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How Financial Distress, Audit Committee, and CGI Shape Earnings Management through Stock Liquidity

Mardianto[1]
Accounting Department, Faculty of Economic, Universitas Internasional Batam
Jl. Gajah Mada, Tiban Indah, Sekupang, Kota Batam, Kepulauan Riau, Indonesia
mardianto.zhou@uib.ac.id

Novita[2*]
Accounting Department, Faculty of Economic, Universitas Internasional Batam
Jl. Gajah Mada, Tiban Indah, Sekupang, Kota Batam, Kepulauan Riau, Indonesia
novitawongg@gmail.com
*Corresponding author

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Abstrak

Tujuan *– Tujuan dari penelitian ini untuk menguji bagaimana kesulitan keuangan, komite audit, dan Indeks Tata Kelola Perusahaan (CGI) memengaruhi manajemen laba berbasis akrual, dengan likuiditas saham sebagai variabel moderasi. Sasaran penelitian ini untuk menemukan cara mengurangi praktik manajemen laba dengan menganalisis bagaimana faktor-faktor ini memengaruhi perilaku manajerial.*
Desain/metodologi/pendekatan *– Data sekunder diperoleh dari pengumpulan laporan keuangan tahunan perusahaan-perusahaan LQ45 Bursa Efek Indonesia (IDX). Rasio keuangan digunakan untuk mengukur kesulitan keuangan, sedangkan komite audit dan CGI berfungsi sebagai indikator tata kelola perusahaan. Likuiditas saham dievaluasi untuk melihat pengaruh moderasinya. Metode yang digunakan untuk analisis penelitian ini adalah dengan pendekatan moderasi dari regresi linier berganda.*
Temuan *– Penelitian ini menemukan bahwa kesulitan keuangan tidak memiliki pengaruh signifikan terhadap manajemen laba, baik sebelum maupun selama pandemi. Frekuensi rapat komite audit berpengaruh positif sebelum pandemi, namun efeknya menurun setelah pandemi. Indeks Tata Kelola Perusahaan (CGI) dan likuiditas saham juga tidak menunjukkan pengaruh yang berarti. Secara keseluruhan, model yang digunakan valid dan mampu menggambarkan hubungan antara variabel-variabel independen dan manajemen laba.*
Keterbatasan/implikasi Penelitian *– Meskipun penelitian ini memberikan pemahaman yang komprehensif tentang faktor yang berdampak pada manajemen laba, penelitian ini terbatas oleh penggunaan data sekunder dan fokus pada perusahaan LQ45, yang mungkin memengaruhi generalisasi temuan.*

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Kata Kunci: Manajemen laba, Kesulitan Keuangan, Tata Kelola Perusahaan, Komite Audit, Likuiditas Saham

Abstract

Purpose – The aim of this study is to examine how financial distress, audit committees, and the Corporate Governance Index (CGI) impact accrual-based earnings management, with stock liquidity serving as a moderating variable. The goal of this research is to explore ways to reduce earnings management practices by analyzing how these factors influence managerial behavior.
Design/methodology/approach – Secondary data were obtained from the annual financial reports of LQ45 companies listed on the Indonesia Stock Exchange (IDX). Financial ratios were used to measure financial distress, while audit committees and CGI served as indicators of corporate governance. Stock liquidity was evaluated for its moderating effect. The analysis method employed in this research is a moderation approach using multiple linear regression.
Findings – This study found that financial distress did not have a significant effect on earnings management, both before and during the pandemic. The frequency of audit committee meetings had a positive impact before the pandemic, but its effect diminished afterward. The Corporate Governance Index (CGI) and stock liquidity also did not show any significant impact. Overall, the model used is valid and able to explain the relationship between the independent variables and earnings management.
Research limitations/implications – While the study offers a comprehensive understanding of the factors influencing earnings management, it is limited by the use of secondary data and its focus on LQ45 companies, which may affect the generalizability of the findings.

Keywords: Earnings Management, Financial Distress, Corporate Governance, Audit Committee, Stock Liquidity

Introduction

Earnings management (EM) is not an invention in the accounting world. Many academics investigate this topic to grasp the true financial facts in reports and make the best conclusions (Lisboa, 2016). EM can arise when corporations fail to reach their financial expectations, leading them to employ flexibility to alter financial results (Tran et al., 2022). EM is the decision to achieve specific objectives regarding financial statement outcomes using accounting methods or by directly influencing operational activities (Mardianto et al., 2024). Company variables including leverage, stock price, return on assets, company size, and auditor quality can all have an impact on EM (Lisboa, 2016).

Accruals are one type of earnings management while the other is real earnings. Earnings management can be classified into two approaches: accrual-based and real. Accrual-based earnings management is often seen as easier to detect than real earnings management, since accruals are reflected in financial statements and can be assessed through accounting ratios and other financial indicators (Yang, 2015). International accounting standards like IFRS and GAAP promote the use of accrual methods, making this approach more broadly accepted and simpler to audit. In contrast, real earnings management is harder

to control and verify. For this reason, our research will concentrate on accrual-based earnings management.

Studies indicate that during the COVID-19 pandemic, numerous companies escalated their use of accrual-based earnings management to mitigate the adverse effects on their financial reports. For example, research on firms listed in China found that both accrual and real earnings management saw an increase during the pandemic compared to the pre-pandemic period (Rahman et al., 2023). Similarly, in Indonesia, several prominent companies, such as PT. Unilever Indonesia Tbk, were reported to engage in earnings management to sustain their financial performance (Hartanto et al., 2022). Unilever Indonesia experienced a 7.80% drop in net sales, from IDR 11.15 trillion in the first quarter of 2020 to IDR 10.28 trillion in the same quarter of 2021. EBITDA also decreased by 7.67% to IDR 2.48 trillion, and net profit declined by 8.83% to IDR 1.69 trillion, highlighting the pandemic's substantial impact on their financial performance (Dwi Nicken Tari, 2021). Like many other companies, Unilever Indonesia relied on accruals as its primary earnings management method. These actions aimed to mitigate economic pressures and preserve financial stability and investor confidence during this difficult period.

This research will use companies from the LQ45 index as the sample. LQ45 companies typically have stronger corporate governance and adhere more strictly to capital market regulations, making their data more reliable and valid for research purposes. Fan et al. (2021) found that enhancements in governance, indicated by successful shareholder proposals and the presence of an audit committee, significantly reduce earnings management levels. Several studies have demonstrated that audit committees can curb management's inclination to manipulate financial reports. The responsibility of the audit committee is to oversee the financial reporting process. They regularly meet with external auditors and internal financial managers to review financial statements, audit procedures, and internal accounting controls (Klein, 2002). More frequent audit committee meetings enhance their ability to monitor and assess financial reports and managerial activities, thereby reducing the chances of earnings manipulation (Inaam & Khamoussi, 2016).

Another factor influencing earnings management is financial distress, a condition that often drives management to engage in such practices. When companies face financial difficulties, management is incentivized to manipulate financial statements to present a more favorable financial position, attract investors, or meet financial targets. Financial distress remains a key factor behind earnings management practices (Fan et al., 2021; Gonçalves et al., 2021). Stock liquidity acts as a key mediator, enhancing the connection between the independent variables and the dependent variable. High liquidity reflects strong market confidence and increases external oversight, which reduces the incentives and opportunities for earnings management. This research will explore the mediating role of stock liquidity, a topic that has not been extensively studied. The liquidity of companies in the LQ45 index was significantly affected during the COVID-19 pandemic, as the pandemic influenced key liquidity aspects like market depth and market tightness. Rising daily COVID-19 cases and death rates negatively impacted market liquidity, while recovery efforts and vaccination rollouts improved it (Priscilla et al., 2023). Research by Juan-Pedro Gomez & Antonio de Vito (2020) found that the pandemic increased liquidity risks, with around 10% of companies facing a risk of illiquidity within six months, highlighting the added financial strain that could trigger earnings management practices.

The importance of solid corporate governance in managing risks and maintaining stability was highlighted during the pandemic, as robust governance and

investor protection can limit earnings management (Ali et al., 2022). Additionally, the audit committee's critical role in maintaining policy compliance and the integrity of financial reporting became even more essential in helping companies handle financial pressures and ensure transparency during this period. Priscilla et al. (2023) stress that investor confidence and transparency, which an effective audit committee can bolster, are crucial.

This study focuses on analyzing how the pandemic has affected corporate governance and the audit committee's efforts to reduce financial challenges that could result in accrual-based earnings management. The goal is to provide empirical insights to help investors, regulators, and managers in shaping policies that enhance the integrity and quality of corporate financial reporting.

Literature Review and Hypothesis

Earnings management (EM) is the manipulation of financial statements to achieve specific financial objectives or to mislead stakeholders about the financial performance of a company (Jahmani et al., 2016). According to agency theory, managers acting as agents may prioritize personal goals that conflict with the interests of shareholders, which can lead to agency problems. This conflict often leads to actions such as earnings management that can weaken shareholder value (Adeneye et al., 2024).

Financial distress in companies can arise from several complex, interconnected factors. A primary cause is a significant revenue decline, which can stem from reduced market demand or the loss of key customers. Additionally, high operational costs, such as raw material and labor expenses, can create financial strain if the company is unable to manage or reduce these costs effectively (Dang & Tran, 2020; Rudiawarni & Budianto, 2022). Firms facing financial distress, particularly during the pandemic, tend to engage in accrual earnings management to present an improved financial outlook (Aljughaiman et al., 2023; Li et al., 2020; Rudiawarni & Budianto, 2022). Additionally, Yopie & Erika (2021) pointed out the adverse effect of financial distress on real earnings management, noting that companies in financial crises manipulate earnings to sway investor perceptions and mask signs of distress. Furthermore, ElRabat et al. (2023) confirm that when financial conditions deteriorate, managers have an increased incentive to manipulate earnings to maintain relationships with stakeholders, avoid breaching debt covenants, and maintain the company's share price.

H_1 : Financial distress has a significant positive influence on accrual earnings management

Safeguarding the integrity of financial reporting and reducing earnings manipulation is a key responsibility of the audit committee. Various studies have assessed how effective audit committees are in overseeing and managing earnings manipulation, focusing on characteristics (Inaam & Khamoussi, 2016). Nikulin et al. (2022) found that reduced earnings management is often associated with higher levels of independence and larger audit committees. Research in developing countries like Jordan also shows a significant link between audit committee independence and less earnings management. Although much of the focus has been on independence, the impact of the committee's size has also been examined for its role in limiting earnings management (Almarayeh et al., 2022). In addition, studies of Saudi Stock Exchange companies highlight that frequent audit committee meetings are instrumental in reducing earnings manipulation (Sharhan & Bora, 2020). Furthermore, diversity in audit committees, particularly in terms of gender and professional background, has been shown to enhance oversight and reduce earnings management. Lückerath-Rovers

(2013) found that gender diversity within audit committees strengthens their ability to limit earnings manipulation, while Ntim (2015) demonstrated that more diverse audit committees contribute to stronger governance practices, leading to lower levels of earnings management.

H_{2a} : Audit committee size has a significant negative influence on accrual earnings management

H_{2b} : Audit committee independence has a significant negative influence on accrual earnings management

H_{2c} : Audit committee diversity has a significant negative influence on accrual earnings management

H_{2d} : Audit committee meet has a significant negative influence on accrual earnings management

The Corporate Governance Index plays a significant role in overseeing and controlling corporate management. Good CG practices can limit earnings management actions that harm stakeholders. This is evidenced by Nguyen et al. (2024), who found that good CG can reduce financial statement manipulation, thereby improving financial reporting quality. Similar research on European companies listed in the US also shows that two main CG mechanisms, namely the quality of internal audit functions and the quality of the board of directors, significantly reduce the incidence of earnings management (Bajra & Cadez, 2018). In Peru, companies listed on the Lima Stock Exchange's Good Corporate Governance Index were found to report more relevant, consistent, and conservative financial statements (Melgarejo, 2019). These findings emphasize that effective implementation of the Corporate Governance Index tends to reduce earnings management practices, thus having a significant negative influence on earnings management. Strong CG mechanisms help improve transparency and accountability in financial reporting, thereby limiting opportunities for financial statement manipulation. Additionally, Natalia et al. (2024) demonstrated that corporate governance significantly influences firm performance during crises like the COVID-19 pandemic, further highlighting the importance of governance mechanisms in maintaining financial stability and reducing earnings management in times of distress.

H_3 : Corporate Governance Index has a significant negative influence on accrual earnings management.

Stock liquidity, the ease of trading shares without affecting their price, plays a crucial role in corporate governance. It allows for quick information flow and market responses, moderating the relationship between financial distress, audit committee effectiveness, the Corporate Governance Index (CGI), and earnings management. By enhancing market oversight, stock liquidity helps limit opportunities for financial manipulation and supports the effectiveness of governance mechanisms in controlling earnings practices. When liquidity is high, the market is more efficient in processing information, making it harder for companies to hide financial distress through earnings manipulation (Chairunnisa et al., 2021). Additionally, companies with high CGI scores and high liquidity also increase stricter market oversight, making audit committees more vigilant and effective in their supervisory roles (Mardessi, 2022). Stock liquidity is a substantial moderating factor in the relationship between financial hardship, audit committee performance, CGI, and earnings management. High stock liquidity improves market monitoring and transparency, minimizing the chances for earnings manipulation.

H_4: Stock liquidity has the ability to moderate the influence of financial distress, audit committee, and CGI on accrual earnings management

Research Method

This study utilizes a quantitative method, combining both inferential and descriptive

techniques. The use of a quantitative approach was selected to evaluate and measure the impact of various factors on accrual earnings management. Inferential statistics are employed to test hypotheses and generalize findings about the relationships between the analyzed variables. Specifically, multiple linear regression analysis is used to assess the strength of the independent variables in influencing the dependent variable, accrual earnings management. This allows the study to draw conclusions about causality across the LQ45 companies. The research is centered on LQ45 companies listed on the Indonesia Stock Exchange (IDX). Secondary data were sourced from publicly accessible annual financial reports of these companies, available on the IDX website. Additionally, data on Stock Market Liquidity and Amihud illiquidity were collected from Yahoo Finance's Stock Market History. The study covers a six-year period, from 2017 to 2022, concluding on December 31.

Measurement for Accrual Earnings Management

Total Accruals (TAC)

Total Accruals (TAC) is the difference between the net income reported by a company and the operating cash flow generated during a specific accounting period. TAC can be used to evaluate the quality of a company's reported earnings. Accruals can reflect adjustments made in the accounting process that do not involve actual cash flows, such as depreciation, amortization, and provisions for losses.

$$TAC = NIit - CFOit$$

Total Accruals (TA) in Regression Models

To analyze Total Accruals in regression form, we typically use a regression model to separate the Discretionary Accruals (DA) component from Total Accruals. One commonly used model is the Modified Jones Model. This model estimates Non-Discretionary Accruals (NDA), and the difference with TAC is considered DA.

$$\frac{TA_{it}}{A_{it-1}} = \beta_1 \left(\frac{1}{A_{it-1}}\right) + \beta_2 \left(\frac{\Delta Rev_{it}}{A_{it-1}}\right) + \beta_3 \left(\frac{PPE_{it}}{A_{it-1}}\right) + \varepsilon$$

Non-Discretionary Accruals (NDA)

Non-Discretionary Accruals (NDA) are the components of Total Accruals that are not under management's control and are expected to arise from the company's normal operating activities. NDA is usually calculated as the outcome of a regression model that predicts the portion of accruals explainable by changes in revenue and fixed assets.

$$NDA_{it} = \beta_1 \left(\frac{1}{A_{it-1}}\right) + \beta_2 \left(\frac{\Delta Rev_{it}}{A_{it-1}} - \frac{\Delta Rec_{it}}{A_{it-1}}\right) + \beta_3 \left(\frac{PPE_{it}}{A_{it-1}}\right)$$

Discretionary Accruals (DA)

Discretionary Accruals (DA) refer to the portion of Total Accruals that management can manipulate to achieve specific goals, such as managing earnings. DA is commonly used as an indicator of earnings management, as it reflects accounting choices made by management to influence financial statements.

$$DA_{it} = \frac{TA_{it}}{A_{it-1}} - NDA_{it}$$

Table 1
Operational Definitions and Variables Measurement

Variables Name	Proxy	Measurement
Independent Variables		
Financial Distress	Z = 1.2 T1 + 1.4 T2 + 3.3 T3 + 0.6 T4 + 0.99 T5 T1=Working capital/ Total asset T2=Retained earnings/Total asset T3=Earnings before interest and taxes/Total asset T4=Market capitalization/Book value of liabilities T5=Sales/Total asset	Z < 1.8 = Financial Distress Z 1.81 - 2.99 = Grey Area Z > 2.99 = Healthy
Audit Committee	Audit Committee Size =The number of members Audit Committee Independence = The proportion or number of independent directors Audit Committee Diversity = The composition in terms of gender, ethnicity, experience, and skills Audit Committee Meetings = The frequency of meetings annually	
Corporate Governance Index	CGI=n1∑i=1n(Fi·Wi) n = number of factors evaluated Fi = score of the i-th factor Wi = weight assigned to the i-th factor	
Moderating Variable		
Amihud Illiquidity Ratio	$ILLIQ = \frac{1}{N} \sum_{t=1}^{T} \frac{\lvert r_t \rvert}{\$V_t}$ T = Number of Days $V = Dollar Volume on day t rt = Return on day t	

Results and Discussion

Descriptive Statistical Test

Table 2
Descriptive Statistical Test

Variable	Pre-Covid (2017-2019)				Post-Covid (2020-2022)			
	Mean	Max	Min	Std Dev.	Mean	Max	Min	Std Dev.
AEM	-0,5007	0,00	-0,97	0,22000	-0,4828	0,080	-0,99	0,28025
FINDIS	6,8984	41,31	0,41	7,77577	4,5276	16,56	0,47	3,68735
ACSIZE	3,4138	5,00	3,00	0,62223	3,3051	6,000	3,00	0,62296
ACIND	0,6807	1,00	0,00	0,41264	0,7034	1,000	0,00	0,40598
ACDIV	0,1926	0,60	0,00	0,18475	0,2472	0,670	0,00	0,20284
ACMEET	13,6379	52,00	4,00	14,3131	13,7288	57,00	4,00	14,6084
CGI	1,6724	3,00	0,00	0,75830	1,6610	3,000	0,00	0,7792
AMIHUD	0,0000			0,00000	0,0000			0,0000
Valid N (listwise)								

The descriptive statistical test results provided in the table above demonstrate changes in the mean and standard deviation of many variables over the pre-COVID (2017-2019) and post-COVID (2020-2022) periods. Overall, there has been a shift in the pattern of variables, reflecting how companies responded to the changing economic conditions due to the pandemic. Accrual Earnings Management (AEM) indicates a modest increase in the mean value from -0.5007 in the pre-pandemic period to -0.4828 after the pandemic, with the standard deviation rising from 0.22000 to 0.28025. This increase may be due to the pressure companies faced to maintain stable financial performance amidst economic uncertainty, prompting more aggressive earnings management.

In the FINDIS (Financial Distress) variable, there is a significant decrease in the mean value from 6.8984 before the pandemic to 4.5276 after the pandemic. The standard deviation also decreased, indicating that companies may have successfully reduced their financial risk through various measures, including government assistance or internal restructuring. Audit Committee Size (ACSIZE) experienced a slight decrease in the mean from 3.4138 to 3.3051, with a relatively stable standard deviation. This decline could be a result of restructuring the committee to adapt to the changing economic conditions. In contrast, Audit Committee Independence (ACIND) saw an increase in the mean from 0.6807 to 0.7034. This rise may represent a desire to strengthen company governance by improving the audit committee's independence during the uncertainties induced by the pandemic.

Audit Committee Diversity (ACDIV) also experienced an increase in the mean from 0.1926 to 0.2472, with a slight rise in the standard deviation, indicating that companies may be striving to enhance diversity within the audit committee as part of their strategy to tackle more complex challenges during the crisis. Additionally, Audit Committee Meeting Frequency (ACMEET) showed a slight increase from 13.6379 to 13.7288, possibly reflecting the need for tighter oversight and coordination in facing more difficult business conditions. However, Corporate Governance Index (CGI) shows a slight decrease in the mean from 1.6724 to 1.6610, which could indicate challenges in maintaining high governance

standards during the pandemic. The AMIHUD (Liquidity Measure) variable was stable, with no significant changes between pre and post covid periods. Overall, the results of this descriptive statistical test show that multiple variables changed significantly in response to the COVID-19 pandemic. These changes indicate how businesses have worked to adapt their strategy and governance processes in response to the challenges posed by an uncertain economic environment.

Panel Data Regression

Table 3
Chow Test

Pre-Covid and Post-Covid Result

Effects Test	Statistic	d.f.	Prob.
Cross-section F	8.671.513	-19,25	0.0000
Cross-section Chi-square		19	0.0000

Table 4
Hausman Test

Pre-Covid and Post-Covid Result

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	22,860935	13	0,0434

The Hausman test was used to examine whether the Fixed Effect Model (FEM) or the Random Effect Model (REM) is better suited for analyzing data before and after COVID. According to the standard decision rules, if the probability value (p-value) is 0.05 or higher, the REM is preferred. However, if the p-value is below 0.05, the FEM is the more suitable model. The test results showed a Chi-Square statistic of 22.860935 with 13 degrees of freedom and a corresponding p-value of 0.0434. Since the p-value is less than 0.05, it indicates that the Fixed Effect Model (FEM) is the better choice for analyzing this data set. Consequently, the analysis should proceed with the FEM to provide a more accurate representation of the data both before and after the pandemic.

Hypothesis Test

Table 5
Hypothesis Test

Pre Covid				Post Covid			
Variable	Coef.	Prob.	Hyp Proving	Variable	Coeff.	Prob.	Hyp Proving
FINDIS	0.001156	0,8282	H1 Rej	FINDIS	-0.015303	0,6922	H1 Rej
ACSIZE	0.009549	0,8496	H2 Rej	ACSIZE	0.101927	0,7183	H2 Rej
ACIND	-0.12760	0,217	H3 Rej	ACIND	-0.157424	0,5831	H3 Rej
ACDIV	0.626123	0,0713	H4 Rej	ACDIV	0.145664	0,7982	H4 Rej
ACMEET	0.009313	0,0291	H5 Acc	ACMEET	-0.006821	0,5244	H5 Rej
CGI	-0.04852	0,4845	H6 Rej	CGI	-0.008381	0,9448	H6 Rej
AMIHUD	-1.951.5	0,3367	H7 Rej	AMIHUD	-2.45E+12	0,3443	H7 Rej
AMXFNDS	91621.91	0,5574	H7 Rej	AMXFNDS	8.90E+10	0,3968	H7 Rej
AMXACSZ	144392.4	0,8045	H7 Rej	AMXACSZ	6.27E+11	0,3418	H7 Rej
AMXACIND	4688621.	0,147	H7 Rej	AMXACIND	1.78E+11	0,8227	H7 Rej
AMXACDIV	-456372	0,3016	H7 Rej	AMXACDIV	-2.07E+12	0,1493	H7 Rej
AMXACMT	38566.76	0,5499	H7 Rej	AMXACMT	3.89E+10	0,0557	H7 Rej
AMXCGI	693509.3	0,4899	H7 Rej	AMXCGI	4.01E+09	0,9887	H7 Rej

The Influence of Financial Distress on Accrual Earnings Management

Prior to COVID-19, financial distress (FINDIS) had no significant effect on accrual earnings management (AEM), with a coefficient of 0.001156 and a p-value of 0.8282. This lack of significance suggests that, during stable economic conditions, financial difficulties had little influence on accrual earnings management practices. The stable climate before the pandemic may have provided enterprises with more predictable financial outcomes, reducing the need for earnings management in response to financial strain. As a result, Hypothesis H_1 is rejected. After COVID-19, the correlation turns negative (-0.015303), but the p-value remains insignificant at 0.6922, indicating that financial distress still did not have a significant impact on AEM even after the pandemic. Consequently, H_1 is rejected for both periods.

The Influence of Audit Committee Size on Accrual Earnings Management

For the audit committee size (ACSIZE), the The pre-COVID study yielded a coefficient of 0.009549 and a p-value of 0.8496, indicating no significant effect on AEM. This lack of significance suggests that the size of the audit committee had no substantial impact on accrual earnings management practices, likely because other factors, such as the committee's expertise or level of activity, were more influential. Similarly, the post-COVID results also show no significant effect, with a coefficient of 0.101927 and a p-value of 0.7183, demonstrating that audit committee size remained an insignificant factor in both periods. Therefore, H_{2a} is rejected.

The Influence of Audit Committee Independence on Accrual Earnings Management

Audit committee independence (ACIND) ACIND showed an insignificant negative influence on AEM prior to the pandemic, with a coefficient of -0.127605 and a p-value of 0.217. This lack of significance suggests that independent audit committee members had minimal impact on accrual earnings management, possibly due to limited involvement in financial oversight during

stable economic conditions. The post-COVID data, with a coefficient of -0.157424 and a p-value of 0.5831, also show no significant effect, indicating that audit committee independence did not significantly influence AEM, even under greater economic pressure. Therefore, H_{2b} is rejected for both periods.

The Influence of Audit Committee Diversity on Accrual Earnings Management

Audit committee diversity (ACDIV) showed a positive coefficient of 0.626123 with a p-value of 0.0713 before COVID-19, indicating a potential positive impact on AEM, but the effect was not significant. The lack of significance may be due to the relatively stable economic environment and perhaps limited emphasis on diversity during this period. Post-COVID, the coefficient remains positive at 0.145664, but the p-value increases to 0.7982, further confirming the non-significant effect of audit committee diversity on AEM during both periods. Therefore, H_{2c} is rejected.

The Influence of Audit Committee Meeting Frequency on Accrual Earnings Management

Prior to COVID-19, audit committee meeting frequency (ACMEET) showed a significant positive effect on AEM, with a coefficient of 0.009313 and a p-value of 0.0291, implying that more frequent meetings may have been related with improved accrual earnings management. This could indicate that despite the intention for better oversight, frequent meetings may have inadvertently facilitated more manipulation opportunities. However, post-COVID, the coefficient remains positive at 0.145664, but the p-value of 0.5244 indicates a loss of significance, suggesting that meeting frequency became less relevant in influencing AEM in the post-pandemic context. Thus, H_{2d} is rejected for the post-COVID period, but accepted pre-COVID.

The Influence of Corporate Governance Index on Accrual Earnings Management

Prior to the pandemic, the Corporate Governance Index (CGI) had a non-significant negative influence on AEM, with a coefficient of -0.048525 and a p-value of 0.4845. This indicates that during stable economic periods, corporate governance, as measured by CGI, had no substantial impact on accrual earnings management. After the pandemic, the coefficient remained negative at -0.006821, with a p-value of 0.6918, suggesting that CGI continued to have no significant influence on AEM post-COVID. Therefore, H_3 is rejected.

The Influence of Stock Liquidity as Moderating Variables

In the context of Accrual Earnings Management (AEM), the role of stock liquidity (AMIHU) as a moderating variable between governance factors such as financial distress (FINDIS), audit committee size (ACSIZE), independence (ACIND), diversity (ACDIV), meeting frequency (ACMEET), and the Corporate Governance Index (CGI) was analyzed for both pre-COVID and post-COVID periods. The stock liquidity variable (AMIHU) had no significant effect on AEM in either period. Before the pandemic, the coefficient was -1.951506 with a p-value of 0.3367, and after the pandemic, it was -2.45E+12 with a p-value of 0.3443, demonstrating that stock liquidity had no significant impact on accrual earnings management during either period.

Prior to COVID-19, stock liquidity did not significantly alter the relationship between FINDIS and AEM, as indicated by a p-value of 0.5574, suggesting that liquidity did not influence the effect of financial distress on AEM during this time. Similarly, stock liquidity did not significantly moderate the impact of audit committee size, independence, or diversity on AEM, with p-values of 0.8045, 0.147, and 0.3016, respectively. This suggests that, in a stable economic climate, stock liquidity had a

modest influence on governance factors typically associated with AEM.

Additionally, the interaction between stock liquidity and audit committee meeting frequency (ACMEET) had no significant moderating effect, with a p-value of 0.5499. This indicates that the number of audit committee meetings, in combination with stock liquidity, had no meaningful impact on AEM prior to the pandemic. Similarly, the interaction between stock liquidity and the Corporate Governance Index (CGI) was found to be insignificant, with a p-value of 0.4899, showing that liquidity did not enhance the effect of corporate governance measures on AEM during this period.

Stock liquidity as a moderating factor remained insignificant during the post-COVID period. The interaction between stock liquidity and financial distress (FINDIS) continued to show no effect on AEM, with a p-value of 0.3968, signifying that liquidity did not impact the effect of financial distress on AEM after the pandemic. Likewise, stock liquidity did not significantly influence the relationship between audit committee size, independence, and diversity, with p-values of 0.3418, 0.8227, and 0.1493. These findings suggest that, despite the economic uncertainty and market volatility following the pandemic, stock liquidity did not play a notable role in moderating the impact of these governance factors on AEM.

The post-pandemic analysis also showed that the interaction between stock liquidity and audit committee meeting frequency remained non-significant, with a p-value of 0.0557. While this p-value is close to the significance level, it suggests that liquidity's influence in moderating the effect of meeting frequency on AEM was not strong enough to be considered significant. Finally, the interaction between stock liquidity and the Corporate Governance Index (CGI) remained insignificant, with a p-value of 0.9887, indicating that liquidity had no moderating effect on the relationship between governance practices and AEM after the pandemic.

In conclusion, stock liquidity had no significant moderating effect on the interaction between financial distress, audit committee characteristics or the Corporate Governance Index and AEM, both before and after COVID. This implies that, while these governance factors influence AEM, the role of stock liquidity as a moderating factor is limited in both stable and volatile economic environments. As a result, hypothesis H_4 is rejected in both periods.

Coefficient of Determination (R^2)

Table 6
Coefficient of Determination (R^2)

Dependent Variable	Pre-Covid Adjusted R-Squared	Post Covid Adjusted R-Squared
AEM	0.814977	0.555091

The Pre-Covid-19 Adjusted R-Squared value is 0.814977, as determined by the coefficient of determination (R^2) test. This means that the independent variables in the regression model could explain approximately 81.50% of the variation in the dependent variable during that period. In contrast, the Adjusted R-Squared value for the Post-Covid-19 period is 0.555091, indicating that the model's independent

variables could explain about 55.51% of the variation in the dependent variable.

These findings suggest that the regression model for the pre-Covid-19 period was better at explaining the variation in the dependent variable compared to the post-Covid-19 period. The decrease in the Adjusted R-Squared value may reflect a shift in the relationship between the variables analyzed in the model due to the impact of the Covid-19 pandemic.

F-Test

Table 7
F-Test

Dependent Variable	Pre-covid	Post Covid
AEM	0.000000	0.001414

The F-test was conducted to evaluate the overall significance of the regression model. For the Pre-Covid period, the F-test resulted in a p-value of 0.000000, indicating that the model is statistically significant and that the independent variables collectively have a significant impact on the dependent variable (Accrual Earnings Management). This suggests that the model fit the data well during the pre-Covid period.

For the post-Covid period, the F-test showed a p-value of 0.001414, which also indicates statistical significance ($p < 0.05$). This confirms that the regression model remained valid in explaining the variations in Accrual Earnings Management even after the pandemic, despite a slight reduction in significance compared to the pre-Covid period.

Overall, the F-test results suggest that both the Pre-Covid and Post-Covid models are fit to be used in this study, as the independent variables in both models significantly explain the dependent variable. However, the decrease in significance after Covid may reflect shifts in the underlying economic and financial conditions, which could influence the relationship between the variables analyzed in the model.

Conclusion and Recommendation

From 2017 to 2022, we examined how financial distress, audit committee characteristics, and the Corporate Governance Index (CGI) affected accrual earnings management practices in companies listed on the Indonesia Stock Exchange's LQ45 index. The investigation yielded several key conclusions.

First, the F-test confirmed that the regression models for both pre-COVID and post-COVID periods were statistically significant, indicating that the independent variables collectively have a significant impact on accrual earnings management (AEM) across both periods. However, the coefficient of determination (R^2) showed a decrease in the model's explanatory power from the pre-COVID to the post-COVID period, reflecting potential changes in the relationships between the variables as a result of the pandemic.

Additionally, financial distress had no substantial impact on accrual earnings management either before or during the COVID-19 pandemic. This suggests that even under financial pressure, companies may not resort to earnings manipulation, likely due to stringent regulatory environments and increased investor scrutiny. Furthermore, audit committee

characteristics, including size, independence, diversity, and meeting frequency, showed varied effects on earnings management. Notably, frequent audit committee meetings had a significant positive impact on earnings management prior to the pandemic, but this effect diminished post-pandemic, indicating that increased oversight may have unintentionally encouraged earnings manipulation during more stable economic times.

The Corporate Governance Index (CGI) had no significant impact on accrual earnings management in either period, indicating that CGI alone may not be sufficient to deter such practices. Additionally, while stock liquidity is a crucial aspect of market efficiency, it had no significant moderating effect on the relationship between the governance measures analyzed and earnings management.

Based on these findings, enhancing the effectiveness of audit committees is essential. Companies should ensure that audit committees focus on the quality of oversight rather than just the frequency of meetings. Additionally, strengthening corporate governance practices beyond what CGI captures may be necessary, potentially through more tailored mechanisms suited to specific company needs.

Future research should explore other potential moderating variables, such as corporate culture or managerial incentives, and extend the analysis to different industries and economic contexts to gain a more comprehensive understanding of these dynamics. Although this study provides valuable insights into corporate governance and earnings management, its emphasis on LQ45 index companies may restrict the applicability of the results to smaller or less liquid companies. The study did not account for other moderating variables that could influence the interaction between governance mechanisms and earnings management. Nevertheless, this research contributes to the literature by shedding light on the intricate relationships between financial distress, audit committee characteristics, and CGI in influencing earnings management behaviors, emphasizing the need for more refined governance strategies to enhance transparency and ethical financial reporting.

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