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ARE CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL RATIO MATTER TO EARNINGS QUALITY?

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Abstract

This research aims to investigate the effect of Corporate Social Responsibility (CSR), financial ratio as measured by profitability, and liquidity ratio on earnings quality with the audit committee as a moderating variable. This research used quantitative method with secondary data obtained from ESGI, the official website of the Indonesian Stock Exchange (IDX) and related company websites. The population of this research is industrial and basic materials companies listed on the IDX for the 2019-2022 period with 140 firm year observation as a final sample. The results show that profitability has a positive effect on earnings quality. Meanwhile, CSR and liquidity has no effect on earnings quality. This study finds that the audit committee cannot strengthen the effect of CSR, profitability, and liquidity on earnings quality. Realizing that CSR that doesn’t increase earnings quality, the implication is that management may be more encouraged to establish genuine and impactful CSR programs. Shareholders can assess investment risk more properly since companies that succeed have higher earnings quality and lower risk.

Keywords: Audit Committee; CSR; Earnings Quality; Profitability; Liquidity

Abstrak

Penelitian ini bertujuan untuk menguji pengaruh tanggung jawab sosial perusahaan (CSR), rasio keuangan yang diukur dengan rasio profitabilitas dan likuiditas terhadap kualitas laba dengan komite audit sebagai variabel moderasi. Penelitian ini menggunakan metode kuantitatif dengan data sekunder diperoleh dari ESGI, website resmi Bursa Efek Indonesia, dan website perusahaan terkait. Populasi dalam penelitian ini adalah Perusahaan industri dan bahan dasar yang terdaftar pada Bursa Efek Indonesia pada 2019-2022 dengan 140 tahun perusahaan sebagai sampel final. Hasil penelitian menunjukkan bahwa profitabilitas berpengaruh positif terhadap kualitas laba. Sedangkan CSR dan likuiditas tidak berpengaruh terhadap kualitas laba. Komite audit tidak dapat memperkuat pengaruh CSR, profitabilitas, dan likuiditas terhadap kualitas laba. Kebaruan penelitian ini adalah menggunakan komite audit sebagai variabel moderasi. Hasil penelitian ini dapat digunakan sebagai referensi bagi penelitian selanjutnya, investor, dan perusahaan terkait tiga faktor yang berkaitan dengan kualitas laba.

Kata Kunci: Komite Audit; CSR; Kualitas Laba; Profitabilitas; Likuiditas

Introduction

The relevance of earnings information is critical for enhancing earnings quality. The data reveal that some corporations continue to manipulate financial figures, particularly the revenue component. The most recent case involves charges of profit by PT Envy Technologies Indonesia Tbk. This corporation is suspected of engaging in earnings manipulation, and there is substantial evidence to support this claim. PT Envy Technologies Indonesia Tbk recorded third-party receivables of IDR 125,270,209,359 as income. This is done even though there is no guarantee of payment within a 12-month timeframe. According to the accounting records, receivables originate from debtors whose transactions exceed 10% of total income (Christian et al., 2022). Similar to the technology sector, the quality of basic materials industry earnings indicates the trustworthiness of a company's financial reports. PT. Hanjaya Mandala Sampoerna Tbk has an issue on earnings quality as indicated by profit manipulation. In 2017, profits declined by 0.71% to Rp. 12.76 trillion. Profits rose the following year as sales climbed. However, anomalies in the financial accounts raise concerns about the accuracy of the earnings reported. Inconsistencies, such as the unrecorded excise debt of IDR 9.26 trillion in 2017, may indicate issues with earnings quality (Novel et al., 2021). Recent events have raised concerns about the possibility of financial report manipulation. A drop in profits, particularly in the chemical industry sector, is frequently used to motivate corporations to take such action. Management in this industry frequently manipulates reports through earnings management tactics (Septiano et al., 2022).

Practitioners and researchers today continue with an emphasis on earnings quality. This approach is based on the notion that high-quality earnings help businesses generate capital, attract international investors, and ensure efficient resource allocation (Kalembe et al., 2023). In relation with this, Corporate Social Responsibility (CSR), firm performance measured by some accounting-based measurement for instance, profitability, liquidity ratio, as well as its impact on earnings quality are all considerable aspects of the corporate phenomena in today's global economy. As business dynamics and transparency needs evolve, stakeholders expect organizations to execute optimally across these dimensions. Earnings quality are critical information for investors and prospective investors to make sound decisions. As a result, earnings quality is a key consideration for financial report users seeking to make sound decisions.

Research on Corporate Social Responsibility (CSR) and its relationship to profits quality is critical since CSR has a direct impact on a company's reputation. Companies that engage in social and environmental initiatives tend to have a higher reputation among the general public, customers, and shareholders. In Indonesia, The UU PT and PP 47/2012 are rules and ethical standards that promote or require corporations to engage in CSR activities. Understanding how CSR affects earnings quality enables businesses to negotiate compliance with these standards in the most efficient and profitable manner. CSR is consistent with stakeholder theory and corporate reputation, which can influence earnings quality. Jouber (2020) found that CSR is positively associated with Earnings Quality. This suggests that high CSR will be linked to high profits quality because it enhances a company's reputation, lowers risk, and increases transparency, all of which lead to higher earnings quality Chulkov and Wang (2023) studied the effect of CSR on earnings quality based on a sample of US publicly traded firm and found that there is positive impact of CSR on earnings quality. Using a sample of 2580 Chinese listed firms from fiscal years 2009-2015, Rezaee et al., (2020) also found that CSR firms and those with higher CSR ratings are less likely to engage in earnings management and their earnings are more persistent and better predict future cash flows from operations. These results are also supported by another studies showing that CSR has a positive effect on earnings quality (Jouber, 2020; Muttakin et al., 2015; Putri et al., 2023). However, previous study also found that CSR has a negative effect on earnings quality (Dang et al., 2021). This is in line with an emerging stream of study in the CSR literature, the evidence shows that the agency problem occurs in CSR enterprises where corporate managers exercise their autonomy over accrual accounting to influence reported earnings. Simon and Ruwanti (2021) and (Yasri et al., 2023) also found that CSR has no effect on earnings quality.

Profitability and liquidity are two highly essential financial indicators in measuring the financial health of a business. Financial ratios are factors affecting earnings quality and the previous studies still yield the mixed results. Previous research found that profitability and liquidity have a positive effect on earnings quality (Marlina et al., 2022; Erawati & Wuarlela, 2022; Hanifah et al., 2021; Azizah & Asrori, 2022). However, Erawati and Sari (2021) found that profitability and liquidity has a negative effect on earnings quality. Zatira et al., (2020) and (Ardianti, 2018) found that liquidity has a negative effect on earnings quality. Accordingly, the previous research related the impact of CSR, profitability, and liquidity on earnings quality yield the mixed results.

The audit committee is critical to ensure that the company's CSR actions have a good, long-term impact and are represented in financial reports. The audit committee is responsible for ensuring that the company's financial statements are transparent and accurate. They evaluate accounting rules, internal controls, and financial reporting procedures. This way, they can verify that the company's CSR initiatives are appropriately reflected in the financial reports, enhancing the earnings quality (Puspaningrum & Indarti, 2021). The presence of an audit committee also enables tighter oversight of management performance and supports the board of commissioners in assessing financial reports with accurate and precise information. Better Corporate Governance (CG) mechanisms cause lower earnings smoothness, greater predictability and robust results, and higher levels of accuracy, conservatism, and value relevance, hence it improves earnings quality (Rezaee & Safarzadeh, 2023). Given the importance of the audit committee in corporate governance, this research is expected to provide deeper insight and understanding regarding earnings quality.

Based on this explanation, this study aims to investigate the effect of Corporate Social Responsibility (CSR), profitability, and liquidity on earnings quality, with the audit committee as a moderating variable. The role of the audit committee as a moderating variable in the relationship between CSR, profitability, and liquidity on earnings quality has not been studied in prior research. The novelty of this research is investigating the role of audit committee in strengthen the relationship between CSR, profitability, and liquidity on earnings quality. The implications of this study may encourage managers to incorporate CSR into their business strategy. Realizing that CSR that doesn’t increase earnings quality, management may be more encouraged to establish genuine and impactful CSR programs. Shareholders can assess investment risk more properly since companies that succeed at CSR, profitability, and liquidity have higher earnings quality and lower risk. The study's findings could encourage regulators to strengthen CSR-related legislation and regulations. This could include incentives for corporations that follow good CSR practices or stricter CSR reporting requirements.

Several previous studies have found a positive relationship between CSR and financial performance, implying that organizations that invest in CSR do better financially CSR firms and those with higher CSR ratings are less likely to engage in earnings management than non-CSR firms and those with lower CSR ratings, and their earnings are more stable and better anticipate future cash flows from operations. State ownership and marketization influence the relationship between CSR disclosures and earnings quality (Rezaee et al., 2020). CSR is consistent with stakeholder theory and corporate reputation, which can influence earnings quality. Jouber (2020) found that CSR is positively associated with Earnings Quality. This suggests that high CSR will be linked to high profits quality because it enhances a company's reputation, lowers risk, and increases transparency, all of which lead to higher earnings quality. Another study also found that CSR has a positive relationship with earnings quality among the highest CSR scoring enterprises. Engaging in CSR in these organizations improves the quality of their earnings (Mohmed et al., 2020). Accordingly, the first hypothesis is:

H1: Corporate Social Responsibility (CSR) has a positive effect on earnings quality

According to agency theory, effective management is committed to transparency and accuracy in financial reporting. High profitability can suggest that managers have successfully managed the company, which is in the owner's best interests. In contrast, poor profitability may suggest that the company is having difficulty earning sufficient profits. In this environment, management will be under pressure to raise profits, which may lead to unethical tactics like aggressive earnings management or financial statement falsification. High earnings quality demonstrates the transparency and accuracy with which financial information is delivered to owners and investors. Previous studies found that profitability improves earnings quality (Salma & Riska, 2020; Luas et al., 2021; Ginting, 2017; Qonita et al., 2022; Zatira et al., 2020) . This suggests that a company's profitability determines the quality of its profits. Accordingly, the first hypothesis is formulated:

H2: Profitability has a positive effect on earnings quality

In the context of agency theory, adequate liquidity might lessen management's need to engage in earnings management, improving the quality of reported results (Jensen & Meckling, 1976a). According to stakeholder theory, excellent liquidity demonstrates a company's duty to creditors and suppliers, which promotes trust and connections with stakeholders (Freeman, 2010: 193). Salma and Riska (2020), Luas et al., (2021), Azizah and Asrori (2022), and Qonita et al., (2022) did research on the impact of liquidity on earnings quality, which yielded a favourable result, implying that if a firm has a high level of liquidity, the quality of its earnings will improve. Accordingly, the third hypothesis is formulated:

H3: Liquidity has a positive effect on earnings quality

The audit committee, as part of Good Corporate Governance (GCG), is an essential moderator in the interaction between profitability, Corporate Social Responsibility (CSR), and liquidity and earnings quality. The audit committee independence is an important factor that contributes to a higher quality of financial reporting (Kamarudin et al., 2012). In terms of profitability, audit committees can reduce the danger of earnings overstatement during periods of strong performance by tempering management exuberance in financial reporting. In terms of CSR, the audit committee ensures that projects are not just presented for image purposes, but also reflect the actual value provided for stakeholders, in accordance with legitimacy theory. In terms of liquidity, the audit committee guarantees that the reported liquidity level appropriately reflects the company's financial position. Bilal et al., (2018) discovered that audit committees enhance the earnings quality. Another study conducted by Jouber (2020) also found that Cross-country research demonstrate that CSR is positively connected with EQ, and that this association is stronger for enterprises in nations where good CG tools and higher investor rights protection are kept. Accordingly, the fourth hypothesis is:

H4a: The audit committee strengthen the impact of Corporate Social Responsibility (CSR) on earnings quality.

H4b: The audit committee strengthen the impact of profitability on earnings quality.

H4c: The audit committee strengthen the impact of liquidity on earnings quality.

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Research Methodology

Population and Sample

This study's population consists of industrial and basic materials sector companies that were listed on the Indonesia Stock Exchange between 2019 and 2022. This study used purposive sampling with the sampling criteria used are: Companies in the industrial and basic materials sectors will be listed on the Indonesian Stock Exchange from 2019 to 2022, companies that publish the entire financial report for 2019-2022, companies provide information on CSR expenditure in the annual report or sustainability report for 2019-2022, and Companies that do not experience losses between 2019 and 2022. Excluding losses enterprises from the sample when assessing earnings quality improves data consistency, maintains the applicability of findings, and allows for more precise comparisons between companies.

The industrial and basic material sectors, which plays an important role in growing the Indonesian economy, requires high earnings quality criteria. The accuracy of financial information is critical as one of the economy's pillars, contributing to increased added value and job creation. A drop in profits, particularly in the chemical industry sector, is frequently used to motivate corporations to lower earnings quality through earning management. Management in this industry frequently manipulates reports through earnings management tactics (Septiano et al., 2022). The 2019-2022 timeframe is a transformative moment for industrial and basic materials, with the COVID-19 pandemic causing significant changes in market dynamics and firm operations. In 2019, the sector faced unprecedented problems, beginning with the emergence of a worldwide health crisis that quickly became an economic crisis in many nations. The epidemic caused businesses to reconsider their business strategies and expedite the implementation of technology in order to remain operational.

The sample elimination process is available in table 1 below

Table 1. Sample

Sample Criteria	2022	2021	2020	2019	Total
Industrial and materials industry companies listed on the Indonesian Stock Exchange from 2019-2022..	148	148	148	148	592
The company does not publish comprehensive financial reports for 2019-2022.	(8)	(6)	(17)	(18)	(49)
Does not inform CSR expenditure	(69)	(78)	(74)	(79)	(300)
Experiencing a loss in the current year	(28)	(23)	(31)	(21)	(103)
Total	43	41	26	30	140

This study used 140 firm year observation as final sample. The data for this study is derived from annual reports or financial reports of industrial and basic materials sector companies listed on the Indonesia Stock Exchange (IDX) for 2019-2022. Data was gathered via the ESGI website, the official website of the Indonesia Stock Exchange (BEI) www.idx.co.id, and the website of the company that was the subject of the research. The data was analyse using the classical assumption test, F test, t test, multiple linear regression, and moderated regression analysis. This data has already free from problem arising from classical assumption test (normality, heteroscedasticity, autocorrelation, multicollinearity)

This study used these empirical models:

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i. $EQ = \beta_0 + \beta_1 ROA + \beta_2 CSR + \beta_3 CR + \beta_4 \text{LEV} + \beta_5 SIZE + \varepsilon$

ii. $EQ = \beta_0 + \beta_1 \text{AC} + \beta_2 ROA + \beta_3 CSR + \beta_4 CR + \beta_5 \text{LEV} + \beta_6 SIZE + \varepsilon$

iii. $EQ = \beta_0 + \beta_1 ROA + \beta_2 CSR + \beta_3 CR + \beta_4 (ROA * KA) + \beta_5 (CSR * KA) + \beta_6 (CR * KA) + \beta_7 \text{LEV} + \beta_8 SIZE + \varepsilon$

Description:

EQ	:	Earnings Quality
β_0	:	Constant
β_1-β_6	:	Regression Coefficient
AC	:	Audit Committee
ROA	:	Return on asset
CSR	:	Corporate social responsibility
CR	:	Current ratio
LEV	:	Leverage
SIZE	:	Size
ε	:	Error

The definition and proxy for each variable are described in table 2 below. This study used control variables namely size and leverage. Earnings quality is measured by discretionary accrual using the Modified Jones Model (Dechow et al., 2012). However the results then multiplied by (-1) due to high earnings management implies low earnings quality, hence earnings quality here should be multiplied by (-1) with a greater value indicating better earnings quality (Kamarudin et al., 2012). Data for CSR are retrieved from ESGI dataset which can be accessed through https://www.esgi.ai/id/.

Table 2. Variable Definition and Measurement

No	Variable	Definition	Proxy
1	Profitability (ROA)	According to Ginting (2017); Azizah & Asrori (2022) profitability measures a company's ability to generate profits in relation to its assets and equity which is calculated by net income divided by total asset	$ROA = \frac{\sum \text{net income}}{\sum Total\ aset}$
2	Corporate Social Responsibility (CSR)	Mohmed et al., (2020) defines CSR requires corporations to report on complicated topics such as the environment, human resources, workplace health and safety, local community ties, and partnerships with suppliers and consumers. It also requires transparency in all parts of business operations. CSR is measured by CSR expenditure divided by total asset as modified with previous research (Wedjaja & Eriandani, 2023)	$CSR = \frac{\sum CSR \text{ expenditure}}{\sum \text{total asset}}$
3	Liquidity (CR)	Company liquidity which is captured by current ratio is a company's ability to meet short-term obligations with available liquid assets (Azizah & Asrori,	$CR = \frac{\sum \text{current asset}}{\sum \text{current}}$

No	Variable	Definition	Proxy
		2022)	liabilities
4	Audit Commitee (AC)	According to POJK 55/2015, the audit committee is established by the board of commissioners and is accountable to them for carrying out its power and functions. The audit committee is measured by the total number of audit committee members in the company (Aprilian et al., 2020)	AC = ∑ the number of audit committee
5	Earnings Quality (EQ)	Mohmed et al., (2020) define earnings quality as the accuracy and predictability of a company's reported earnings over time and measured using Modified Jones Model (Dechow et al., 2012)	$EQ = DACC_{it} \times (-1)$
6	Size	Qonita et al., (2022) define size variables as indicators of a company's dimensions or size as measured by Ln (total assets)	$SIZE = Ln \sum Total\ aset$
7	Leverage (LEV)	Leverage is the use of borrowed funds or capital to increase profits in a business measured by total assets divided by total liabilities (Salma & Riska, 2020).	LEV = total liabilities : total assets

Results and Discussion

Descriptive Statistics

Descriptive statistics in Table 3 provide the lowest, maximum, average, and standard deviation for each variable used. The descriptive statistical findings of the variables employed were obtained using SPSS, which produced the following results in table 3. The CSR variable has a minimum value of 0.00003, provided by the TPIA firm in 2021, and a maximum value of 0.81996, supplied by the INAI company in 2020. This variable’s mean value is 0.0455882, with a standard deviation of 0.11903018. The profitability variable (ROA) has a minimum value of 0.00095 in 2020 and a maximum value of 0.2656 in 2022, as reported by the VOKS and ESSA companies respectively. This variable’s mean value is 0.0580034, with a standard deviation of 0.05105787. The liquidity variable (LIQ) has a minimum value of 0.39300 which comes from the ARCI company in 2021 and a maximum value of 7.85939 which comes from the MDKI company in 2021. This variable also has a mean value of 2.0834414 and a standard deviation of 1.44816173. The earnings quality variable has a minimum value of -0.21639 which comes from the ALKA company in 2021 and a maximum value of -0.00195 which comes from the ARCI company in 2022. This variable also has a mean value of -0.0810131 and a standard deviation of 0.04844304.

Table 3. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
EQ	140	-0.21639	-0.00195	-0.08101	0.04844
ROA	140	0.00095	0.26560	0.05800	0.05106
CSR	140	0.00003	0.81996	0.04558	0.11903
LIQ	140	0.39300	7.85939	2.08344	1.44816
AC	140	3.00000	4.00000	3.04000	0.20300
SIZE	140	25.04885	33.65519	29.23135	1.91196
LEV	140	0.06303	1.06554	0.42758	0.20438
Valid N (listwise)	140				

Results

The regression results are described in table 4. The t-test results of the CSR variable show a result of 1.007 with a significance level of 0.316, proving that CSR has no effect on EQ. So, it can be concluded that the first hypothesis (H1) is rejected. The t test results for the ROA variable reveal a value of 3.121 with a significance level of 0.002, indicating that ROA has a substantial positive influence on EQ. So, it can be argued that the second hypothesis (H2) is accepted. The t test results of the LIQ variable show a result of -2.484 with a significance level of 0.014, proving that LIQ has a significant negative effect on EQ. Therefore, it can be concluded that the third hypothesis (H3) is rejected.

The t-test results from ROA×AC show a significance result of 0.212 regarding the relationship with ROA to EQ, where this value is above the 5% significance level and has a negative coefficient. This proves that AC is unable to moderate the relationship between ROA and EQ. So, it can be concluded that the fourth hypothesis a (H4a) is rejected. The t test results from CSR×AC show a significance result of 0.098 for the relationship between CSR and EQ, where this value is above the 5% significance level and has a negative coefficient. This proves that AC is unable to moderate the relationship between CSR and EQ. So, it can be 350concluded that the fourth hypothesis (H4b) is rejected. The t-test results from LIQ×AC show a significance result of 0.549 for the relationship between LIQ and EQ, where this value is above the 5% significance level and has a positive coefficient. This proves that KA is unable to moderate the relationship between LIQ and EQ. So it can be concluded that the fourth hypothesis (H4c) is rejected.

The effect of CSR on Earnings Quality

The results of this studies revealed that CSR had no effect on profits quality. The t test reveals that CSR has a significance value greater than 0.05, indicating that the first hypothesis (H1) is rejected. The multiple linear regression and t tests indicate that CSR has a β value of 0.033, a t value of 1.007, and a significance value of 0.316. This demonstrates that the more CSR dollars a company invests, the higher the quality of its earnings will be. These findings are consistent with previous study conducted by Simon and Ruwanti (2021) , which found that Corporate Social Responsibility had no effect on earnings quality. This means that CSR in this study is not utilized to influence profits because it is simply a type of corporate social responsibility or philanthropy. Managers are discouraged from shifting the company's CSR funding based on opportunism. Thus, CSR has no impact on profits quality. Some corporations may use CSR solely to meet regulatory requirements or as a marketing technique, with no genuine commitment to social responsibility. CSR actions carried out solely as a formality will have no substantial impact on earnings quality. Furthermore, CSR advantages are frequently long-term, whereas study or evaluation of earnings quality can be short-term. Companies may not observe a favorable impact of CSR on earnings quality within a short time frame.

Table 4. Regression Results

Variable	EQ		
	Model 1	Model 2	Model 3
(Constant)	-0.243*** (-4.176)	-0.277*** (-3.838)	0.051 (0.552)
ROA	0.237*** (3.121)	0.235*** (3.091)	0.196** (2.169)
CSR	0.033 (1.007)	0.028 (0.842)	0.074 (0.876)
LIQ	-0.008** (-2.484)	-0.008** (-2.349)	-0.156 (-0.948)
AC		0.016 (0.801)	0.303 (1.113)
ROA×AC			-0.277 (-1.254)
CSR×AC			-0.131 (-1.666)
LIQ×AC			0.378 (0.602)
SIZE	0.005** (2.560)	0.004** (2.176)	0.178** (2.202)
LEV	0.044 (1.854)	0.047 (1.965)	0.191 (1.869)
R^2	0.241	0.245	0.260
Adj R^2	0.213	0.211	0.209
F	0.000	0.000	0.000
N	140	140	140

t-values are presented in parentheses. **, and *** represent <5% and <1% significance levels, respectively

The effect of profitability on earnings quality

Based on the findings, it was discovered that profitability has a positive effect on earnings quality. The t test reveals that profitability has a significance level less than 0.05, indicating that hypothesis 2 is accepted. Multiple regression analysis and t-test results indicate that profitability has a β value of 0.237, a t-value of 3.121, and a significance value of 0.002. This demonstrates that the higher the profitability value in the company's annual report, the more likely profits quality will increase. This is consistent with the previous studies found that profitability has a positive effect on earnings quality (Salma & Riska, 2020; Luas et al., 2021; Ginting, 2017; Qonita et al., 2022; Zatira et al., 2020). Companies with high profitability will produce efficient and effective operational results. As a result, the profitability will be high. Furthermore, great profitability can imply that managers have successfully managed the company, which is in the owner's best interests. Managers that are focused on short-term performance, on the other hand, may be motivated to distort financial statements in order to show bigger profits, which could be bad to owners in the long run. High earnings quality demonstrates the transparency and accuracy with which financial information is delivered to owners and investors. These results are supported by the principles of agency theory, management that is efficient and effective in generating profits and is also committed to transparency and accuracy in financial reporting (Jensen & Meckling, 1976b).

The effect of liquidity on earnings quality

Based on the results of the study, it was discovered that liquidity had a significant negative impact on earnings quality. Simply said, if a company has a high current asset ratio, its earnings quality will suffer. Linear regression results indicate a significant relationship with a β of -0.008, t of -2.484, and p-value of 0.014. As a result, hypothesis 3 (H3) is rejected. Erawati and Sari (2021) found that liquidity has a negative effect on earnings quality. This means that if a corporation has a lot of liquidity, the quality of its earnings suffers. High liquidity is akin to having two blades. On the plus side, the corporation can pay short-term obligations swiftly without needing external finance. However, on the bad side, it allows managers to leverage current assets for personal gain or to enhance opportunistic conduct on the part of management. This is consistent with agency theory, which holds that managers will act opportunistically if given the opportunity. This is consistent with agency theory, which holds that managers will act opportunistically if given the opportunity. When managers have the freedom to take advantage of opportunities, they will resort to financial manipulation or earnings management, lowering the quality of results. The corporation should minimize its high amount of liquidity by making lucrative investments that would generate returns for it.

Audit Committee strengthen the effect of CSR, profitability, and liquidity on earnings quality

This study employs moderating variables in addition to independent and dependent variables to investigate factors influencing profit quality in Indonesian industrial and basic materials organizations. The audit committee, as assessed by the number of audit committees in the organization, serves as the moderating variable in this research. The hypothesis in this study is divided into three sub-hypotheses, H4a, H4b, and H4c, to test the effect of the moderating variable, the audit committee, on the relationship between each independent variable, namely profitability, corporate social responsibility, and liquidity on earnings quality.

The audit committee (AC) demonstrated that it did not increase the moderating influence on the relationship between profitability (ROA) and earnings quality (EQ). Based on the facts presented in this study, hypothesis 4a (H4a) is rejected. The moderation regression and t tests indicate that ROA×KA has a β coefficient of -0.277, t value of -1.254, and a significant value of 0.212. These findings indicate that KA does not moderate the link between ROA and EQ. The results of this research reveal that the audit committee as a supervisor regarding the company's financial reporting does not work optimally. In other words, the presence of an audit committee, whether large or small numbers, does not determine the supervision that makes ROA more influential on Earnings quality. A large number of audit committees may be unproductive due to disagreements among committee members. Furthermore, it becomes burdensome to pay higher wages. On the other hand, if the audit committee has a small number of members who fulfil criteria but perform optimally, supervision will be more effective. This is the reason the audit committee does not moderate profitability based on earnings quality.

Furthermore, the audit committee (AC) reduces the impact of corporate social responsibility (CSR) on earnings quality. The moderation regression and t tests indicate that CSR×AC has a β coefficient of -0.131, a t value of -1.666, and a significant value of 0.098. According to the findings of this study, AC has a considerable moderating influence, but in a negative direction, on the link between CSR and EQ. Based on the findings presented in this study, hypothesis 4b (H4b) is rejected. Because CSR is geared toward generosity, the audit committee's function undermines the relationship between CSR and earnings quality. As a result, the audit committee's role as an internal supervisor becomes more independent and effective. The audit committee does not utilize CSR reporting as a basis of assessing earnings quality. However, it serves the primary objective of CSR as a type of corporate social responsibility. The audit committee is then more concerned with the stakeholders who will benefit from the help than with the impact on the company's profitability. This is consistent with legitimacy theory since CSR controlled by the audit committee promotes corporations to obtain public recognition, resulting in credible CSR disclosure reports. Finally, the audit committee (AC) has no moderating effect on the relationship between the impact of liquidity (LIQ) and earnings quality. Based on the facts presented in this study, hypothesis 4c (H4c) is rejected. The moderation regression and t tests indicate that LIQ×AC has a β coefficient of -0.378, a t value of 0.602, and a significant value of 0.549. The absence of the audit committee's moderating effect on the influence of liquidity on earnings quality is consistent with the logic of the influence of profitability on earnings quality caused by liquidity. is often used to calculate financial ratios.

Conclusion

This research aims to empirically examine the effect of corporate social responsibility (CSR), profitability, and liquidity on earnings quality, by considering the audit committee as a moderating factor. In this analysis, two control variables are included, namely company size. The results show that profitability has a positive effect on earnings quality. Meanwhile, CSR and liquidity has no effect on earnings quality. This study finds that the audit committee cannot moderate the relationship between profitability, CSR and liquidity with earnings quality. The implications of this study could encourage managers to incorporate CSR into their company strategies. Recognizing that CSR does not improve earnings quality, management may be more motivated to implement genuine and significant CSR programs. Shareholders can better evaluate investment risk since companies that excel at CSR, profitability, and liquidity have higher earnings quality and lower risk. The study's findings may prompt regulators to enhance CSR-related legislation and regulations. This could include incentives for companies that use effective CSR practices or stricter CSR reporting requirements. The limitations of this study include the fact that many companies still do not include corporate social responsibility costs in their annual or sustainability reports, a lack of variation in audit committee variables, and a lack of complete data that corresponds to the research variables. Based on the findings, experts have made many recommendations to investors and companies for further study and development. Companies must become more transparent through the release of financial, annual, and sustainability reports. Furthermore, be more attentive when reporting financial, annual, and sustainability reports. Because this will serve as a standard for investors making decisions. Investors must be more cautious in their financial decisions. Future researchers are encouraged to include other research factors, such as monitoring CSR disclosure, which is anticipated to influence earnings quality and extend the research time. Additionally, performing study on a larger research population.

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