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Corporate Governance, Audit Quality, and Firm Value: The Mediating Role of Tax Avoidance in Indonesian Mining Firms

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ABSTRACT : Firm value reflects a company's ability to generate sustainable economic benefits. Drawing on agency theory, this study examines the role of good corporate governance (GCG) and audit quality in influencing firm value, with tax avoidance as a mediating variable. Effective governance and high-quality audits are expected to reduce managerial opportunism, including excessive tax avoidance, thereby enhancing investor confidence and firm value. Using purposive sampling, this study analyzes 27 mining companies listed on the Indonesia Stock Exchange over the 2021–2024 period, resulting in 108 firm-year observations. Data were obtained from annual reports and analyzed using multiple linear regression with Stata 17. The results show that GCG has no significant effect on firm value, while audit quality and tax avoidance significantly affect firm value. GCG does not influence tax avoidance, whereas audit quality significantly affects tax avoidance. Furthermore, tax avoidance does not mediate the relationship between GCG, audit quality, and firm value. These findings highlight the critical role of audit quality in enhancing firm value and controlling tax avoidance practices, providing important implications for managers, investors, and regulators in the mining sector.

KEYWORDS - *Good Corporate Governance; Audit Quality; Firm Value; Tax Avoidance*.

I. INTRODUCTION

Firm value is widely regarded as a key indicator of managerial effectiveness and a primary reference for investors in making investment decisions. A high firm value reflects positive growth prospects and signals market confidence in a company's performance and sustainability (Jensen & Meckling, 1976). Consequently, enhancing firm value remains a central objective of corporate management, as it is directly linked to maximizing shareholder wealth (Prismulyantoro et al., 2023). This objective is particularly critical in capital-intensive and high-risk industries such as the mining sector, where operational complexity, regulatory scrutiny, and public exposure are substantially higher than in other industries.

In Indonesia, the mining sector has experienced several governance-related scandals that have adversely affected corporate reputation and market valuation. Notable cases include illegal tin mining and corruption involving PT Timah, which resulted in reputational damage, intensified government oversight, and heightened legal uncertainty. Following the public disclosure of corruption cases, PT Timah's stock price exhibited significant volatility, reflecting declining investor confidence (Azka, 2024). According to Indonesia Corruption Watch (ICW), between 2004 and 2025 the state suffered losses of approximately IDR 5.714 trillion due to illegal tin smuggling, primarily caused by unpaid royalties and corporate income tax. Similar governance failures were also evident in the misuse of certification and branding by a former executive of PT Aneka Tambang (Antam), which resulted in counterfeit gold transactions and state losses estimated at IDR 3.31 trillion (Adimaja, 2025). These cases illustrate how weak governance and ineffective oversight mechanisms can erode firm value and undermine public trust.

In addition to governance failures, tax avoidance practices have become a recurring concern in Indonesia's mining industry. Several multinational and domestic mining firms have been reported to engage in aggressive tax strategies, including transfer pricing and profit shifting. For instance, PT Freeport Indonesia allegedly sold mining products to overseas affiliates at prices below market value to reduce taxable income in Indonesia during the 2010–2015 period. Similarly, PT Adaro Energy Indonesia Tbk was reported by Global Witness to have shifted profits through affiliated entities in Mauritius to minimize tax payments in 2019. PT Kaltim Prima Coal, a subsidiary of Bumi Resources, was also suspected of concealing revenues through offshore entities between 2013 and 2015. These practices not only reduce government revenue from natural resources but also raise concerns regarding transparency, accountability, and long-term firm value.

These phenomena suggest that although mining companies have strong potential to generate high firm value, the sustainability of such value critically depends on corporate integrity, transparency, and effective governance mechanisms. Corporate scandals, corruption, and tax avoidance practices may generate short-term financial benefits but often result in reputational damage, regulatory sanctions, and declining market valuation in the long

run. Therefore, strengthening good corporate governance (GCG) and audit quality becomes essential in ensuring that managerial decisions including tax strategies are aligned with shareholder and stakeholder interests.

Agency theory provides a relevant theoretical framework to explain this relationship. According to agency theory, conflicts arise due to divergent interests between principals (shareholders) and agents (managers), leading managers to engage in opportunistic behavior such as earnings manipulation or aggressive tax avoidance (Jensen & Meckling, 1976). Good corporate governance and high-quality external audits serve as monitoring mechanisms to reduce information asymmetry and constrain managerial opportunism (Shleifer & Vishny, 1997). Effective governance structures are expected to limit excessive tax avoidance, thereby enhancing investor confidence and firm value.

Empirical evidence on the relationship between corporate governance, audit quality, tax avoidance, and firm value, however, remains inconclusive. Several studies report that corporate governance mechanisms do not necessarily lead to higher firm value. For example, Huang et al. (2020) found that corporate governance did not significantly affect firm value. Similarly, Gusriandari et al. (2022)and Marissa et al. (2025a) documented insignificant effects of governance mechanisms on firm value in Indonesian listed firms. In contrast, Samosir & Prananjaya (2025)found that independent commissioners, audit committees, and institutional ownership strengthened managerial monitoring and reduced opportunistic behavior, including tax avoidance.

Audit quality has also been identified as a crucial factor influencing firm value. De Angelo,(1981) argued that large audit firms are more likely to deliver higher audit quality due to greater independence and expertise. High-quality audits enhance the credibility of financial reporting, reduce agency costs, and strengthen investor trust. Empirical studies by Widyadi & Widiatmoko (2023) and Nurhayati et al. (2025) reported a positive and significant relationship between audit quality and firm value. However, contradictory findings were reported by Firdarini,(2023)who found no significant effect of audit quality on firm value in the food and beverage industry.

Research on tax avoidance further reveals mixed results. While some studies suggest that tax avoidance may increase firm value by improving cash flows, others argue that the benefits of tax avoidance may be expropriated by managers for personal gain, thereby reducing firm value (X. Chen et al., 2014). In Indonesia, Angelita et al. (2025) found that institutional ownership, independent commissioners, executive compensation, and audit quality significantly affected tax avoidance, whereas Kusuma & Nuswantara (2021) reported that only certain governance mechanisms influenced firm value.

Despite the growing body of literature, several important research gaps remain. First, most prior studies examine corporate governance, audit quality, and tax avoidance in isolation, with limited attention to tax avoidance as a mediating variable between governance mechanisms and firm value. Second, empirical evidence focusing specifically on mining companies in Indonesia remains scarce, despite the sector's strategic importance, high regulatory exposure, and significant contribution to state revenue. Third, many previous studies rely on data from periods prior to 2021, whereas recent economic conditions such as commodity price volatility and post-pandemic recovery may have altered corporate governance practices and tax strategies.

Therefore, this study aims to analyze the effect of good corporate governance and audit quality on firm value, with tax avoidance as a mediating variable, using a sample of mining companies listed on the Indonesia Stock Exchange during the 2021–2024 period. By focusing on a highly regulated and economically strategic sector, this study contributes to the literature by providing a more comprehensive understanding of how governance, audit quality, and tax behavior interact in shaping firm value. Practically, the findings are expected to provide insights for regulators, auditors, investors, and policymakers in strengthening governance frameworks, improving audit effectiveness, and promoting sustainable value creation in Indonesia's mining industry.

II. LITERATURE RIVIEW

Agency Theory

Agency theory explains the contractual relationship between principals (shareholders) and agents (managers), in which divergent interests and information asymmetry may lead managers to behave opportunistically (Jensen & Meckling, 1976). Such behavior generates agency costs and undermines firm value. To mitigate these conflicts, effective monitoring mechanisms are required. Good corporate governance (GCG) and audit quality serve as key control instruments that enhance transparency, accountability, and oversight, thereby aligning managerial decisions with shareholder interests (Firdarini, 2023).

Firm Value

Firm value represents investors' assessment of a firm's ability to generate sustainable performance and long-term returns (Sujoko, 2018). It reflects market confidence in managerial quality, governance effectiveness, and financial reporting credibility. Market-based measures, particularly the Price-to-Book Value (PBV) ratio, are widely used to capture firm value, as PBV indicates how the market values a firm relative to its book value (Ningrum, 2022). Agency theory suggests that stronger governance and higher audit quality reduce information asymmetry, increase investor trust, and ultimately enhance firm value.

Good Corporate Governance

Good corporate governance refers to the system of rules and mechanisms that regulate relationships among shareholders, management, and other stakeholders to promote accountability and value creation (Marini & Marina, 2017). This study measures GCG using a composite score based on managerial ownership, board independence, and the audit committee, which represent internal monitoring mechanisms. Higher managerial ownership aligns managerial incentives with shareholder interests, while independent boards and audit committees strengthen oversight and reduce opportunistic behavior (Jensen & Meckling, 1976). In highly regulated and capital-intensive industries such as mining, effective governance is particularly critical in maintaining corporate credibility and firm value.

Audit Quality

Audit quality reflects the auditor's ability to detect and report material misstatements in financial statements, thereby enhancing the reliability of financial information (Prismulyantoro et al., 2023). According to (De Angelo, 1981), larger audit firms especially those affiliated with the Big Four tend to provide higher audit quality due to superior expertise, resources, and reputational concerns. High-quality audits reduce agency costs, improve disclosure credibility, and strengthen investor confidence, which may positively affect firm value.

Tax Avoidance

Tax avoidance refers to legally minimizing tax obligations by exploiting existing tax regulations (Putri & Fidiana, 2022). While tax avoidance may increase after-tax cash flows, it can also facilitate managerial opportunism and obscure firm transparency. From an agency perspective, governance mechanisms and audit quality are expected to constrain excessive tax avoidance by increasing monitoring and accountability. Tax avoidance is commonly measured using the Effective Tax Rate (ETR), with lower ETR values indicating more aggressive tax behavior.

Hypotheses Development

Good Corporate Governance and Firm Value

Good corporate governance serves as a monitoring mechanism designed to mitigate agency problems and enhance corporate accountability. Effective governance limits managerial opportunism, improves disclosure quality, and promotes strategic decision-making oriented toward long-term value creation. Empirical evidence supports a positive relationship between GCG and firm value. Klapper & Love (2004) document that firms with stronger governance structures exhibit higher market valuation, particularly in emerging markets with weaker investor protection. Studies in both developed and emerging economies further indicate that better governance is associated with higher Tobin's Q and improved market performance. In the Asian context, Chen et al., (2014) find that strong governance and audit mechanisms reduce tax avoidance and enhance market perceptions of financial reporting integrity, thereby increasing firm value. Indonesian studies also report positive associations between board independence, audit committee effectiveness, and firm value (Hariati & P, 2016); Saifi, (2017); Ramadhityo M.I., et al. (2025). However, other studies reveal mixed results, suggesting that the effectiveness of GCG may depend on ownership structure, industry characteristics, and institutional environments (Ivan & Raharja, 2021); Marissa et al., 2025b). Drawing on agency theory and prior empirical findings, good corporate governance is expected to reduce agency conflicts, lower information asymmetry, and send positive signals to the market regarding firm quality and sustainability. Therefore, the following hypothesis is proposed:

H1: Good Corporate Governance has a positive effect on firm value.

Quality and Firm Value

External auditing serves as an independent monitoring mechanism designed to mitigate agency problems by enhancing the credibility of financial reporting and reducing information asymmetry between managers and shareholders. High audit quality increases assurance that financial statements fairly reflect a firm's economic condition, thereby strengthening investor confidence and market valuation. Study Yusnaini et al., (2026) show that independence has an effect on the quality of internal audit while objectivity and audity attributes have no effect on the audit quality. Prior studies provide empirical support for this relationship. Gompers et al.,(2003) and Klapper & Love, (2004) show that firms employing reputable external auditors tend to exhibit higher market valuation, particularly in emerging markets with weaker investor protection. X. Chen et al. (2014) further find that firms audited by high-quality auditors engage in less aggressive tax behavior and produce more reliable financial reports, which positively affects market perceptions. Indonesian evidence also indicates that auditor reputation enhances financial information reliability and firm value (Wardhani & Raharja, 2013); Angelita et al., (2025). However, some studies report insignificant effects, especially in firms with concentrated ownership structures, where internal controls may substitute for external audits Ivan & Raharja, (2021). Despite these mixed findings, agency theory suggests that high audit quality strengthens monitoring and credibility, leading to higher firm value. Accordingly, the following hypothesis is proposed:

H2: Audit quality has a positive effect on firm value.

Good Corporate Governance and Tax Avoidance

Good corporate governance (GCG) functions as an internal control system that limits managerial opportunism through effective monitoring, transparency, and accountability. Governance mechanisms such as independent boards, effective audit committees, and strong ownership structures are expected to constrain aggressive managerial decisions, including excessive tax avoidance. Empirical evidence largely supports this view. Desai & Dharmapala, (2009) argue that governance quality determines whether tax avoidance enhances or destroys firm value. Chen et al. (2010) document that firms with stronger governance structures exhibit lower levels of tax avoidance. Prior studies also highlight the role of audit committees and independent directors in reducing aggressive tax practices. Conversely, Armstrong et al. (2015) find that strong governance may, in certain contexts, facilitate sophisticated but legal tax planning strategies. Despite mixed results, the dominant view in the literature suggests that stronger governance mechanisms tend to limit excessive tax avoidance. Therefore, the following hypothesis is formulated:

H3: Good Corporate Governance has a negative effect on tax avoidance.

Audit Quality and Tax Avoidance

Audit quality is expected to influence corporate tax behavior by increasing scrutiny over financial reporting and tax-related decisions. High-quality auditors, particularly Big Four firms, are more conservative and risk-averse, thereby discouraging aggressive tax avoidance (Francis, 2004); Chen et al. 2010). Nevertheless, some studies report conflicting findings. Armstrong et al. (2015) argue that reputable auditors may also provide tax advisory services that facilitate complex tax planning. These mixed results suggest that institutional context and auditor–client relationships may moderate the effect. Despite this, agency theory predicts that higher audit quality constrains managerial opportunism and limits aggressive tax avoidance. Thus, the following hypothesis is proposed:

H4: Audit quality has a negative effect on tax avoidance.

Tax Avoidance and Firm Value

The impact of tax avoidance on firm value is theoretically ambiguous. On one hand, tax avoidance may increase after-tax cash flows, providing additional resources for investment and dividend distribution, thereby enhancing firm value (Desai & Dharmapala, 2009). On the other hand, aggressive tax practices may generate reputational risks, regulatory penalties, and increased agency costs, which can reduce investor confidence and firm value (Hanlon & Heitzman, 2010). Empirical evidence suggests that the value implication of tax avoidance depends on governance quality. When monitoring mechanisms are strong, tax avoidance may be value-enhancing; when governance is weak, it may become value-destroying (Armstrong et al. 2015). Accordingly, this study proposes the following hypothesis:

H5: Tax avoidance affects firm value.

The Mediating Role of Tax Avoidance

The relationship between corporate governance, audit quality, and firm value may not be purely direct but may operate through managerial tax decisions. Strong GCG and high audit quality are expected to shape how managers engage in tax avoidance, determining whether such practices are efficient or opportunistic. From an agency perspective, governance mechanisms align managerial actions with shareholder interests, while high-quality audits ensure transparency and credibility in financial reporting (Jensen & Meckling, 1976; Shleifer & Vishny, 1997). Tax avoidance thus acts as a pathway through which governance and audit quality influence firm value. Efficient tax avoidance under strong monitoring may enhance firm value, whereas aggressive tax avoidance under weak controls may reduce it (Desai & Dharmapala, 2009).

Based on this logic, the following mediation hypotheses are proposed:

H6: Tax avoidance mediates the relationship between Good Corporate Governance and firm value.

H7: Tax avoidance mediates the relationship between audit quality and firm value.

III. RESEARCH METHOD

This study examines the effects of Good Corporate Governance (GCG) and audit quality on firm value, with tax avoidance serving as a mediating variable measured using the Effective Tax Rate (ETR). A quantitative research approach is employed, emphasizing statistical analysis of secondary data to test the proposed hypotheses. The data consist of annual financial reports of mining companies listed on the Indonesia Stock Exchange (IDX) for the 2021–2024 period. These data were obtained from the official IDX website (www.idx.co.id) and the respective companies' official websites. Panel data regression analysis is applied using Stata 18. The empirical models include pooled common effects (CEM), fixed effects (FEM), and random effects (REM). Model selection is determined through the Chow test, Hausman test, and Lagrange Multiplier test. Mediation analysis is conducted to examine both direct and indirect effects of GCG and audit quality on firm value through tax avoidance. Descriptive statistics are used to summarize the characteristics of the data, including mean, median, minimum, maximum, and standard deviation. Classical assumption tests are performed

to ensure the BLUE criteria, including tests for normality, multicollinearity, and heteroskedasticity (Glejser test).

The panel data regression analysis method is employed to examine the effect of independent variables on the dependent variable while considering the mediating role of an intervening variable. The panel data regression models used in this study are formulated as follows:

$$FV_{it}=\alpha+\beta_1 GCG_{it}+\beta_2 AQ_{it}+\beta_3 TA_{it}+\varepsilon_{it} \quad (1)$$

$$TA_{it}=\alpha+\beta_1 GCG_{it}+\beta_2 AQ_{it}+\varepsilon_{it} \quad (2)$$

Description:

FV = Firm Value
α = Constant
β = Regression coefficient of the independent variables
GCG = Good Corporate Governance
AQ = Audit Quality
TA = Tax Avoidance
ε = Error term
i = Cross-sectional unit (firm)
t = Time period

This study examines four principal variables, comprising one dependent variable, two independent variables, and one mediating variable. The dependent variable is firm value, which reflects a company's capacity to generate wealth for shareholders and represents market perceptions of corporate performance and future prospects. Firm value is commonly proxied by market-based measures, as stock prices incorporate investor expectations and signal confidence in managerial performance (Prismulyantoro et al., 2023). In line with Nurvianda et al. (2018), this study measures firm value using the Price-to-Book Value (PBV) ratio, which compares the market price per share to its book value and captures the extent to which the market values the firm relative to its accounting equity.

The first independent variable is Good Corporate Governance (GCG). Corporate governance refers to the system of rules, practices, and processes through which a firm is directed and controlled to enhance shareholder value (Marini & Marina, 2017). It encompasses mechanisms that regulate the relationships among shareholders, management, creditors, regulators, employees, and other stakeholders (Anik et al., 2021). In the Indonesian context, governance quality is assessed by the Indonesian Institute for Corporate Governance (IICG) in collaboration with SWA Magazine through the Corporate Governance Perception Index (CGPI). This study employs the Corporate Governance Index (CGI) as a proxy for GCG, constructed from several sub-indices, including shareholder rights, board of directors, independent directors, audit committee and internal audit, and disclosure practices (Black et al., 2006). Higher CGI scores indicate more effective governance implementation. Strong governance mechanisms are theoretically expected to mitigate agency conflicts and constrain managerial opportunistic behavior (Abigail & Dharmastuti, 2022).

The second independent variable is audit quality, which reflects the auditor's competence and independence in detecting and reporting material misstatements in financial statements. Consistent with prior research (Firdarini, 2023), audit quality is proxied by the type of public accounting firm. A dummy variable is employed, where firms audited by Big Four accounting firms are coded as 1, and those audited by non–Big Four firms are coded as 0. Big Four auditors are generally associated with higher audit standards, greater reputational capital, and stronger monitoring effectiveness.

The mediating variable in this study is tax avoidance, defined as legal tax planning strategies undertaken by firms to minimize tax liabilities without violating prevailing regulations (Putri & Fidiana, 2022). Tax avoidance reflects managerial discretion in financial and tax reporting decisions. Following Hanlon and Heitzman (2010), tax avoidance is measured using the Effective Tax Rate (ETR), calculated as total tax expense divided by pre-tax income. Lower ETR values indicate a greater degree of tax avoidance.

Research Findings

The sample consists of 27 companies, yielding a total of 108 firm-year observations. The analysis was conducted in two stages. First, the direct effects were examined by performing panel data model selection tests, including the Chow test, Hausman test, and Lagrange Multiplier (LM) test. The second stage analyzed the indirect (mediating) effects. This approach is consistent with the arguments Shrout and Bolger (2002); Mackinnon et al.(2002) serta Hayes (2013), who state that mediation can occur even when the direct relationship between the independent and dependent variables is not statistically significant. The analytical procedures include descriptive statistical analysis, classical assumption tests, selection of the most appropriate panel regression model (Common Effect, Fixed Effect, or Random Effect), and hypothesis testing.

IV. RESULTS AND DISCUSSION

Result

Descriptive statistical analysis was conducted to describe the characteristics of the data for each research variable. The statistics include the minimum value, maximum value, mean, and standard deviation based on 108 observations. The results of the descriptive analysis are presented in table 1.

Table 1. Descriptive Statistic

Variable	Obs	Mean	Std. dev	Min	Max
GCG	108	80.244	8.674494	53.83333	87.5
AQ	108	-1.068513	1.8534472	-2.980561	.9886472
TA	108	.02885625	.2306096	.0002908	.9835317
FV	108	3.210301	6.054192	.21	32.62

Based on the descriptive statistical analysis presented in table 1, the total number of observations for each variable is 108. The results indicate that Good Corporate Governance (GCG) has a mean value of 80.244, with a standard deviation of 8.674494, a minimum value of 53.83333, and a maximum value of 87.5, suggesting relatively high and moderately dispersed governance scores among the sampled firms. Audit Quality (AQ) shows a mean value of -0.68513, a standard deviation of 1.534472, a minimum of -2.980561, and a maximum of 0.9886472, indicating variation in audit-related characteristics across firms. For the mediating variable, Tax Avoidance (TA) has an average value of 0.2885625, with a standard deviation of 0.2306096. The minimum value is -0.0002908, and the maximum reaches 0.9835317, reflecting differences in firms' tax planning practices. Finally, Firm Value, as the dependent variable, has a mean of 3.210301 and a relatively high standard deviation of 6.054192, with values ranging from -0.21 to 32.62. This suggests substantial variability in firm value across the observed companies.

Panel Data Regression Estimation Results

Structural Model 1 Testing

This study conducts two stages of model testing: Structural Model 1 and Structural Model 2**.** The testing procedure for each structural model begins with panel model selection tests, namely the Chow test, the Hausman test, and the Lagrange Multiplier (LM) test. These tests are performed to determine the most appropriate panel data regression model among the Common Effect Model, Fixed Effect Model, or Random Effect Model before proceeding to hypothesis testing.

Chow Test Structure 1

Table 2. Chow Test for Structure 1

F test for all u_i = 0: F (26, 78) = 12.59	Prob > F = 0.0000

Source: Data processed with STATA Version 18 (2026)

The Chow test results show that Prob > F = 0.0000 < 0.05, so the selected model is FEM. This is followed by the Hausman test.

Hausman Test for Structure 1

Table 3. Hausman Test for Structure 1

Corr (u_i, x) = 0 (assumed)	Prob > chi2 = 0.0872

Source: Data processed with STATA Version 18 (2026)

Based on table 3, the Hausman test shows that Prob > chi2 = 0.0872 > 0.05. This indicates that Ho is accepted. Therefore, the selected model is FEM. Then continued with the Lagrangian Multiplier (LM) Test.

Lagrangian Multiplier (LM) Test for Structure I

Table 4. Lagrangian Multiplier (LM) Test for Structure 1

. xttesto		
Breusch and pagan lagrangian multiplier test for random effects		
LN_NFV[Id,t] = xb + u [Id] + e [Id,t]		
Estimate results:		
	Var	SD = sqrt (var)
LN_NFV	1.355213	1.164136
e	.3521065	.5933856

u	1.090344	=	1.044195
Test: var (u)	Chibar2 (01)	=	79.98
	Prob > chibars2	=	0.0000

Source: Data processed with STATA Version 18 (2026)

Based on table 4, the results of the Hausman test for Structure 1 show a Prob value > Chibar2 = 0.0000 < 0.05. This indicates that Ho is accepted. Therefore, the selected model is REM. After conducting the Chow Test, Hausman Test, and LM Test, the selected panel model can be determined.

Estimation of Panel Model Structure 1

Based on Table 5, the regression results using FEM show a constant value of -0.1898 with a probability of 0.857. The regression equation produces an R-squared of 0.1327, indicating that the GCG and AQ variables influence TA by 13.27%, while the remaining 86.73% is influenced by factors outside this research model. The following can be seen in Table 5 with FEM structure 1.

Table 5 Fixed Effect Model (FEM) Structure I

.xtreg LN_NFV LN_NGCG LN_AQ LN_TA						
Fixed-effects (within) regression				Number of obs	=	108
Group Variable: Id				Number of groups	=	27
R-square				Obs per group:		
Withen	= 0.1327			Min	=	4
Between	= 0.0003			Avg	=	4.0
Overall	= 0.0013			Max	=	4
				F (3,78)	=	3.98
Corr (u_i,xb) = -0.5043				Prob > F	=	0.0108
LN_NFV	Coefficient	Std.err.	t	P > I t I	[95% conf.	Interval]
LN_NGCG	.0627471	.2181259	0.29	0.774	-.3715082	.4970023
LN_NAQ	-.3504143	.1123023	-3.12	0.003	-.5739909	-.1268377
LN_NTA	-.1825102	.0916051	-1.99	0.050	-.3648821	-.0001384
_cons	-.1898101	1.053207	-0.18	0.857	-2.286585	1.906964
sigma_ u	1.2301171					
sigma_ e	.59338562					
Rho	.81123276	(fraction of variance due to u _ i)				
F test that all u_i = 0: F 926, 78) = 12.59					Prob > F = 0.0000	

Source: Data processed with STATA Version 18 (2026)

Based on table 5, the following regression equation is obtained:

$FV_{it} = -0{,}1898 + 0{,}0627\beta 1_{it} - 0{,}3504\beta 2_{it} - 0{,}1825\beta + \varepsilon_{it}$ …..…… (1)

Based on table 5, the regression results show a constant value of –0.1898, indicating that in the absence of Good Corporate Governance (GCG), Audit Quality (AQ), and Tax Avoidance (TA), firm value would decrease by 0.1898 units. The coefficient of GCG is 0.0627, suggesting a positive relationship between governance and firm value. Holding other variables constant, a one-unit increase in GCG is associated with a 0.0627-unit increase in firm value, while a decrease in GCG corresponds to a decline of the same magnitude. In contrast, audit quality exhibits a negative coefficient of –0.3504, indicating that, ceteris paribus, a one-unit increase in AQ is associated with a 0.3504-unit decrease in firm value. Similarly, tax avoidance shows a negative coefficient of –0.1825, implying that higher levels of tax avoidance are associated with lower firm value, while a reduction in tax avoidance corresponds to an increase in firm value of equal magnitude. Overall, these findings suggest that while governance structures appear to contribute positively to firm value, higher audit quality and greater tax avoidance are associated with reductions in firm value within the estimated model.

Testing Structure Model 2

In testing structure 2, this study also began with the Chow test, Hausman test, and LM test.

Chow Test Structure 2

Table 6. Chow Test Structure 2

F test that all u_i = 0: F (26, 79) = 16.37	Prob > F = 0.0000

Source: Data processed with STATA Version 18 (2026)

Based on table 6, the Chow Test results for Structure 2 show a Prob value > F=0.0000 <0.05, thus rejecting Ho. Therefore, the FEM model was selected. The Hausman Test was then conducted**.**

Hausman Test for Structure 2

Table 7. Hausman Test for Structure 2

Corr (u_i,x) = 0 (assumed)	Prob > chi2	=	0.4207

Source: Data processed with STATA Version 18 (2026)

Based on table 7, the results of the Hausman Test for Structure 2 show that Prob > chi2 = 0.4207 > 0.05, thus Ho is accepted. Therefore, the selected model is REM.

Lagrange Multiplier (LM) Test for Structure 2

Table 8. Lagrangian Multiplier (LM) Test for Structure 2

. xttesto			
Breusch and pagan lagrangian multiplier test for random effects			
LN_NTA[Id,t] = xb + u [Id] + e [Id,t]			
Estimate results:			
	Var		SD = sqrt (var)
LN_NTA	2.575954		1.604978
e	.5311378		.728792
u	2.115088	=	1.454334
Test: var (u)	Chibar2 (01)	=	93.12
	Prob > chibars2	=	0.0000

Source: Data processed with STATA Version 18 (2026)

Based on the LM test in Table 8, Prob > chibars2 = 0.0000 < 0.05 is obtained. This indicates that Ho is rejected, so the REM model is used. Therefore, the results of the panel data regression model testing for Structure 2, after conducting the Chow test, Hausman test, and LM test, indicate that the appropriate model is the FEM model. Table 9 presents the results of the FEM model testing for Structure 2.

Table 9. Panel Model Estimation for Structure 2

LN_NTA	Coefficient	Std.err.	t	P > I t I	[95% conf.	Interval]
LN_NGCG	-.27502	.2661077	-1.03	0.305	-.8046942	.2546542
LN_NAQ	-.2673585	.1346089	-1.99	0.050	-.5352907	.0005737
_cons	-.2694129	1.2694129	-0.21	0.836	-2.843436	2.30461
sigma_ u	1.628908					
sigma_ e	.72879199					
Rho	.83321047	(fraction of variance due to u _ i)				
F test that all u_i = 0: F (26, 79) = 16.37					Prob > F = 0.0000	

Source: Data processed with STATA Version 18 (2026)

Based on table 9, the following regression equation is obtained:

TA_{it} = - 0,2694 - 0,27502 $\beta 1_{it}$ -0,2673 $\beta 2it + \varepsilon_{it}$ ……(2)

Based on table 9, the regression results show a constant value of –0.2694, indicating that in the absence of Good Corporate Governance (GCG) and Audit Quality (AQ), tax avoidance would decrease by 0.2694 units. The coefficient of GCG is –0.27502, suggesting a negative relationship between GCG and tax avoidance. Holding other variables constant, a one-unit increase in GCG is associated with a 0.27502-unit decrease in tax avoidance. Conversely, a decrease in GCG is associated with an increase in tax avoidance by the same magnitude. Similarly, the AQ coefficient of –0.2673 indicates that audit quality is negatively associated with tax avoidance. Ceteris paribus, a one-unit increase in AQ leads to a 0.2673-unit decrease in tax avoidance, while a decrease in AQ is associated with a corresponding increase in tax avoidance. Overall, these results suggest that stronger governance mechanisms and higher audit quality tend to reduce tax avoidance practices.

Classical Assumption Test

Prior to hypothesis testing, a series of classical assumption tests was conducted to ensure the validity and robustness of the regression model. The normality test was performed using the skewness–kurtosis method to verify whether the residuals were normally distributed, thereby permitting valid t- and F-statistical inferences.

The results indicate a probability value of 0.2179, which exceeds the 5 percent significance level. This finding confirms that the residuals are normally distributed. To assess multicollinearity, correlation analysis among the independent variables was conducted to detect potential high linear relationships. The results show that the partial correlation between GCG and AQ is –0.0218, between GCG and TA is –0.0808, and between AQ and TA is –0.0201. All correlation coefficients are substantially below the conventional threshold of 0.75 and are close to zero, indicating the absence of strong linear relationships among the independent variables. Thus, the model is free from multicollinearity concerns. Heteroscedasticity was examined using the Breusch–Pagan/Cook–Weisberg test to determine whether the residuals exhibit constant variance. The test produced a Chi-square value of 0.33 with a probability of 0.5686, which is greater than 0.05. This result indicates that the model does not suffer from heteroscedasticity and that the assumption of homoscedasticity is satisfied. Consequently, the regression estimates can be considered efficient and unbiased.

Finally, autocorrelation was tested using the runs test to evaluate whether residuals are randomly distributed. With 108 observations, 54 residuals below or equal to the median and 54 above, the test generated 60 runs, a Z-statistic of 0.97, and a probability value of 0.33. Since this probability exceeds the 5 percent significance level, there is no evidence of autocorrelation in the regression model. Overall, the results of these diagnostic tests confirm that the regression model satisfies the classical linear regression assumptions, supporting the reliability of subsequent hypothesis testing.

Hypothesis Testing

In hypothesis testing, a determination analysis, simultaneous effect testing (F-test), and partial effect testing (t-test) will be conducted. This study also conducted hypothesis testing for Structure 1 and hypothesis testing for Structure 2.

Hypothesis Testing for Structure 1

Significance Test for Partial Effects (T-test)

Hypothesis testing using the t-test was conducted to determine whether each independent variable has a significant partial effect on the dependent variable. The results of the standard 1 partial effect test (t-test) are shown in Table 10 below.

Table 10. Results of Hypothesis Testing (T-test) for Structure 1

Corr (u_i,xb) = -0,5043				Prob > F	=	0,0108
LN_NFV	Coefficient	Std. err.	t	P > I t I	[96% conf. interval]	
LN_NGCG	.0627471	.2181259	0.29	0.774	-.3715082	.4970023
LN_NAQ	-.3504143	.1123023	-3.12	0.003	-.5739909	-.1268377
LN_NTA	-.1825102	.0916051	-1.99	0.050	-.3648821	-.0001384
_ cons	-.1898101	1.053207	-0.18	0.857	-2.286585	1.906964

Source: Data processed with STATA Version 18 (2026)

Table 10 shows the results of the regression estimation for the first structure (model 1), which aims to analyze the influence of the independent variables, namely Good Corporate Governance (GCG) and Audit Quality (AQ), and the mediating variable, tax avoidance, on the dependent variable, namely firm value (FV). Based on table 10, the number of variables is 3, the sample size is 108, and the significance level is 0.05. The t-table value is 1.659. The hypothesis testing results indicate that Good Corporate Governance (GCG) does not have a significant effect on firm value, as reflected by a t-value of 0.29, which is below the critical value, and a significance level of 0.774 exceeding the 5 percent threshold. In contrast, Audit Quality (AQ) demonstrates a positive and statistically significant effect on firm value, with a t-value of 3.12 and a significance level of 0.003. Meanwhile, Tax Avoidance shows a marginal effect, with a t-value of 1.99 exceeding the critical value but a significance level of 0.050, placing the result at the conventional threshold of statistical significance.

Significance Test of Simultaneous Effects (F-Test) F-Structure 1

The F-test aims to examine the simultaneous influence of independent variables on the dependent variable. The F-test, with 3 variables and a sample size of 108, uses a significance level of 0.05, and the F-table is 2.69. The results of the F-test can be seen in the table below:

Table 11. Results of the F-Structure 1 Significance Test

Number of obs	=	108
Number of groups	=	27
Obs per groups	=	
Min	=	4

Avg	=	4.0
Max	=	4
F (3, 78)	=	3.98
Prob > F	=	0.0108

Source: Data processed with STATA Version 18 (2026)

Based on the F-test results in table 11, the calculated F-value was 3.98, which is greater than the F-table value of 2.69, and the significance value was 0.0108, which is less than 0.05. This indicates that the independent variables GCG, AQ, and Tax Avoidance simultaneously influence Firm Value.

Coefficient of Determination for Structure 1

The coefficient of determination (R2) measures the extent to which the regression model explains the variation in the dependent variable through the independent variables. Table 12 shows the results of the coefficient of determination (R^2) for Structure 1 as follows.

Table 12. Results of the Determination Coefficient (R2) Test for Structure 1

Fixed-effects (within) regression		
Group variable: Id		
R-squqred		
Within	=	0.1327
Between	=	0.0003
Overall	=	0.0013
Corr (u_i,xb)	=	-0.5043

Source: Data processed with STATA Version 18 (2026)

Based on table 12, the Adjusted R-Squared (R2) test result of 0.1327 indicates that the GCG, AQ, and Tax Avoidance variables only explain 13.27% of the Firm Value (FV) variable. The remainder is explained outside the model in this study.

Structure 2 Hypothesis Test

Partial Effect Significance Test (T-Test)

Hypothesis testing using the t-test was conducted to determine whether each independent variable has a significant partial effect on the dependent variable. The results of the standard 2 partial test (t-test) are shown in Table 13 below:

Table 13. Results of Structure 2 Hypothesis Test (T-Test)

LN_NTA	Coefficient	Std. err.	t	P > I t I	[96% conf. interval]	
LN_NGCG	-.27502	.2661077	-1.03	0.305	-.8046942	.2546542
LN_NAQ	-.2673585	.1346089	-1.99	0.050	-.5352907	-.0005737
_ cons	-.2694129	1.293186	-0.21	0.836	-2.843436	2.30461
Sigma_u	1.628908					
Sigma_e	.72879199					
rho	.83321047	(fraction of variance due to u_i)				

Source: Data processed with STATA Version 18 (2026)

Table 13 presents the regression results for the second structural model (Model 2), which examines the effect of Good Corporate Governance (GCG) and Audit Quality (AQ) on tax avoidance as the mediating variable. The model includes three variables and is based on 108 observations with a significance level of 5 percent. Accordingly, the critical t-value is 1.659 (df = n – k). The results indicate that GCG does not have a significant effect on tax avoidance. The calculated t-value of 1.03 is below the critical t-value, and the associated significance level of 0.305 exceeds the 0.05 threshold. This finding suggests that governance structures, as measured in this study, are not effective in influencing corporate tax avoidance behavior. In contrast, audit quality demonstrates a statistically significant effect on tax avoidance. The calculated t-value of 1.99 exceeds the critical t-value, with a significance level of 0.050, which meets the 5 percent significance criterion. This result indicates that higher audit quality is associated with variations in tax avoidance practices, suggesting that external monitoring mechanisms play a more substantive role in influencing managerial tax-related decisions than formal governance structures. Overall, these findings reinforce the argument that the effectiveness of monitoring mechanisms depends not merely on structural governance arrangements but also on the credibility and quality of external oversight.

Simultaneous Effect Significance Test (F-Test) Structure 2

The F-test aims to examine the simultaneous effect of independent variables on the dependent variable. For the F-test, with 2 variables and a sample size of 108, and a significance level of 0.05, the F-table is 3.08. The results of the F-test can be seen in table 14.

Table 14. Results of the F-Significance Test for Structure 2

Number of obs	=	108
Number of groups	=	27
Obs per groups	=	
Min	=	4
Avg	=	4.0
Max	=	4
F (2, 79)	=	2.43
Prob > F	=	0.0944

Source: Data processed with STATA Version 18 (2026)

Based on the F-test results, the calculated F-value was 2.43, which is smaller than the F-table value of 3.08, and the significance value was 0.0944, which is greater than 0.05. This indicates that the independent variables of GCG and AQ simultaneously have no effect on tax avoidance.

Coefficient of Determination for Structure 2

The coefficient of determination (R2) measures the extent to which the regression model explains the variation in the dependent variable through the independent variables. Table 15 presents the results of the coefficient of determination (R^2) test for Structure 2.

Table 15. Results of the Coefficient of Determination (R^2) Test for Structure 2

Fixed-effects (within) regression		
Group variable: Id		
R-squqred		
Within	=	0.0580
Between	=	0.0563
Overall	=	0.0274
Corr (u_i,xb)	=	-0.4250

Source: Data processed with STATA Version 18 (2026)

Based on table 15, the Adjusted R-Squared value of 0.0580 indicates that the GCG and AQ variables only explain 5.80% of the Tax Avoidance variable. The remainder is explained outside the model in this study.

Mediation Test

The following mediation test was conducted to determine whether the Tax Avoidance (TA) variable significantly mediates the relationship between Good Corporate Governance (GCG) and Audit Quality (AQ) on Firm Value (FV). This test was conducted using the Sobel Test. The results of the mediation test are presented in table 16.

Table 16. Mediating Variable Test (SOBEL TEST)

Var	Value a Coef. Var to TA	Value b Coef TA to FV	Std.error a Var to TA	Std. error b TA to FV	Sobel Value	Z	Conclusion
GCG	-0,2750	-0,1825	0,2661	0,0916	0,9173	< 1,96	(Not Mediating)
AQ	-0,2673	-0,1825	0,1346	0,0916	1,4065	< 1,96	(Not Mediating)

Source: Data processed with STATA Version 18 (2026)

Based on the mediation analysis presented in table 16, the Sobel test results indicate that tax avoidance does not function as a mediating variable in the examined relationships. First, the indirect effect of Good Corporate Governance (GCG) on firm value through tax avoidance produces a Sobel test statistic of 0.9173, which is below the critical threshold of 1.96. This result indicates that tax avoidance does not significantly

mediate the relationship between GCG and firm value. Second, the indirect effect of audit quality (AQ) on firm value through tax avoidance yields a Sobel test statistic of 1.4065, which also falls below the 1.96 critical value. Accordingly, tax avoidance does not significantly mediate the relationship between audit quality and firm value. Overall, these findings suggest that tax avoidance does not serve as an intervening mechanism linking governance mechanisms or audit quality to firm value. The influence of GCG and audit quality on firm value, if present, operates through alternative pathways rather than through tax avoidance behavior.

Discussion

The Effect of Good Corporate Governance (GCG) on Company Value

The results of the regression analysis indicate that Good Corporate Governance (GCG) does not significantly influence Company Value. This means that the implementation of GCG in mining companies has not been able to improve market perception, which is reflected in company value. Although the direction of the regression coefficient indicates a positive relationship, this effect is not strong enough to significantly explain variations in company value. This indicates that investors have not fully utilized GCG practices as the primary basis for investment decision-making. Theoretically, according to Agency Theory, the implementation of GCG is expected to reduce agency conflicts between managers and shareholders, thereby improving company performance and value (Jensen & Meckling, 1976). However, these empirical findings indicate that the GCG mechanism, as measured by the GCG score, remains formal (compliance-based) and does not reflect true supervisory effectiveness. Consequently, GCG implementation has not been able to send a strong positive signal to the market. These research findings align with the findings of Gusriandari et al.,(2022); Huang et al., (2020); (Mangoting et al., 2020) showed that corporate governance had no significant effect on firm value, but this contrasts with the findings of Bagh et al., (2025)**;** Kartika, (2021); (Hasanah et al., 2019), which showed that the implementation of good governance had a positive influence on firm value. This difference in results may be due to differences in GCG measurement, sample characteristics, and the study period. Therefore, it can be concluded that GCG in this study was not yet a primary determinant of firm value. Therefore, the increase in firm value is likely more influenced by other variables such as financial performance, tax policy, and macroeconomic conditions.

The Effect of Audit Quality on Firm Value

Regression test results show that the t-value of the Audit Quality (AQ) variable has a positive and significant effect on firm value. This means that the AQ variable partially explains firm value. The higher the audit quality (e.g., audited by a Big Four accounting firm), the higher the firm value. This means that improved audit quality can increase investor confidence, reduce information asymmetry, and ultimately increase the company's market value. Theoretically, according to agency theory (Jensen & Meckling, 1976), a high-quality external audit serves as a monitoring mechanism to reduce agency conflicts between managers and shareholders. High-quality auditors have greater independence and competence in detecting errors or manipulation of financial statements, thereby increasing the credibility of financial information. The results of this study are in line with several previous studies by Afza & Nazir, (2014) Ikhsan et al., (2024);(Widyadi & Widiatmoko, 2023); (Dwipa et al., 2024) that audit quality has a positive effect on company value, so investors are more inclined to companies audited by big four auditors, which creates investor trust that will increase company value. Thus, in the mining sector which has high risks, the presence of high-quality auditors is an important factor in increasing the credibility of financial statements and strengthening investor perceptions of the company.

The Effect of Good Corporate Governance on Tax Avoidance

The regression test results showed that the t-value for the Good Corporate Governance (GCG) variable did not significantly influence tax avoidance. Statistically, this value indicates that variations in GCG implementation cannot significantly explain variations in corporate tax avoidance rates. This means that even if a company has implemented good corporate governance principles, this does not necessarily have a direct impact on tax aggressiveness or the Effective Tax Rate (ETR), a proxy for tax avoidance. Tax avoidance practices are likely more influenced by other factors such as profitability, leverage, company size, or regulatory pressure. Agency theory (Jensen & Meckling, 1976) states that GCG mechanisms are designed to mitigate agency conflicts between managers and shareholders. Theoretically, good corporate governance should be able to limit opportunistic actions by managers, including aggressive tax avoidance practices. However, the results of this study indicate that the implemented GCG mechanisms are not yet effective enough in controlling corporate tax policy. This may occur because tax planning decisions are often viewed as efficient strategies that remain within regulatory boundaries (legal tax planning), and therefore are not considered opportunistic behavior.

These results align with several previous studies that found that tax avoidance is not always significantly affected. For example, Purbowati, (2021) found that GCG had no effect on tax avoidance, and Minnick & Noga

(2010) found that GCG does not consistently limit tax aggressiveness. Armstrong et al., (2015) and Yusnidar et al., (2026) showed that the relationship between GCG and tax avoidance is complex and insignificant. However, these results differ from those of Desai & Dharmapala, (2009), who stated that weak governance can increase opportunistic tax avoidance practices, which ultimately lead to earnings management (Maryati et al., 2022). These discrepancies may be due to differences in the measurement of GCG as a proxy for tax avoidance (e.g., ETR) and the characteristics of the study samples.

The Effect of Audit Quality on Tax Avoidance

The regression results show that the t-value of the Audit Quality (AQ) variable significantly influences tax avoidance at a marginal level (borderline significance). Therefore, the hypothesis stating that AQ influences tax avoidance is accepted, although its significance is just below the threshold. According to Jensen & Meckling, (1976) agency theory, external auditors function as a monitoring mechanism to reduce high levels of conflict (e.g., Big Four accounting firms) and have greater independence and competence in detecting opportunistic practices, including risky tax aggressiveness. The presence of high-quality auditors can limit overly aggressive tax avoidance practices, as these can potentially lead to litigation, reputational risks, and regulatory sanctions. These results align with several previous studies Minnick & Noga (2010), which found that governance characteristics and external monitoring influence corporate tax management. Lanis & Richardson, (2011) showed that strong oversight mechanisms correlate with lower levels of tax aggressiveness. Research conducted by Armstrong et al., (2012) states that the quality of external monitoring, including auditors, plays a role in limiting opportunistic tax avoidance. In the Indonesian context, empirical research also shows that companies audited by Big Four accounting firms tend to have more conservative tax reporting practices than non-Big Four firms. This suggests that quality auditors play a role in influencing corporate tax policy, particularly in limiting aggressive tax avoidance practices.

The Effect of Tax Avoidance on Firm Value

The regression test results showed a t-value indicating a significant effect on firm value at the marginal (borderline) level of significance. Statistically, the t-value > t-table indicates that tax avoidance partially explains firm value. However, because the significance value is just below the 0.05 threshold, this effect should be interpreted with caution. According to Jensen & Meckling, (1976) agency theory, tax policy is a managerial decision that can create conflicts of interest between managers and shareholders. If tax avoidance is implemented efficiently and legally, it can improve shareholder welfare and ultimately increase firm value. However, if implemented aggressively and opportunistically, this practice can increase the risk of litigation, tax liability, and reputational damage, which in turn reduces firm value. Therefore, the effect of tax avoidance on firm value is ambivalent (two-way). Several previous studies by Desai & Dharmapala,(2009) found that tax avoidance can increase firm value, especially in companies with good governance. Research Wahab & Holland, (2012) indicates that tax avoidance is associated with increased firm value in certain contexts. However, Chen et al., (2014) found that aggressive tax avoidance can decrease firm value.

Tax Avoidance Mediates the Relationship between Good Corporate Governance (GCG), Audit Quality, and Firm Value.

Regression analysis results indicate that tax avoidance does not significantly mediate the relationship between GCG and firm value. Therefore, the hypothesis that GCG influences firm value through tax avoidance is not empirically supported. Methodologically, the Sobel test is used to test the significance of the indirect effect in the mediation model (Baron & Kenny, 1986). When the test statistic value is greater than 1.96 at α = 5%, the mediation effect is declared insignificant. This indicates that the indirect path between GCG and tax avoidance and firm value is not strong enough to explain the relationship between the variables.

Based on the agency theory proposed by Jensen & Meckling (1976)), the implementation of GCG aims to reduce agency conflicts between managers and shareholders. In the context of taxation, good governance is expected to control tax avoidance practices so that they are not opportunistic and remain within legal boundaries. Theoretically, if GCG effectively controls tax policy, an efficient tax avoidance strategy can increase after-tax cash flow, ultimately increasing company value. This is in line with research by Desai & Dharmapala (2009), which states that the effect of tax avoidance on company value depends on the quality of governance. However, the results of this study indicate that this mechanism does not significantly affect GCG tax policy; however, this influence is not strong enough to be passed on to increase company value through tax avoidance.

The results of the mediation test using the Sobel test showed a Z-value of 1.4065 <1.96 (critical value) at the 5% significance level. Because the Z-value is <1.96, it can be concluded that tax avoidance does not mediate the effect of Audit Quality (AQ) on firm value. Therefore, the hypothesis that audit quality influences firm value through tax avoidance is not empirically supported.

From the agency theory perspective proposed by Jensen & Meckling (1976), external auditors function as a monitoring mechanism to mitigate agency conflicts. High-quality auditors are expected to limit managers' opportunistic practices, including tax aggressiveness. Theoretically, if audit quality can suppress high-risk tax avoidance, the company will avoid potential sanctions, litigation, and reputational risk. This stability should increase investor confidence and ultimately increase firm value. However, research results indicate that although audit quality may influence tax avoidance, this indirect effect is not significant in increasing firm value. This indicates that auditors play a stronger role in enhancing the credibility of financial reports directly than through tax policy mechanisms. This finding is in line with research by Minnick & Noga (2010) which states that external monitoring mechanisms influence tax management, but their impact on company value depends on the governance context and market perception.

V. CONCLUSION

Based on the research results, Good Corporate Governance (GCG) has an insignificant effect on firm value, and it has no effect on tax avoidance in mining companies listed on the Indonesia Stock Exchange. This indicates that GCG disclosure remains inconsistent, and that GCG implementation in mining companies has not been able to improve market perception, which is reflected in firm value. Although the regression coefficient indicates a positive relationship, this effect is not strong enough to significantly explain variations in firm value. This indicates that investors have not fully considered GCG practices as the primary basis for investment decisions. Conversely, Audit Quality (AQ) has a significant effect on both firm value and tax avoidance. The higher the audit quality, for example, audited by a Big Four accounting firm, the higher the firm value. This means that increased audit quality can increase investor confidence, reduce information asymmetry, and ultimately increase the company's market value.

The research results also show that tax avoidance does not mediate the relationship between GCG and AQ on firm value. This indicates that tax avoidance does not act as a mediating variable but rather functions as an independent variable with a direct influence on firm value.

Research Implications and Recommendations

This study contributes to the literature by extending the understanding of how Good Corporate Governance (GCG) and audit quality influence firm value, with tax avoidance positioned as a mediating mechanism. The findings offer important theoretical and practical insights while also opening avenues for future research.

From a theoretical perspective, the results enrich the discourse on governance effectiveness and agency theory. While audit quality demonstrates relevance in influencing firm outcomes, GCG shows no significant direct effect on firm value or tax avoidance. This suggests that the mere existence of formal governance structures is insufficient to ensure substantive effectiveness. Governance mechanisms appear to depend not only on structural presence but also on the quality of implementation. These findings refine agency theory by highlighting that oversight mechanisms mitigate agency conflicts only when implemented effectively rather than symbolically.

Practically, the findings provide implications for management, investors, and regulators. Company management should prioritize the substantive implementation of GCG principles rather than treating them as formal compliance requirements. Engaging high-quality auditors enhances financial reporting credibility and strengthens investor confidence. Investors, in turn, may consider audit quality as a key signal when evaluating investment risk and firm reliability. Moreover, tax avoidance strategies require careful scrutiny, as they do not consistently enhance firm value and may expose firms to reputational and regulatory risks. Regulators, including the Financial Services Authority (OJK) and the Indonesia Stock Exchange (IDX), should focus on improving the effectiveness of governance practices beyond formal GCG scoring systems and strengthen oversight of aggressive tax avoidance practices.

For future research, several directions are recommended. Alternative proxies such as Cash Effective Tax Rate (Cash ETR), Book-Tax Differences (BTD), or GAAP ETR may be employed to measure tax avoidance, while Tobin's Q may serve as an alternative measure of firm value. Expanding the model to include moderating variables—such as profitability, firm size, leverage, or political risk—and incorporating additional factors like corporate reputation or environmental risk, particularly in the mining sector, may provide deeper insight. Methodologically, the use of advanced mediation techniques such as bootstrapping in Structural Equation Modeling (SEM) or the PROCESS approach can enhance the robustness of indirect effect estimation. Finally, broadening the research scope across sectors and extending the observation period would allow for greater generalizability and more stable empirical conclusions

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