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THE MODERATING EFFECT OF THE AUDIT COMMITTEE ON THE RELATIONSHIP BETWEEN ESG PERFORMANCE, TAX AGGRESSIVENESS, AND EARNINGS PERSISTENCE

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Abstrak
In the contemporary business scenario, businesses are not only being assessed on their path to financial attainability but also on their sense of responsibility towards environmental and societal concerns that constitute a part Environmental, Social, and Governance (ESG) performance indicators. Conversely, resorting to aggressive tax strategies results in volatility of earnings reporting and could raise stakeholder concerns about corporate integrity and transparency. The study explores the correlation between ESG performance, tax aggressiveness on earnings continuity and moderation function of the audit committee as part of corporate governance. Based on purposive sampling, this study uses data from 97 firms qualified on the Indonesia Stock Exchange throughout the period of 2019–2021 which becomes 291 firm-year observation. The data was analyzed by the regression analysis of Panel Data in EViews version 12. The results show that ESG performance is not statistically significantly correlated with earnings persistence. Contrary to expectations, tax aggressiveness (as measured by ETR), is negatively related to earnings persistence. Moreover, the audit committee presence reduces the negative impact of tax aggressiveness on earnings peristence. These data suggest that corporate governance mechanism are important to improving the caliber of financial reporting and assurance sustainability in earnings.
Keywords: *ESG Performance; Tax Aggressiveness; Earnings Persistence; Audit Committee*

Abstrak
Dalam skenario bisnis kontemporer, bisnis tidak hanya dinilai berdasarkan jalur pencapaian keuangan mereka, tetapi juga berdasarkan rasa tanggung jawab mereka terhadap masalah lingkungan dan sosial yang merupakan bagian dari indikator kinerja Lingkungan, Sosial, dan Tata Kelola (ESG). Sebaliknya, penggunaan strategi pajak yang agresif mengakibatkan volatilitas pelaporan laba dan dapat menimbulkan kekhawatiran pemangku kepentingan tentang integritas dan transparansi perusahaan. Studi ini mengeksplorasi korelasi antara kinerja ESG, agresivitas pajak terhadap keberlanjutan laba dan fungsi moderasi komite audit sebagai bagian dari tata kelola perusahaan. Berdasarkan pengambilan sampel bertujuan, studi ini menggunakan data dari 97 perusahaan yang memenuhi syarat di Bursa Efek Indonesia selama periode 2019–2021 yang menjadi 291 observasi perusahaan-tahun. Data dianalisis dengan analisis regresi Panel Data di EViews versi 12. Hasil menunjukkan bahwa kinerja ESG tidak berkorelasi secara signifikan secara statistik dengan keberlanjutan laba. Berlawanan dengan ekspektasi, agresivitas pajak (sebagaimana diukur dengan ETR), berhubungan negatif dengan keberlanjutan laba. Selain itu, kehadiran komite audit mengurangi dampak negatif agresivitas pajak terhadap keberlanjutan laba. Data ini menunjukkan bahwa mekanisme tata kelola perusahaan penting untuk meningkatkan kualitas pelaporan keuangan dan keberlanjutan jaminan laba.
Kata kunci: Kinerja ESG; Agresivitas Pajak; Ketahanan Laba; Komite Audit

INTRODUCTION

Earnings, especially accounting income are seen as the most important measure to judge a companys financial health. They show what a company made from its day-to-day operations over a duration such as a quarter or a year. Net income helps people understand if a company is making money and how well it is doing financially. Earnings are really what people look at to see if a company is profitable.They are a part of understanding a companys financial performance and net income is a big part of that.Companies use earnings to show how they are doing. Investors use it to decide if they want to invest.The net income number is also used to calculate important numbers like return on investment.

Earnings and net income are crucial, for evaluating a companys financial condition. (Nichols & Wahlen, 2004). In addition, business operations are important. Earnings help judge them. Profitability also influences several dimensions of corporate sustainability, including financial stability, employee well-being, and the companys ability to put money into the companys growth so the company can keep growing and getting better and this is all, about the companys future growth. (Dang & Van Vu, 2022). Furthermore, the value indicates a company's profitability an accounting measure of changes in the company's value to equity shareholders in a time (other than the effect of direct transactions with shareholders, such as paying dividends or issuing shares). Stock returns, defined as changes in a firm's market value combined with dividends distributed to shareholders, represent a capital market indicator of corporate performance over a given period (Nichols & Wahlen, 2004).

the relationship between accounting earnings and stock performance market performance is explained through several theoretical assumptions regarding the information contained in earnings and stock prices. First, earnings serve as an important source of information for investors in evaluating the present performance of a corporation and its prospective future profitability. Second, expectations about present and future profitability provide insights into the dividends that shareholders may receive in the future. Third, stock prices represent current value of the projected dividends that will be distributed to shareholders. Consequently, new accounting information about earnings may affect investor anticipations and result in alterations to a firm's market valuation (Nichols & Wahlen, 2004).

Financial analysts understand that reported earnings may be affected by managerial discretion in selecting accounting methods and making operational decisions. Therefore, analysts must evaluate the quality of profits to identify the real profit capacity of a company. Earnings quality may decline when management recognizes revenues or expenses either prematurely or too late, or when managers choose accounting methods that are more aggressive rather than conservative (Jim-Suleiman & Ibiamke, 2021). In other words, earnings quality is influenced not only by operational performance but also by managerial accounting decisions. Management may influence reported net income by modifying discretionary expenditures. For instance, management may delay necessary maintenance expenses, postpone asset replacement, or reduce marketing expenditures to increase current profits. Such practices may increase short-term profitability but can ultimately reduce the quality and durability of income (Zadeh et al., 2023)

Earnings reports as a result of managerial discretion raises apprehensions pertaining to the integrity of financial matters reporting (Wahyuni & Handayani, 2022). High-quality earnings should reflect the authentic economic performance of an enterprise and provide an accurate representation of its earnings power (Osanyinbi et al., 2023). Earnings information should therefore accurately describe corporate performance in order to support effective decision-making by investors and other stakeholders (Yusra, 2019). Reliable accounting information helps to keep an eye on what managers are doing. This information also helps to close the disparity in information between managers and investors. (Yang et al., 2023). Higher earnings quality is good for people who want to know more about the companys performance and make good economic decisions, about the company. (Dechow et al., 2010).

Several big company scandals have shown how important it is for companies to be transparent and honest. The Enron and WorldCom collapses in the 2000s were major scandals. These scandals along with the financial crisis from 2007 to 2009 have really driven home the point that companies need to behave ethically and be transparent in their dealings Rezaee (2016). These events showed that companies were not being run properly and had problems, with their reports. Other companies have also failed for the reasons. Weak ethics and bad management can really hurt a companys chances of long-term success. Companies need strong rules and good leadership to succeed. These failures are a reminder that good governance and ethicsre key.

(Rahman & Chowdhury, 2020). In response to these incidents regulators have introduced policies. These policies aim to make companies more accountable and to regain trust. Companies now have to provide information about their ethical values. They also have to disclose more about their sustainability performance and how they are seen by the public or their corporate reputation. This is all part of the rules that regulators have put in place. The goal is to improve how companies act and are viewed by the public. Companies have to be more transparent, about their values and actions. They have to show that they care about being sustainable and having a reputation. (Rezaee, 2016).

People who invest money have become more interested in finding out about things that're not just about the money. They want to know more about the company they are investing in beyond the financial stuff. Some reports from the Investor Responsibility Research Center Institute indicates that investors and the people who manage their portfolios are looking at Environmental, Social and Governance information when they decide where to put their money. They are using Environmental, Social and Governance info to help them make these decisions about investing. Environmental, Social, and Governance information is becoming increasingly significant., in how they choose to invest their money. (Park & Oh, 2022). This change shows that people are becoming more aware that the real worth of a company is not about how much money it makes, but also about how it treats the environment and its role, in sustainability practices. The companys long-term value is influenced by its performance and its sustainability practices. People are starting to see that a companys value is tied to its sustainability practices.

There has been an increasing importance of non-financial information in recent years. Many executives in multinational corporations believe that non-financial performance indicators provide more meaningful insights into long-term corporate value than traditional financial indicators (Saeidi et al., 2021). Consequently, enterprises increasingly disclose sustainability-related information to stakeholders and capital market participants. Traditional financial reporting alone is often considered insufficient to provide a comprehensive picture of corporate performance because it largely emphasizes short-term financial results (Zhang et al., 2022).

Previous studies often view corporate social responsibility (CSR), which forms the basis of ESG sustainability practices, as an indicator of ethical corporate behavior (Rezaee & Tuo, 2019). From this perspective, responsible corporate behavior may enhance firm performance by strengthening corporate reputation and stakeholder trust. Empirical evidence shows superior ESG performance is positively correlated with improved financial outcomes. performance higher earnings persistent (Ma & Yoo, 2022; Meliyanti & Hendriyeni, 2020; Van et al., 2020). Additionally, companies with strong CSR performance often experience better market performance, lower costs of capital, and improved stakeholder relationships (González-Sánchez et al., 2023; Ivascu et al., 2022; Liu et al., 2018). In some cases, CSR expenditures may also contribute positively to firm valuatio (Acuti et al., 2024).

However, the incentives for managers to present favorable financial performance may encourage earnings management practices. Investors and potential investors often rely on financial statements, particularly the income statement, when evaluating investment opportunities. Managers may therefore attempt to manipulate financial performance in order to present more favorable results to investors (Irwan et al., 2023).

One strategy that may influence reported profits is tax aggressiveness. Tax aggressiveness allowing corporations to lower their tax burden with different tax planning tactics, possibly increasing reported profit (Hizazi et al., 2022). Distinctions in fiscal accounting standards and taxation legislation may culminate in disparities between accounting income and taxable income.. Managers may exploit these differences when performing fiscal adjustments, which may influence reported earnings (Fionasari et al., 2020). Empirical studies indicate that tax aggressiveness exhibits a negative correlation with earnings persistence because aggressive tax practices may introduce uncertainty in financial reporting (de Lima et al., 2020; Hardiningsih et al., 2019; Riguen Koubaa & Jarboui, 2017).

The correlation between CSR or ESG performance and financial performance has been well examined, empirical findings remain inconclusive. Some studies suggest Socially responsible organizations attain superior financial performance., while others argue that successful companies simply possess enhanced resources for investment in CSR initiatives (Huang & Watson, 2015).

Furthermore, most previous studies examining ESG disclosure and corporate performance have focused primarily on developed nations such as the United States, Australia, and European countries. Consequently, empirical evidence regarding ESG practices in developing countries remains limited (Tarmuji et al., 2016). This limitation highlights the need for further research on ESG performance and its financial consequences in emerging economies like Indonesia.

Another important factor that could impact the ESG relationship performance and earnings persistence is corporate governance. Earnings persistence often depends on managerial assumptions and discretionary decisions, which may lead to asymmetric information between managers (agents) and shareholders (principals) (Landsman, 2007). Agency theory explains such conflicts of interest interest may encourage opportunistic managerial behavior (Jensen & Meckling, 1976). Therefore, there is a need for strong corporate governance systems to minimize agency conflicts and improve financial reporting quality (Shleifer & Vishny, 1997).

Research on tax aggressiveness and earnings persistence also presents two contrasting perspectives. One perspective suggests that tax avoidance may generate additional cash flows that increase firm value and support earnings sustainability (Desai & Dharmapala, 2009). Another perspective argues aggressive tax techniques may elevate agency costs and reduce financial reporting quality (Crocker & Slemrod, 2005). In such cases, aggressive tax behavior may reduce earnings persistence because it reflects opportunistic managerial behavior (Hutton et al., 2009). Most prior research investigating the correlation between tax aggression and ESG disclosure has predominantly concentrated on developed markets (Abdelfattah & Aboud, 2020; Davis et al., 2016; Lin et al., 2017). Research examining these relationships in emerging markets remains relatively limited. Therefore, examining the interplay of ESG practices and tax strategies in developing countries may provide valuable insights into how institutional differences influence corporate behavior.

Empirical studies analyzing the relationship between CSR performance and tax aggressiveness also provide mixed findings. Certain research indicates that socially responsible Corporations are less likely to engage in aggressive tax practices because they aim to maintain ethical business practices and corporate legitimacy (Davis et al., 2016; Huseynov & Klamm, 2012; Lanis & Richardson, 2012; Lin et al., 2017). In accordance with the stakeholder hypothesis, corporations should balance economic interests with ethical and social responsibilities, including paying a fair share of taxes (Hoi et al., 2013; Lin et al., 2017). In contrast, other studies suggest that CSR activities and tax aggressiveness may coexist because managers seek to maximize shareholder wealth while maintaining a positive corporate reputation (Lin et al., 2017). Managers may increase CSR disclosures to offset potential reputational hazards linked to assertive tax planning methods (Hoi et al., 2013; Lin et al., 2017).

Given these conflicting empirical findings, additional variables are required to enhance comprehension of the correlation between ESG performance, tax aggressiveness, and earnings persistence. Corporate governance mechanisms are particularly important because they help reduce opportunistic managerial behavior and improve financial transparency (Shleifer & Vishny, 1997). Corporate governance research additionally offers significant insights for policymakers and regulators. seeking to improve corporate accountability (Kovermann & Velte, 2019; Obermann, 2020). Furthermore, many empirical studies emphasize that accounting research cannot be fully understood without considering the role of corporate governance mechanisms (Armstrong et al., 2010; Brown et al., 2011).

According to these considerations, this study presents the audit committee as a moderating feature in the association with ESG performance., tax aggressiveness, and earnings persistence. The audit committee is expected to enhance corporate governance frameworks and mitigate opportunistic behavior managerial behavior in financial reporting. Because earnings persistence depends heavily on managerial discretion and accounting assumptions, effective oversight by the to improve corporate governance structures and reduce opportunistic conduct may provide a vital function in improving earnings quality and ensuring more sustainable corporate performance.

LITERATURE REVIEW

Stakeholder Theory

Stakeholder theory is a concept in business management that highlights the need of acknowledging the interests of all parties in a corporation. This hypothesis posits that corporations are responsible not to their owners, as well as their employees, consumers, suppliers, and the government. society as a whole (Freeman & McVea, 2005). The notion of stakeholder theory was initially presented by R. Edward Freeman in 1984. Has since become an important part of modern management philosophy. Stakeholder theory posits that corporations that focus on Prioritizing the interests of all stakeholders, rather than solely those of the owners, is more likely to foster long-term sustainability and generate value for many parties. This perspective emphasizes the importance of balancing objectives with social responsibilities.

Agency Theory

Agency theory elucidates the link between a company's proprietors and its executives.. This theory highlights the conflicts conflicts of interest that may emerge when managers prioritize their personal interests rather than acting in the best interest of the owners.(Jensen & Meckling, 1976). Agency theory underscores the significance of monitoring tools, incentives, and control systems to guarantee that managerial actions are congruent with the interests of the owners. In governance studies agency theory is widely used to explain the behavior of managers and the need for governance mechanisms that can reduce conflicts of interest.

Signaling Theory

Signaling theory describes the methods via which firms convey information to stakeholders to reduce a lack of transparency. According to signaling theory when one party has information than another signals can be used to convey credible information about certain characteristics or performance (Spence, 1973). In contexts signals may include financial disclosures, sustainability reporting or corporate governance practices that demonstrate the credibility of a company. Signaling the hypothesis posits that organizations exhibiting superior performance or stronger governance structures will disclose more information to indicate their quality to investors and other stakeholders.

ESG Performance

Environmental governance considerations have have gained significant importance in recent years. As people become more aware of degradation, social challenges and corporate accountability companies and regulators have started to emphasize sustainable commercial methodologies (Li et al., 2021). As a result performance in environmental, social, and governance domains has become a framework for assessing company sustainability and ethical investment methodologies. Environmental, social and governance performance originates from the concept of responsible investment, which aims to generate positive impacts on society and the environment while maintaining financial returns (Daugaard, 2020). ESG principles incorporate environmental, social, and governance factors into investment decisions and corporate strategies..

These three components are considered essential in assessing a company's long-term sustainability and risk management capability (Li et al., 2021).

The environmental dimension of social and governance performance focuses on how companies manage their environmental impacts, such as resource usage, carbon emissions and environmental protection. The social dimension assesses how organizations handle their interactions with employees, communities and other stakeholders. The governance dimension examines governance structures, openness, accountability and business ethics (EBA, 2021). Together these dimensions provide a framework for the assessment of business sustainability performance.

Tax Aggressiveness

Corporations frequently implement tax planning tactics to minimize their expected tax liabilities. These strategies may include various legal approaches aimed at minimizing tax expenses and maximizing after-tax profits. However, tax planning activities also involve costs, including administrative costs, professional services, and potential risks related to regulatory scrutiny (Balakrishnan et al., 2019).

Tax aggressiveness can be described as corporate strategies aimed at reducing tax liabilities through various tax planning approaches. However, defining tax aggressiveness precisely remains challenging because different tax strategies involve different levels of risk and regulatory acceptance. The complexity of tax regulations and differences in interpretation between tax authorities and corporate decision-makers further complicate the measurement of tax aggressiveness (Hanlon et al., 2017). Owing to disparities in tax regulations and accounting standards across jurisdictions, discrepancies frequently occur between accounting profit and tax income. These differences may provide opportunities for managers pursuit of aggressive tax planning strategies. As a result, tax aggressiveness may influence financial reporting quality and earnings sustainability.

Earnings Persistence

Earnings persistence describes how many days current earnings are projected to continue in periods of. High earnings persistence suggests that reported profits are relatively stable and accurately represent the underlying performance of a company (Fatma & Hidayat, 2020). Therefore, earnings persistence is generally viewed as part of earnings quality.

Earnings that are consistent over time are very important because they help us figure out how well a company will do in the future. The Financial Accounting Standards Board (FASB) says that earnings that are consistent are closely related to how useful accounting information's for making decisions. On the hand earnings that come from one-time events or accounting changes may not be very helpful in figuring out how well a company will do in the future.

GCG mechanism

Corporate governance is crucial for making sure that companies are run in a manner that is equitable to all parties, including shareholders. In big businesses owners of the firm are not the same as the people who run the company, which can create problems. That is why corporate governance is necessary to make sure that the people running the company are doing what is best for the owners (Gitman et al., 2015).

The idea of governance became very important after a report came out in 1992 that said companies need to be transparent and accountable (Fathonah, 2016). Corporate governance comprises a framework of regulations and practices for managing corporations. It helps make sure that the relationships between shareholders, boards of management, managers, and other stakeholders are equitable. (Gitman et al., 2015).

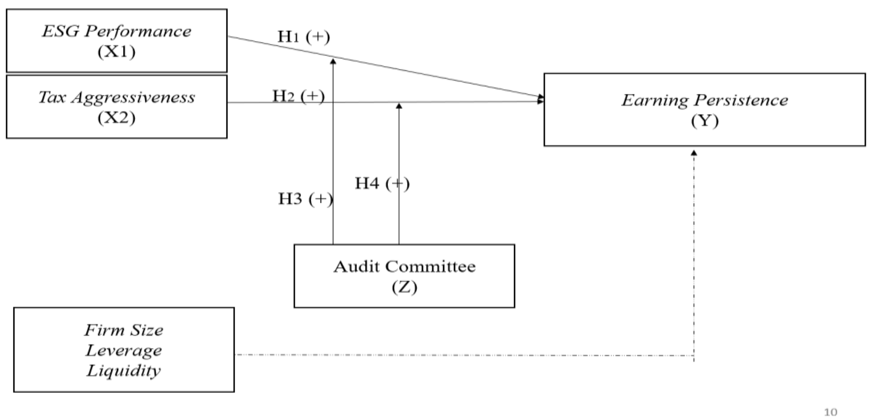
Corporate governance systems can often be classified into external and internal governance procedures (Weimer & Pape, 1999). External mechanisms encompass market competitiveness, regulatory oversight, and legal enforcement, while internal mechanisms include ownership structures, board composition, executive remuneration and board committees. Among internal governance mechanisms, board committees play a particularly important role in monitoring managerial decisions. These Committees encompass audit committees, pay committees, and nomination committees, each of which has specific responsibilities in ensuring effective corporate governance (Azim, 2012).

Audit Committee

The audit committee is a fundamental component of corporate governance. It helps the The board of directors ensures that the company's financial reports are precise and compliant with regulations. The Forum for Corporate Governance in Indonesia says that the audit committee is crucial for making sure that companies are run well. The audit committee checks the companys reports makes sure the internal controls are working and oversees the auditors.

The audit committee helps ensure that the company's financial reports are accurate and compliant with regulations.. This helps build trust with stakeholders and reduces the risk of managers doing things they should not do.

Figure 1. Conceptual Framework



Hypothesis Development

Per signaling theory, corporations reveal relevant data for communicate their credibility and mitigate information asymmetry between management and external stakeholders (Spence, 1973). Within the sustainability context, firms can demonstrate their disclosure commitment to ethical corporate practices in Environmental, Social, and Governance (ESG) performance Rezaee (2016). Firms that demonstrate strong ESG performance generally provide broader sustainability disclosures to differentiate themselves from companies with weaker ESG practices (Huang & Watson, 2015; Hummel & Schlick, 2016; Rezaee, 2016). An elevated ESG score is difficult for companies with poor sustainability practices to imitate. Companies may disclose superior ESG performance for various reasons, including strengthening relationships with stakeholders like consumers, employees, and suppliers; improving corporate reputation; and improving the perceived quality of their products and services. These methods may also diminish the probability of opportunistic financial reporting activity, including earnings management (Rezaee & Tuo, 2019).

Previous empirical research indicates companies exhibiting superior ESG performance are more inclined to attain enhanced financial results and superior earnings quality. For example (Mahjoub & Khamoussi, 2013; Nurdin & Hamzah, 2016) find that strong ESG performance positively influences earnings persistence. These findings indicate that companies are actively involved in environmental and individuals exhibiting social responsibility are more inclined to generate stable and sustainable earnings. According to the theoretical rationales and empirical findings presented above, the first hypothesis is expressed as follows:

H1: ESG Performance influences earnings persistence

Earnings retention represents how many current earnings can be utilized to project future outcomes. profitability and is commonly used as a proxy for profits quality (Atwood et al., 2010). Companies with robust profits persistence are likely to report stable profits in future because their earnings consist primarily of recurring components rather than temporary gains (Choi, 2021). Therefore, earnings persistence is considered an important indicator for investors when evaluating company performance.

Firms frequently adopt tax planning ways to minimize tax obligations and increasing net income after taxes (Hanlon & Slemrod, 2009). A higher level of tax aggressiveness may influence tax evasion both discount rates and cash flows strategies can alter the firm's cash flow structure. Additional cash flows obtained from tax savings may contribute to reported profits and potentially enhance earnings sustainability. From this perspective, greater tax avoidance may lead to more predictable income.

Nevertheless, aggressive tax strategies may intensify conflicts of interest and create greater disparity of information between shareholders and executives. Aggressive tax strategies may reflect opportunistic managerial behavior and increase the risk of poor financial reporting quality. Prior research suggests that aggressive tax behavior may weaken earnings persistence because it introduces uncertainty regarding the stability of reported profits (Hardiningsih et al., 2019).

From one perspective, tax avoidance may increase corporate cash flows because companies can retain more financial resources. These additional cash flows may enhance financial stability and improve earnings sustainability (Desai & Dharmapala, 2009). In other words, it can be asserted that the relationship between tax avoidance and profit sustainability is uncertain regarding the direction of the relationship. Given these conflicting perspectives, tax relationship aggressiveness and earnings permanence remains an empirical question. The second hypothesis is expressed as follows:

H2: Tax Aggressiveness influences earnings persistence

Corporate governance mechanisms are necessary to promote openness, accountability and responsible decision-making inside organisations. Corporate Social Responsibility (CSR) disclosure aims to demonstrate corporate accountability to stakeholders instead of focusing solely on profit maximization (Gill, 2008), By providing transparent CSR disclosures, companies may diminish information asymmetry and enhance stakeholder trust (Gelb & Strawser, 2001). Efficient corporate governance mechanisms are essential to guarantee the implementation of ESG practices. responsibly and contribute to long-term corporate sustainability. Organizations with robust governance frameworks are more inclined to uphold ethical standards and financial transparency while achieving sustainable financial performance (Ruangviset et al., 2014). Corporate governance therefore aims to balance economic objectives with broader social responsibilities (Claessens, 2006). Integrating sustainability practices has been embedded in governance structures so that firms act responsibly (Welford, 2007).

The Audit Committee is an essential element of company governance, supervising financial reporting processes and ensuring the integrity of corporate disclosures. Previous studies indicate an effective the audit committee can improve the quality of financial reporting. reporting and limit opportunistic actions taken by management. For example, Alqatamin (2018) finds that effective audit committees improve financial reporting quality and reduce earnings management practices. Similarly, Salehi and Shirazi (2020) report that audit committee effectiveness enhances earnings quality and transparency in financial reporting. More recent evidence by Baatwah et al. (2022) also shows that audit committee expertise and independence improve financial reporting quality and strengthen earnings quality. Given its monitoring role, the audit committee may strengthen the relationship between ESG performance and earnings persistence by ensuring that sustainability practices are implemented transparently and reflected accurately in financial reporting. Consequently, the third hypothesis is articulated as follows:

H3: The audit committee mitigates the influence of ESG performance on earnings

Agency theory indicates that conflicts may occur between management and shareholders when managerial actions prioritize personal interests rather than shareholder value (Jensen & Meckling, 1976). Within the framework of tax aggressiveness, management may undertake aggressive tax planning measures in order to boost reported profits and improve managerial performance. However, excessive tax avoidance may expose companies to regulatory risks, tax penalty and reputation harm (de Lima et al., 2020).

Since the perspective of investors, aggressive tax practices may indicate potential non-compliance with tax regulations and may increase financial reporting risk. This situation may create conflicts of interest between executives and shareholders. Therefore, Efficient corporate governance structures are required to monitor managerial decisions related to tax strategies and financial reporting (Lanis & Richardson, 2011). The audit committee is essential in overseeing financial reporting. activities and monitoring managerial decisions related to taxation. Prior research indicates The audit committee plays a crucial role in supervising and enhancing the reliability of financial reporting (Alqatamin, 2018; Salehi & Shirazi, 2020; Baatwah et al., 2022). Through its monitoring function, the audit committee can reduce opportunistic managerial behavior and ensure that tax planning strategies do not compromise financial reporting quality.

Therefore, a successful audit committee may weaken the detrimental effects of taxation aggressiveness regarding earnings permanence. both theoretical and empirical dimensions arguments above, The fourth theory is delineated as follows:

H4: The audit committee regulates the influence of tax aggressiveness on earnings persistence

METHOD

This study employs a methodology to study the links between variables and draw conclusions through statistical analysis (Ferdinand, 2014). The study uses an associative framework for analyze the causal links between independent variables and the dependent variable. The focus is on testing hypotheses about the correlation between ESG performance and earnings persistence well as the moderating function of the audit committee as a mechanism for corporate governance.

The study pertains to corporations listed on the Indonesia Stock Exchange that write reports about how they're doing with sustainability. The research looks at these reports from 2019 to 2021 to see how the companies are doing over time. The data in this study is derived from the company's annual report and sustainability report which can be accessed on the Indonesia Stock Exchange website and the respective corporate websites.

Operational Definition of Variables and Their Measurement

ESG performance

ESG performance represents an assessment regarding the company's environmental, social, and governance initiatives (Gillan et al., 2021). This research assesses ESG performance by content analysis of sustainability disclosures in corporations' annual reports. and sustainability reports, using the Global Reporting Initiative (GRI) framework as the reference standard. The GRI framework offers detailed guidelines for sustainability reporting that encompass environmental, social, and governance dimensions. Within this framework, environmental disclosures are guided by GRI 300, social disclosures by GRI 400, and governance-related disclosures by GRI 102. The ESG disclosure score is based on the ratio of the number of indicators reported by the company with the total indicators required within each GRI category. The measurement applies a dummy scoring method, where a value of 1 is assigned when a disclosure item is reported and 0 when the item is not disclosed.d.

$$ESGj = \frac{Sum\ of\ company's disclosure\ item}{Total\ of\ GRI's\ disclosure\ standard\ item}$$

Earning persistence

An assessment of the company's earnings sustainability. The proxy for earnings persistence will refer to research conducted by Khuong in 2022 with the following formula:

$$\text{Earningsi, t} + 1 = \alpha + \beta 1 \text{ x Earningsi, t} + \varepsilon$$

EP is based on financial report components and can be noted overall in the main report. By OLS regression with respect to the above equation, you will obtain the coefficient β1. The coefficient value β1 is the earnings value for a certain period. The value of earnings will be measured from the value of earnings per share (EPS), so that earningsi,t+1 and earningssi,t respectively depict the company's earnings per share (EPS) for years t+1 and t, multiplied by the share price in years t+1 and T (Khuong et al., 2022).

Tax Aggressiveness

Tax aggressiveness as a form of tax planning should not be seen as an activity that provides tax avoidance, but rather takes advantage of the legal exceptions and concessions provided in the tax system to seek, among the available legal methods, the one that causes the lowest tax burden. for companies (de Lima et al., 2020). The proxy for earnings persistence will refer to executed research by Dunbar et al. in 2010 with the following formulation:

$$ETR = \frac{Total\ income\ tax\ expense}{Pre - tax\ accounting\ (or\ book)\ income}$$

Where:

- Total income tax expense denotes the corporation tax liability incurred by firm i in year t, as disclosed in the company's financial statements.
- Pre-tax accounting (or book) income refers to the income of firm i in year t prior to tax deductions, as derived from the company's financial records.

Audit Committee

The audit committee constitutes a component of corporate governance. mechanism, namely the method used, at the company level, to address corporate governance issues; However, the use of this mechanism is contingent upon the corporate governance framework that applies in each country (Weimer & Pape, 1999). The proxy from the audit committee will refer to research conducted by Mansor in 2013 with the following formulation (Mansor et al., 2013):

$$GGG\ Mechanism = Number\ of\ Audit\ committee\ members$$

Control Variables

The measurement of this control a variable denotes research undertaken by Ha et al. (2020) with the following formulation:

- Firm size : LN(Total assets)
- Leverage (DER) : Total debt : Total equity
- Liquidity (CR) : Current Assets : Current Liabilitie

Population and Sample

The research population includes all firms listed on the Indonesia Stock Exchange (IDX) during the 2019–2021 observation period. The sample was determined using purposive sampling. method grounded in multiple established criteria. The criteria utilized for selecting the research sample are as follows:

1. Companies registered on the Indonesia Stock Exchange (IDX)
2. Companies that remained listed continuously during the 2019–2021 period
3. Companies that published complete sustainability reports throughout the 2019–2021 observation period.

Data analysis technique

Descriptive statistics

Descriptive statistical analysis is applied to summarize and explain the characteristics of the research variables. This analysis presents the distribution of each variable through several statistical indicators, comprising the mean, median, highest value, minimum value, and standard deviation. Descriptive statistics provide an overview of the variability and overall pattern of the research variables.

Normality test

This examination was conducted with the aim of testing research variable data that is normally distributed if the analysis uses the parametric method (Ghozali, 2018). In this research, data normality was examined using the One-Sample Kolmogorov–Smirnov (KS) test. The decision criteria for this test are based on the significance level obtained. If the probability or significance If the value exceeds 0.05 (5%), the data are deemed to conform to a normal distribution. On the contrary, if the probability or significance value is equal to or less than 0.05 (5%), the data are regarded as not typically distributed according to a normal distribution.

Multicollinearity Test

This test was conducted to assess whether or not there was a flawless or very flawless linear correlation inside the independent variables of the regression model (correlation value of 1 or close to 1) that was formed. An effective regression model is one that lacks. The testing method used in this research is by looking at the values of tolerance and variance inflation factor (VIF). These two indicators are used to determine the extent to which an independent variable can be explained by the presence of other independent variables in the regression model. The tolerance value indicates the extent of variability in a specific independent variable that remains unaccounted for by other independent variables. A low tolerance value is associated with a high VIF value. (Ghozali, 2018).

Heteroskedasticity Test

The heteroskedasticity a test is conducted to ascertain if the variance of residuals remains constant across data. This study uses the White Test through EViews version 12. The criteria for decision-making are: If the probability value (Prob. Chi-Square) is greater than 0.05, the regression model does not exhibit heteroscedasticity, If the probability value is less than or equal to 0.05, heteroskedasticity exists

Autocorrelation Test

This study uses the Breusch–Godfrey Serial Correlation LM Test. The decision criteria are: If the probability value (Prob. Chi-Square) is greater than 0.05, there is no autocorrelation, If the probability value is less than or equal to 0.05, autocorrelation exists.

Hypothesis testing

Hypothesis testing is performed to ascertain the significance of the interrelationships among variables in the regression modelThis research employs the t-test and F-test methodologies. The t-test is utilized to assess the individual impact of each independent variable on the dependent variable. while the F-test is used to evaluate the simultaneous effect of all independent variables. Decision criteria: If the If the probability value is less than 0.05, the hypothesis is accepted; if the probability value exceeds 0.05, the hypothesis is rejected.

Formed Regression Model

The regression model equation formed is as follows:

$$EP = \alpha 0 + \beta 1ESG + \beta 2ETR + \beta 3(ESG*AC) + \beta 4(ETR *AC) + \beta 5SIZE + \beta 6\ DER + \beta 7CR + \varepsilon$$

Information:

EPS : Earning persistence
ESG : ESG Performance
ETR : Tax Aggressiveness
AC : Audit Committee
MOD 1: (ESGx AC)
MOD 2 : (ETRxAC)
SIZE : Firm size
DER : Leverage (Debt To Equity Ratio)
CR : Liquidity (Current Ratio).

RESULTS AND DISCUSSION

Descriptive statistics

Table 1 summarizes the descriptive statistics of the research variables, including the mean, median, maximum value, minimum value, and standard deviation.

Table 1 Descriptive Statistics

Variables	Observations	Mean	Median	Maximum	Minimum	Std. Dev
EPS	291	3,6316150	3,5600000	8,0000000	-0,4800000	1,7418550
ESG	291	-0,3482470	-0,3800000	0,1400000	-0,6700000	0,1761920
ETR	291	-0,2598630	-0,3000000	2,8200000	-0,6900000	0,3400760
AC	291	3,0206190	3,0000000	4,0000000	1,0000000	0,3315390
SIZE	291	28,5256900	28,3068800	32,5134500	25,1298300	1,6055110
DER	291	0,5348190	0,4679680	3,9543650	0,0073730	0,4669180
CR	291	3,7653730	1,5212170	206,8642000	0,0578540	1,6261620

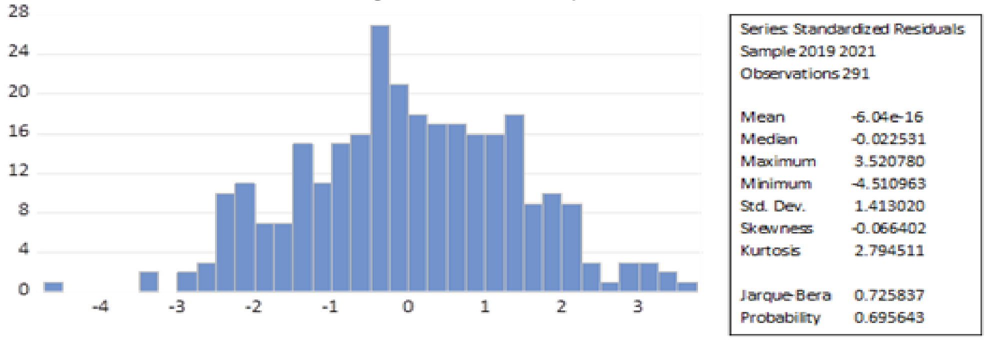
Note : EPS (Earning Persistence), ESG (ESG Performance), ETR (Tax Aggressiveness), AC (Audit Committee), SIZE (Firm size), DER (Debt To Equity Ratio), CR (Current Ratio)

Source: Eviews Output 12, 2023

According to Table 1, the earnings persistence variable (EPS) shows an average value of 3.631615, with values ranging from -0.480000 to 8.000000. This variation indicates differences in the sustainability of earnings among firms during the study period. The ESG performance variable has an average value of -0.348247, with values ranging between -0.670000 and 0.140000. These results suggest that the level of ESG disclosure varies across the sampled companies. The tax aggressiveness variable, measured by ETR, records an average value of -0.259863, reflecting differences in tax planning strategies across companies. The audit committee variable (AC) has a mean value of 3.020619, which indicates that most companies maintain an audit committee consisting of approximately three members. For the control variables, firm size (SIZE) has an average value of 28.52569, while leverage (DER) possesses an average value of 0.534819, indicating moderate reliance on debt financing. The liquidity variable (CR) has an average value of 3.765373, indicating that most firms maintain sufficient liquidity to meet their short-term obligations.

Normality Test

Figure 2 Normality Test



Source: Eviews Output 12, 2023

The results of the normality test show that the Jarque-Bera probability value exceeds 0.05, suggesting that the data follow a normal distribution.

Multicollinearity Test

Multicollinearity was examined by analyzing the correlation matrix between the independent variables.

Table 2. Multicollinearity Test

	ESG	ETR
ESG	1	0.05120918308844926
ETR	0.05120918308844926	1

Source: Eviews Output 12, 2023

The correlation value between ESG and ETR is 0.0512, which is significantly lower than the critical threshold of 0.80. Thus, the regression model does not demonstrate the existence of multicollinearity among the independent variables.

Autocorrelation Test

The Breusch–Godfrey Serial Correlation LM Test was applied to examine the presence of autocorrelation in the regression model.

Table 3. Autocorrelation Test

F-statistic	0.837126	Prob. F(200.82)	0.8399
Obs*R-squared	195.3320	Prob. Chi-Square(200)	0.5800

Source: Eviews Output 12, 2023

The results indicate that the probability value exceeds 0.05, which suggests that the regression model is free from autocorrelation.

Heteroskedasticity Test

The presence of heteroskedasticity was examined using the White Test.

Table 4. Heteroscedasticity Test

F-statistic	1.801306	**Prob. F(5.285)**	0.1126
Obs*R-squared	8.914429	**Prob. Chi-Square(5)**	0.1125
Scaled explained SS	8.582519	**Prob. Chi-Square(5)**	0.1269

Source: Eviews Output 12, 2023

Since the probability value exceeds 0.05, indicating that the regression model can be deemed independent from heteroskedasticity issues

Hypothesis Testing

The panel data regression equation can be formulated as follows:

EP = α0 + β1ESG + β2ETR + β3(ESG*AC) + β4(ETR *AC) + β5SIZE+ β6 DER+ β7CR+ ε

Information:
EPS : Earning persistence
ESG : ESG Performance
ETR : Tax Aggressiveness
AC : Audit Committee
MOD 1: (ESGx AC)
MOD 2 : (ETRxAC)
SIZE : Firm size
DER : Leverage (DebtTo Equity Ratio)
CR : Liquidity (Current Ratio)

Coefficient of Determination (R^2)

Table 5. Coefficient of Determination Test Results (R2) and F Test Results

Cross-section fixed (dummy variables)			
MSE Root	0.644206	R-squared	0.862748
Mean dependent var	3.631615	Adjusted R-squared	0.786004
SD dependent var	1.741855	SE of regression	0.805776
Akaike info criterion	2.680052	Sum squared resid	120.7652

Schwarz criterion	4.005478	Log likelihood	-284.9475
Hannan-Quinn Criter.	3.211023	F-statistic	11.24199
Durbin-Watson stat	2.811486	Prob(F-statistic)	0.000000

Source: Eviews Output 12, 2023

Based on Table 5, the Adjusted R-squared value is 0.786004, indicating that 78.60% of the variation in earnings persistence can be explained by ESG performance, tax aggressiveness, the moderating role of the audit committee, and the control variables (firm size, leverage, and liquidity).

Results

Table 6. T Test Results

Variables	Coefficient	Std. Error	t-Statistics	Prob.
C	-47.65354	14.88045	-3.202426	0.0016
ESG	1.001294	5.004119	0.200094	0.8416
ETR	-7.285545	1.943303	-3.749052	0.0002
AC	0.202843	0.576631	0.351774	0.7254
AC*ESG	-0.498324	1.632832	-0.305190	0.7606
AC*ETR	1.888834	0.636345	2.968255	0.0034
SIZE	1.724420	0.520810	3.311036	0.0011
DER	1.679762	0.514515	3.264748	0.0013
CR	-0.002276	0.004218	-0.539536	0.5902

Source: Eviews Output 12, 2023

Table 7. Hypothesis Results

Hypothesis	Relationship Tested	Coefficient	Probability	Result
H1	ESG Performance (ESG) → Earnings Persistence (EPS)	1,001294	5,844444	Rejected
H2	Tax Aggressiveness(ETR) → Earnings Persistence (EPS)	-7,285545	0,000200*	Accepted
H3	ESG × Audit Committee (AC)→ Earnings Persistence (EPS)	-0,498324	5,281944	Rejected
H4	Tax Aggressiveness (ETR) × Audit Committee (AC) → Earnings Persistence (EPS)	1,888834	0,003400*	Accepted

Source: Eviews Output 12, 2023

Coefficient of Determination (R2)

According to Table 5, the Adjusted R-squared value is 0.786004 or 78.60%. This indicates that the independent variables include ESG and Tax Aggressiveness, the moderating variables include the audit committee, the control variables encompass firm size and leverage., liquidity can explain the dependent variable, namely Earning Persistence of 78.60%. Meanwhile, the remaining 21.40% is influenced by other variables not included in this research.

Simultaneous Testing (F Test)

According to Table 5, the probability value of the F-statistic is 0.0000. This indicates that the probability (F-statistic) <0.05 means H0 is rejected and H1 is accepted. So it can be concluded that ESG, Tax Aggressiveness, audit committee, firm size, leverage, liquidity influence simultaneously (together) on Earning Persistence in companies listed on the Indonesia Stock Exchange (BEI) for the 2019-2021 period.

Partial Testing (t Test)

Based on table 6, it can be concluded that ESG has a probability value greater than 0.05, namely 0.8416 with a positive regression coefficient of 1.001, indicating that H1 is rejected. So it can be concluded that ESG does not have a positive effect on Earning Persistence.

Tax Aggressiveness (ETR) has a probability value greater or less than 0.05, namely 0.0002 with a negative regression coefficient of -7.285, indicating that H2 is accepted. So it can be concluded that Tax Aggressiveness has a negative effect on Earning Persistence.

ESG moderated by the audit committee has a probability value greater than 0.05, namely 0.7606 with a negative regression coefficient of -0.4983, indicating that H3 is rejected. It can be concluded that ESG moderated by the audit committee exerts little influence on Earning Persistence.

Tax Aggressiveness which is moderated the audit committee possesses a probability value. smaller than 0.05, namely 0.0034 with a positive regression coefficient of 1,888 indicating that H4 is accepted. Therefore, it may be argued that Tax Aggressiveness moderated by the audit committee has a positive impact on Earnings Persistence.

Discussion

The Influence of ESG Performance on Earning Persistence

The findings reveal that ESG performance lacks a statistically meaningful impact on earnings persistence in companies registered on the Indonesia Stock Exchange from 2019 to 2021. These findings suggest that the implementation of ESG practices does not necessarily lead to more stable and sustainable earnings. In general, ESG practices are expected to improve corporate reputation, strengthen stakeholder trust, and enhance long-term financial performance (Ha et al., 2020; (Mahjoub & Khamoussi, 2013; Nurdin & Hamzah, 2016), However, the results of this study indicate that the relationship between ESG performance and earnings persistence is not always consistent..

One possible explanation is that ESG disclosure in many companies may still be motivated by regulatory adherence rather than being fully integrated into corporate business strategies. As a result, ESG initiatives may not yet contribute directly to the sustainability of corporate earnings. In addition, earnings persistence may be influenced more strongly by other factors such as market conditions, corporate governance structures, and internal management policies (Ma & Yoo, 2022).

These results underscore the complexity of the relationship between ESG practices and fiscal performance. Although ESG activities remain important in promoting responsible business practices, their direct impact on earnings persistence may depend on how effectively ESG initiatives are implemented and integrated into the company's long-term strategy.

The Effect of Tax Aggressiveness on Earning Persistence

The findings of this study indicate that taxation aggressiveness shows a negative association with earnings persistence. This indicates that companies with higher levels of tax aggressiveness tend to experience lower earnings stability over time. Tax aggressiveness is generally associated with corporate strategies aimed at minimizing tax liabilities through various tax planning mechanisms. While these strategies may provide short-term financial benefits by reducing tax expenses, they may also increase uncertainty in financial reporting and create fluctuations in corporate earnings.

This finding is consistent with previous studies which indicate that aggressive tax strategies can reduce earnings quality and earnings sustainability (de Lima et al., 2020). Companies that engage in aggressive tax planning may generate temporary financial benefits; however, such practices can lead to inconsistencies in financial performance over time. Aggressive tax practices may also increase regulatory risk and reduce stakeholder assurance in the dependability of company financials reporting (Hardiningsih et al., 2019).

Furthermore, companies that exploit loopholes in tax regulations to reduce their tax burden may create uncertainty in their financial performance. Although such practices may still fall within legal boundaries, they are often temporary and may result in inconsistent earnings patterns across different periods (Alsmady, 2022; Müller et al., 2020). Consequently, excessive tax aggressiveness may weaken the sustainability and predictability of corporate earnings

These findings indicate that an over emphasis on immediate outcomes tax savings may threaten the enduring consistency of corporate financial performance. Therefore, companies should adopt balanced tax planning tactics designed to minimize tax burdens but also maintain earnings stability and financial transparency.

The influence of ESG Performance on Earning Persistence is moderated by the Audit Committee

The findings of this investigation indicate the audit committee does not significantly influence the relationship between ESG. performance and earnings persistence. This finding demonstrates that the existence of an audit committee does not strengthen the influence of ESG performance on the sustainability of corporate earnings firms listed on the Indonesia Stock Exchange in 2019-2021 timeframe.

In theory, the audit committee is significant role in monitoring corporate governance practices and guaranteeing the integrity and transparency of financial reporting. An effective audit committee is expected to strengthen the implementation of ESG practices by supervising risk management, compliance, and corporate sustainability reporting. Previous studies suggest that a well-functioning audit committee can improve the credibility of ESG disclosures and enhance the caliber of corporate financial disclosures (Almaqtari et al., 2022).

However, the findings of this investigation indicate that the mediating function of the audit committee in the connection between ESG performance and earnings persistence is not statistically significant. One possible explanation is that ESG practices in many companies may still be implemented primarily as a compliance requirement rather than being fully integrated into the company's core business strategy. As a result, the audit committee's oversight may focus more on financial reporting compliance rather than on evaluating the long-term economic impact of ESG initiatives.

Furthermore, ESG activities are often managed by specialized sustainability or corporate social responsibility units in the corporation, which may restrict the direct engagement of the audit committee in overseeing ESG implementation. Consequently, the audit committee may not yet play a strong role in linking ESG practices with the sustainability of corporate earnings.

These findings show that how well a company does with ESG and how well it keeps making money over time may depend on things. Things like how well the company is run what the companys plan is, what is going on in the market and how the company handles risks inside. People who study this stuff may want to look at how the people in charge of the company can do a better job of putting ESG practices into the companys big picture plan. This can help the company make money in a way that's good for the future. ESG performance is important. Companies need to think about how to make it a part of what they do every day. The people responsible for the organization, such as the audit committee have a role to play in thisThey need to figure out how to make ESG practices a part of the companys plan for making money This can help the company do well financially in a way that's sustainable, over time ESG performance is a key part of this and companies need to take it seriously.

The influence of Tax AggresSsiveness on Earning Persistence is moderated by the Audit Committee

The findings of this investigation indicate that the audit board substantially influences the correlation between taxation aggressiveness and the continuity of earnings. Specifically, the findings show that an established audit committee weakens the negative effect of tax aggressiveness on earnings persistence. This suggests that effective corporate governance strategies can limit undesirable impacts of aggressive tax strategies on the viability of corporate profits.

Corporate tax aggressiveness is defined as strategies aimed at minimizing tax obligations via various tax planning activities, which may involve a relatively high level of risk. While these strategies may reduce tax expenses and increase short-term profits, excessive tax aggressiveness may also increase financial reporting risk and create instability in corporate earnings. Therefore, monitoring mechanisms are required to ensure that tax planning practices remain within acceptable regulatory boundaries.

The audit committee plays a crucial role in this context. as an internal supervisory body responsible for overseeing financial reporting processes, internal control systems, and corporate conformity with legal requirements. An effective audit committee can strengthen oversight of corporate tax policies, reduce the potential for opportunistic managerial behavior, and improve the transparency and credibility of financial reporting.

Prior research has further underscored the significance of audit committees in enhancing corporate governance and reducing the risks associated with aggressive financial practices (Alsmady, 2022; Müller et al., 2020). Through stricter monitoring and supervision, the audit committee can ensure that tax planning strategies are implemented responsibly and do not compromise the quality and sustainability of corporate earnings.

Therefore, the present study findings highlight the significant function of the audit committee in reducing the adverse impact of tax aggressiveness on earnings persistence. The presence of an effective audit committee can increase investor confidence by ensuring that corporate tax strategies are properly monitored and aligned for fiscal sustainability stability.

CONCLUSION

This study looks at how ESG performance, tax aggressiveness and earnings persistence're connected and it also considers the duty of the audit committee on the company listed in Indonesia Stock Exchange period 2019 s/d 2021.

The findings suggest that ESG performance has less or negligible impact on profit persistence. which means that the ESG practices that companies use may not directly help make corporate earnings more stable and sustainable. On the hand tax aggressiveness has a large negative impact on persistence of earnings, which suggests that companies that use aggressive tax strategies tend to have less stable earnings over time.

The audit committee does not influence the correlation between ESG performance and earnings persistence. However the audit committee does change tax relationship aggressiveness The permanence of earnings by allowing the influence of tax aggressiveness on corporate earnings less strong.

From a point of view this study shows that companies should use balanced strategies that think about both financial performance and long term sustainability. Companies should not just focus on getting short term tax benefits through tax strategies because these strategies can make earnings less stable in the long run.

Companies can make sure they have oversight of tax policies and financial reporting by making their corporate governance frameworks stronger, especially the role of the audit committee. Companies should also make ESG practices a part of their business strategies so that ESG initiatives can help make financial performance more sustainable.

This research has some limitations. First it only views of firms enumerated on the Indonesia Stock Exchange for the duration of 2019 to 2021 which means the results may not apply to markets or time periods. Second this study only looks at ESG performance and tax aggressiveness. Does not consider other factors that could affect earnings persistence, such as corporate governance quality and ownership structure.

Future research should try to look at a period of time and include companies, from different countries to get a deeper knowledge of how ESG practices, tax aggressiveness and earnings persistence are connected. Future studies could also look at corporate governance variables to see how they affect the sustainability of corporate earnings.

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