value measured using Tobin's Q, calculated as the market value of equity plus total liabilities divided by total assets, providing an indicator of market valuation relative to asset value.

#### Independent Variable

Financial performance is an important variable in this study, measured using Return on

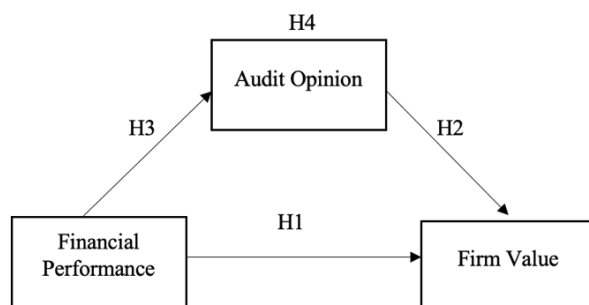
Assets (ROA). ROA is calculated by dividing net income by total assets, showing how efficiently a company uses its assets to generate profits. A higher ROA indicates better profitability and resource management, reflecting stronger financial health (Nawaiseh 2017).

### Mediating Variable

Audit opinion is a crucial mediating variable in this study, categorized as a binary variable. It is represented as '1' for unqualified audit opinions, which indicate that the financial statements present a true and fair view without significant misstatements. Conversely, it is represented as '0' for qualified or other types of opinions, which suggest concerns over certain aspects of the financial statements, such as material misstatements, limitations in scope, or going concern issues (Swari 2023).

### Data Analysis Technique

The data analysis begins with descriptive statistics to summarize the central tendencies and dispersions of the variables, providing an overview of the sample's characteristics. The measurement model (outer model) is then evaluated to ensure reliability and validity. Reliability is assessed using Composite Reliability (CR), where a value above 0.70 is considered acceptable (Hair et al. 2019). Convergent validity is evaluated through Average Variance Extracted (AVE), with values exceeding 0.50 indicating adequate convergence (Fornell & Larcker 1981). These assessments ensure that the constructs are measured accurately and consistently. The structural model (inner model) is subsequently evaluated to determine the relationships among variables. Path coefficients are analyzed to assess the strength and direction of these relationships, while the coefficient of determination ( $R^2$ ) indicates how much variance in the dependent variable is explained by the independent variables. Predictive



Relevance ( $Q^2$ ) is calculated to evaluate the model's predictive capability, with values greater than zero suggesting relevance (Hair et al. 2019). The mediating effect of audit opinion is tested using the bootstrapping method to evaluate indirect effects (Preacher & Hayes 2008). Finally, hypothesis testing is conducted by examining p-values and t-statistics from the bootstrapping results, with p-values less than 0.05 indicating statistical significance.

### RESEARCH MODEL

To analyze the impact of audit opinion and financial performance on firm value, with audit opinion serving as a mediating variable, a series of regression equations can be employed. These equations align with the mediation analysis framework, modified for Partial Least Squares Structural Equation Modeling (PLS-SEM). The regression model for analyzing the influence of audit opinion and financial performance on firm value, with audit opinion as a mediating variable. First, the direct effect of financial performance and audit opinion on firm value is modeled as :

$$Firm\ Value_i = \beta_0 + \beta_1 Financial\ Performance_i + \beta_2 Audit\ Opinion_i + \varepsilon_i$$

In this equation,  $Firm\ Value_i$  is typically represented by firm-specific metrics with Tobin's Q. The coefficient  $\beta_1$  reflects the direct effect of financial performance on firm value, while  $\beta_2$  captures the direct effect of audit opinion on firm value. The error term,  $\varepsilon_i$ , accounts for other unobserved factors affecting firm value.

$$Audit\ Opinion_i = \beta_0 + \beta_1 Financial\ Performance_i + \varepsilon_i$$

The second equation, represents  $Audit\ Opinion_i$  the audit opinion assigned to firm  $i$ , which may be binary (e.g., unqualified vs. qualified) or categorical (e.g., unqualified, qualified, adverse, or disclaimer). The independent variable,  $Financial\ Performance_i$ , is a measure of the firm's financial health, often captured by metrics such as Return on Assets (ROA), Return on Equity (ROE), or Profit Margin. The coefficient  $\beta_1$  represents the strength and direction of the relationship between financial performance and audit opinion.  $\varepsilon_i$  is the error

term, capturing unobserved factors that influence audit opinion.

## RESULT AND DISCUSSION

### Descriptive Statistic

Table 2 provides the descriptive statistics for 3,212 firm-year selected from Indonesia Stock Exchange (IDX) over the period from 2018 to 2023. Based on the available data the mean firm value is 0.015, with a median of 0.016, a minimum of -0.945, and a maximum of 51134.667, indicating

significant variability as reflected by a standard deviation of 25.720. Audit opinion shows an average value of 0.991 and a median of 1.000, suggesting most firms received unqualified opinions, ranging from 0.000 to 1.000, with a standard deviation of 0.907. Financial performance has a mean of 39.671 and a median of 2.429, with a minimum of 0.001 and a maximum of 0.994, showing a moderately skewed distribution and a standard deviation of 0.918. These statistics highlight variations in the key variables across the sample.

Table 2. Statistics Descriptive

	Mean	Median	Min	Maximum	Maximum	
<b>Firm Value</b>	3,212	0.015	0.016	-0.945	51134.667	25.720
<b>Audit Opinion</b>	3,212	0.991	1.000	0.000	1.000	0.907
<b>Financial Performance</b>	3,212	39.671	2.429	0.001	0.994	0.918

Table 2 reports the statistical descriptive for all variables in this study. The sample comprises 3,212 firms-year observations from Indonesia Stock Exchange during 2018 – 2023.

### Measurement Model (Outer Model)

The table 3 and 4 show the evaluation of the measurement model confirms excellent reliability, as evidenced by Cronbach's Alpha, rho\_A, and Composite Reliability values all at 1.000, surpassing the recommended threshold of 0.70 (Hair et al. 2014). Convergent validity is also established, with Average Variance Extracted (AVE) values of 1.000

for all constructs, exceeding the minimum criterion of 0.50 (Fornell & Larcker 1981). Furthermore, the Fornell-Larcker Criterion confirms discriminant validity, as each construct correlates perfectly with itself (diagonal values of 1.000) and has minimal correlations with other constructs, demonstrating distinctiveness between constructs (Hair et al. 2019). This comprehensive analysis affirms the reliability and validity of the measurement model.

Table 3 reports shows reliability metrics (Cronbach's Alpha, rho\_A, Composite Reliability, and AVE) for all constructs.

Table 3. Reliability Result

Constructs	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Audit Opinion	1.000	1.000	1.000	1.000
Financial Performance	1.000	1.000	1.000	1.000
Firm Value	1.000	1.000	1.000	1.000

Table 4. Discriminant Validity (Fornell-Larcker Criterion)

Constructs	Audit Opinion	Financial Performance	Firm Value
Audit Opinion	1.000		
Financial Performance	0.003	1.000	
Firm Value	-0.003		1.000

Table 4 reports discriminant validity, showing that each construct's AVE square root (diagonal values) exceeds its correlations with other constructs, confirming validity..

### Structural Model (Inner Model)

The table 5 summarizes statistical findings, revealing significant positive effects in two

relationships, as indicated by high t-statistics and p-values below 0.05. In contrast, the third relationship shows a weak and statistically insignificant effect, with a low t-statistic and a high p-value. This highlights that two relationships are meaningful, while one lacks statistical significance.

Table 5. Path Coefficient

	Original Sample	Sample Mean	Standard Deviation	t-Statistic	P-Value
<b>Audit Opinion - Firm Value</b>	0.100	0.098	0.036	2.745	0.006
<b>Financial Performance – Audit Opinion</b>	0.003	0.004	0.001	3.079	0.002
<b>Financial Performance – Firm Value</b>	-0.003	-0.002	0.012	0.294	0.769

The table presents statistical analysis examining the relationships between three key variables: audit opinions, firm value, and financial performance. The first notable finding shows a significant positive connection between audit opinion and firm value, with an original sample value of 0.100 and a t-statistic of 2.745 ( $p=0.006$ ). This suggests that favorable audit opinions tend to correspond with higher firm values. The second relationship analyzed is

between financial performance and audit opinion, which also shows statistical significance ( $t=3.079$ ,  $p=0.002$ ) with a sample mean of 0.004, indicating that better financial performance is associated with more positive audit opinions. However, The connection between financial performance and firm value seems to be weak and lacks significance ( $t=0.294$ ,  $p=0.769$ ), with a slightly negative original sample value of -0.003.

Table 6. Indirect Effect

	Original Sample	Sample Mean	Standard Deviation	t-Statistic	P-Value
<b>Financial Performance - Audit Opinion - Firm Value</b>	0.0003	0.0004	0.0002	1.697	0.090

Table 6 reports displays a specific indirect effect with audit opinion mediating between financial performance and firm value. Table 6 presents a specific indirect effect analysis examining the relationship between financial performance and firm value, with audit opinion serving as a mediating variable. The results indicate a positive indirect effect with an original sample value of 0.003, suggesting that financial performance may influence firm value through its impact on audit opinions. The statistical significance of this relationship is marginal, with a t-statistic of 1.697 and a p-value of 0.090, which

is significant at the 10% level but not at the more conventional 5% threshold. The small sample mean value (0.003) and standard deviation (0.005) suggest this indirect effect, while present, is relatively modest in magnitude. This mediating pathway implies that stronger financial performance may lead to more favorable audit opinions, which in turn could positively influence firm value, though the statistical evidence for this chain of relationships is not particularly strong given the marginal significance level.

## DISCUSSION

### Financial Performance on Firm Value

The result indicating a weak and non-significant relationship between financial performance and firm value (t-statistic of 0.294, p-value of 0.769, and a slightly negative original sample value of -0.003) suggests that, in this sample, financial performance may not be a strong determinant of firm value. This finding is consistent with studies that have questioned the direct relationship between financial performance and market value. (Setiawanta et al. 2021) argue that profitability do not always translate into higher market value. Overall, these results highlight that while profitability and financial health are important indicators of a firm's performance, they do not always translate into higher market value. This is because market participants often consider a range of other non-financial factors, such as growth prospects, risk, and environmental and social considerations.

### Financial Performance on Audit Opinion

The statistical analysis reveals a significant positive correlation between financial performance and audit opinion, with a sample mean of 0.004, a t-statistic of 3.079, and a p-value of 0.002 suggests that firms with better financial performance are more likely to receive positive audit opinions. This finding aligns with the literature indicating that firms exhibiting strong financial performance, signals reduced agency risk, leading to a higher likelihood of unqualified audit opinions (Özcan 2016). This relationship is also consistent with the results previous study that argue a client's financial performance has a significant negative relationship with the likelihood of receiving a qualified audit opinion, implying that better-performing companies are less prone to such opinions (Diab et al. 2021). these results highlight the necessity for firms to maintain robust financial performance as a strategy to secure favorable audit outcomes, which can ultimately enhance their market value and investor confidence.

### Audit opinion on firm value

The result showing a significant positive correlation between audit opinion and firm value (with a sample value of 0.100 and a t-statistic of 2.745,  $p=0.006$ ) suggests that favorable audit

opinions are associated with higher firm values. This finding aligns with the literature on the role of audit quality in enhancing investor confidence and improving financial performance (Sağlar 2023b; Tahinakis & Samarinas 2016). This indicates that the quality of the audit process, as reflected in the audit opinion can enhance the reliability and credibility of the financial information, thereby increasing the firm's valuation (Ulfida & Ibrahim 2021). The findings suggest that companies should prioritize maintaining high-quality audits to enhance their reputations and firm value in the eyes of investors. As such, it is essential for corporate governance structures to support effective auditing processes, ensuring that favorable audit outcomes contribute positively to firm valuation

### Audit opinions mediate the relationship between financial performance and firm value

Based on the data presented in the table, the indirect linkage between financial performance, audit opinion, and firm value has an original sample value (O) of 0.000, with a t-statistic of 1.697 and a p-value of 0.090. Although the t-statistic is nearing the threshold of significance, the p-value indicates that this relationship is not statistically significant at conventional levels. The findings align with studies that emphasize the complexity of the pathways through which financial performance impacts firm value. Additionally, this result indicate that the importance of contextual factors in determining firm value beyond just financial metrics and audit opinions. While traditional financial metrics and audit opinions have long been considered the primary determinants of firm value, recent studies have highlighted the significance of various contextual factors in shaping a company's perceived worth (Kianfar et al. 2010). These contextual factors, including sustainability practices, organizational structure, and governance mechanisms, can have a profound impact on a firm's brand equity and overall market valuation (Almashaqbeh et al. 2021). This result suggests that while financial performance and audit opinions may contribute to firm value indirectly, the strength of this mediation effect is insufficient to draw definitive conclusions.

## CONCLUSION

The findings reveal a nuanced relationship between financial performance, audit opinions,

and firm value. While financial performance alone does not exhibit a significant direct impact on firm value, it shows a strong positive relationship with audit opinions, indicating that better financial performance reduces agency risks and enhances the likelihood of favorable audit outcomes. Audit opinions, in turn, are significantly and positively associated with firm value, highlighting their role in improving investor confidence and the credibility of financial information. However, Audit opinions were found to have a statistically insignificant mediating effect on the relationship between financial performance and firm value, suggesting that additional factors beyond these metrics contribute to firm valuation. These results underscore the complexity of firm value determinants and the need to consider both financial and non-financial aspects in corporate valuation frameworks.

The study concludes that financial performance and audit opinion are significant contributors to a firm's value, but their impacts are nuanced. While financial performance supports favorable audit opinions, it does not directly translate into higher firm value. Audit opinions, however, have a strong and direct influence on firm valuation. The findings emphasize the role of both financial and non-financial factors in determining a firm's market value.

The findings of this research are subject to several limitations that should be acknowledged. First, the study primarily focuses on financial performance, audit opinions, and firm value, potentially overlooking critical non-financial factors such as ESG practices, market dynamics,

and innovation capabilities that may significantly influence firm valuation. Second, the dataset used may not fully capture sector-specific or regional variations, limiting the generalizability of the results across industries or geographic contexts. Third, the cross-sectional nature of the data restricts the ability to observe long-term trends or causal relationships, which might yield more comprehensive insights. Additionally, the statistical insignificance of certain mediation effects suggests that the model may require refinement to include other moderating or mediating variables. Lastly, the reliance on audit opinions as a measure of audit quality might not fully encapsulate the multidimensional nature of audit effectiveness. Future research should address these limitations to develop a more robust understanding of the dynamics at play.

Future research should incorporate non-financial factors, such as ESG (Environmental, Social, and Governance) metrics, innovation capabilities, and industry-specific risks, to provide a holistic view of firm valuation determinants. Additionally, the role of moderating variables, such as corporate governance quality, market competition, and investor sentiment, should be explored to better understand their influence on these relationships. Sector-specific analyses and cross-country comparisons can shed light on industry and regional variations, while longitudinal studies can provide insights into how these dynamics evolve over time in response to economic cycles or policy changes. These approaches will offer a more comprehensive understanding of the complex interactions among financial performance, audit opinion, and firm value.

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