

ESG Part, Financial Distress, Financial Fraud and Audit Committee as a Moderating Variable

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Abstract: This research is motivated by the increasing demands for transparency and accountability. Companies are not only required to present reliable financial reports but also to demonstrate their commitment to sustainability practices through ESG performance. On the other hand, financial distress can increase pressure on management to maintain company performance, potentially encouraging financial statement manipulation. The audit committee acts as an oversight mechanism that can improve the integrity of the financial reporting process. This study aims to analyze the effect of ESG performance and financial distress on financial statement fraud and to examine the moderating role of the audit committee in this relationship by considering differences in industry characteristics as a control variable. This study uses a quantitative approach with secondary data from 94 companies in the ASEAN region for the period 2017–2024 with a total of 752 observations. Data analysis was performed using panel data regression with the help of Eviews 14 software. The results show that ESG performance and financial distress have a significant effect on financial statement fraud. The results of the moderation test indicate that the audit committee is able to moderate the relationship between ESG and financial distress on financial statement fraud. Differences in industry sector characteristics can affect the level of ESG, the risk of financial distress, and the effectiveness of audit committee oversight in preventing financial statement fraud. These findings suggest that increasing corporate transparency depends not only on ESG but also on considering industry sector characteristics and adapting oversight strategies to minimize the potential for financial reporting fraud in the ASEAN region.

Keywords: ESG, Financial Distress, Financial Reporting Fraud, Audit Committee

INTRODUCTION

The world has witnessed some of the worst corporate fraud incidents, such as the American International Group in 2005, Lehman Brothers in 2008, and Toshiba in 2015. These incidents have highlighted the repeated failure of audit methodologies in detecting and preventing fraudulent activities (Lokanan & Sharma, 2024). Another case occurred at the giant British Telecom company, where since 2017, rumors have circulated about accounting fraud at the giant British company in one of its business lines in Italy (Umar et al., 2024). Financial scandals involving financial statement manipulation have damaged investor and public confidence, and caused significant losses to companies and the economy as a whole, making financial statement fraud a concern for auditors (Asni & Heniwati, 2023). The ACFE (2024) found that of the eight geographic regions studied, ASEAN was the region with the highest percentage of fraud cases, as much as 74%, compared to the United States and Canada, which only had 35%. This shows that financial reporting irregularities are the fraud scheme with the fewest cases globally, however, they have a very large economic impact on investors, creditors and regulators (Kirana et al., 2023).

Companies need to focus on improving internal oversight, enforcing ethics, transparency, and accountability (Saftiana et al., 2023), and effective risk management while maintaining financial stability. These focuses include ESG, such as governance aspects, which play a crucial role in preventing financial reporting fraud through strong oversight mechanisms, such as independent audit committees, transparency in reporting, and effective internal control systems. Good ESG performance can reduce corporate risk, improve financial performance, and limit financial irregularities (Liu & Jin, 2023).

In recent decades, more and more companies have faced pressure to implement sustainable and responsible business practices, both from academics and corporations (Samy El-Deeb et al., 2023). Companies often neglect the social and environmental impacts caused by their processes (Mukhtaruddin et al., 2018). As the global economy develops and industrialization continues, environmental and social issues worldwide are becoming increasingly prominent, attracting widespread attention from all levels of society (Xu & Zhu, 2024). One of the most sought-after reports is the sustainability report (Meutia et al., 2022). Initially, CSR was seen as a step in the right direction towards sustainable financing, but CSR data is inaccurate in predicting outcomes (Mukhtaruddin et al., 2025). Therefore, ESG is expected, particularly the governance component, which has a significant impact on company management, including transparency, internal control, and accountability (Yudhanto & Simamora, 2023).

ESG performance demonstrates that companies strive to fulfill stakeholders' rights to obtain relevant information about the company, especially non-financial information, to effectively curb financial fraud and strengthen corporate governance structures, particularly by enhancing oversight (Wang & Liu, 2025). Furthermore, strong ESG performance reflects transparency and accountability (Wijaya & Kuang, 2023). A lack of ESG by companies can result in poorly made investments in high-risk sectors that could pollute the environment or discriminate against employees, as well as making decisions based solely on financial performance (Mohammad & Wasiuzzaman, 2021).

The COVID-19 pandemic has significantly impacted the costs and benefits of share buybacks in companies (Sakawa et al., 2024). This state of financial distress can directly impact corporate transactions (Laus et al., 2025). Financial distress can have significant implications for all stakeholders, resulting in a loss of investor confidence, decreased creditworthiness, layoffs, corporate failure, and a decline in financial health that can lead to bankruptcy (Hajek & Munk, 2024). Financial distress statistically affects the integrity of financial statements (Handayani & Annisa, 2024). Financial distress has a positive effect on financial statement fraud because financial difficulties experienced by companies encourage management to manipulate financial statement information (Riyanti, 2024). Because higher financial distress will lead to companies committing financial statement fraud, and conversely, companies with lower financial distress will reduce their actions in committing financial statement fraud (Putri & Hariadi, 2023).

Although audit committees play a role in maintaining the integrity of financial reports, their impact on ESG and company value appears to be insignificant (Rachmadiansyah et al., 2025). Companies are increasingly addressing various ESG issues in their operations, and engaging in negative ESG issues can result in losses, ranging from legal sanctions and a decline in corporate reputation to a loss of stakeholder trust, leading to a decline in financial performance (Manullang et al., 2024). In developing countries, audit committees still focus on strengthening their basic functions and oversight structures, while in developed countries, audit committees have assumed more strategic and systematic roles in maintaining the integrity of financial reporting and efficient governance (Imelda et al., 2025). The independence and competence of audit committees are crucial for decision-

makers in improving the quality of financial reporting and internal control in audits (Al-Hadrami et al., 2020). A strong audit committee enhances oversight of responsibilities (Mukhtaruddin et al., 2018).

This study aims to fill this gap by examining the role of the audit committee as a moderator to determine the role of the audit committee as a supervisory board in minimizing financial reporting fraud. Kirana et al., (2023) on the relationship between ESG and financial distress on financial reporting fraud, in the context of evolving regulations and transparency. The purpose of this study is also to empirically analyze the influence of ESG and financial distress on the tendency of financial reporting fraud in listed companies in the ASEAN region for sustainable development (Le, 2024). By focusing on the ASEAN regional context, this study is expected to contribute to the understanding of the role of corporate governance in preventing unfair financial reporting fraud practices amidst financial pressures and sustainability demands. Therefore, this study is entitled "The Effect of Environmental, Social, and Governance Performance and Financial Distress on Financial Report Fraud with the Audit Committee as a Moderating Variable in the ASEAN Region."

RESEARCH METHOD

This study focuses on companies in the ASEAN region, using data obtained from Refinitiv Workspace from 2017 to 2024. It focuses on non-financial companies listed in the ASEAN region, including Indonesia, Malaysia, the Philippines, Thailand, and Singapore, that have consistently implemented ESG and financial reporting practices. This study examines the influence of ESG and financial distress on financial reporting fraud, with the audit committee acting as a moderating variable and industry as a control variable. This study examines the importance of sustainable governance and its impact on corporate trust and transparency in maintaining the quality and integrity of financial reporting. This study employs a quantitative approach, a research method based on the philosophy of positivism, used to examine specific populations or samples, collecting data to describe and test established hypotheses (Sugiyono, 2022).

Dependent Variable

The dependent variable is influenced or affected by the presence of the independent variable (Sugiyono, 2022). The dependent variable in this study is financial statement fraud, measured using the M-Score. The statistical model developed by Beneish (1999) uses the M-Score or Beneish M-Score to detect the possibility of financial statement manipulation by companies (Wijaya & Kuang, 2023). The M-Score estimates that any company with an M-Score > -2.22 is likely to engage in financial statement manipulation, while companies with an M-Score < -2.22 are unlikely to engage in financial statement manipulation (Nugroho & Diyanty, 2022).

Financial Statement Fraud:

$$M - Score = 4.84 + 0.920 * DSRI + 0.528 * GMI + 0.404 * AQI + 0.892 * SGI + 0.115 * DEPI - 0.172 * SGAI + 4.679 * TATA - 0.327 * LVGI$$

Information

DSRI = Days Sales in Receivables Index

GMI = Gross Margin Index

AQI = Asset Quality Index

SGI = Sales Growth Index

DEPI = Depreciation Index

SGAI = SG&A Index

TATA = Total Accruals to Total Assets

LVGI = Leverage Index

Independent Variables

Environmental, Social, and Governance

Effective ESG performance is considered to increase transparency and accountability within a company (Wijaya & Kuang, 2023). There are two ESG measures: the ESG Score, which represents all company calculations presented in individual variable information, and the composite score, which represents the company's overall ESG score, including the controversy score. Therefore, in this study, ESG performance was calculated using the ESG Score available on the Refinitiv or Thomson Reuters platforms to assess the level of ESG (Tahmid et al., 2022).

Financial Distress

Based on the Altman Z-score model, Altman (1968) is a method used to predict the potential for bankruptcy or financial distress of a company by analyzing a combination of financial ratios. A company's unstable financial condition can lead to non-compliance with regulations or fraud (Rosidi et al., 2023). To predict financial distress, several banks are experiencing financial difficulties, and the risk of bankruptcy in these banks is very high (Sadaa et al., 2023). Companies with low scores (distress) tend to have greater pressure to manipulate financial statements to appear healthy in the eyes of investors and creditors.

$$Z = 1.2 (WC/TA) + 1.4 (RE/TA) + 3.3 (EBIT/TA) + 0.6 (MVE/TL) + 1.0 (S/TA)$$

Z = Financial Distress

WC = Working Capital

TA = Total Assets

RE = Retained Earnings

EBIT = Earnings Before Interest and Taxes

MVE = Market Value of Equity

TL = Total Liabilities

S = Sales

Moderating Variable

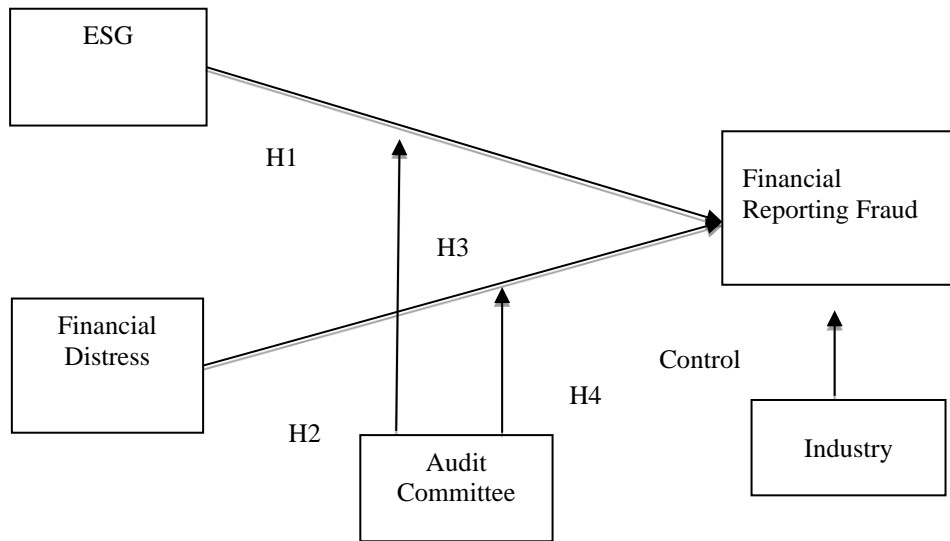
A moderating variable is a variable that specifies the form and/or magnitude of the relationship between the independent variable (X) and the dependent variable (Y) (Ghozali, 2021). The moderating variable in this study is the audit committee, which has primary responsibility for overseeing and auditing the financial reporting process and internal controls, as measured by the independence indicator. The audit committee is measured using the independence ratio because the level of independence is a key indicator of the effectiveness of the audit committee's oversight function. Independent audit committee members have no financial, managerial, or ownership relationships with the company, thus being more capable of conducting objective oversight without pressure from management.

Control Variable

Control variable are held constant to avoid affecting the relationship between the independent and dependent variables, allowing the independent variable's influence on the dependent variable to be clearly observed without bias from other factors (Ghozali, 2021). Industry is used as a control variable to reduce bias between sectors. This is done by creating a dummy variable with only two possible values (Lokanan & Sharma, 2024). This ensures that the hypothesis test results are more valid and reflect the relationship between the main variables, without being influenced by differences in industrial sector characteristics. Because this study has six industrial sectors, there will be five dummy variables ($k-1$ or $6-1 = 5$) (Ghozali, 2021).

Based on the explanation above, the conceptual framework of the research can be described as follows:

Conceptual Framework



RESULT AND DISCUSSION

Descriptive Statistics

Descriptive statistics were compiled to provide an overview of the data distribution for each research variable. The information presented includes the lowest (min) value, the highest (max) value, the average (mean), and the standard deviation for all 752 observations analyzed. This presentation helps provide an initial understanding of the sample characteristics before further testing. The results of the descriptive statistics calculations are shown in the following table.

Tabel 1. Descriptive Statistics

Variable	Obs	Minimum	Maximum	Mean	Std. Deviation
KLK	752	0.004700	6.488100	2.807407	1.775754
ESG	752	0.051383	0.920505	0.505311	0.199670
FD	752	0.012200	5.996900	2.838045	1.621523
KA	752	0.133000	0.333000	0.249000	0.067338
IND	752	0.000000	5.000000	1.734043	1.532084

Source: Processed data (2026)

The KLK variable has an average of 2.807407 with a fairly high standard deviation (1.775754), indicating a large variation in the level of financial statement fraud between companies. The ESG variable has an average of 0.505311 with a low standard deviation (0.199670), indicating that ESG is at a moderate level and relatively homogeneous. The FD variable shows an average of 2.838045 with a standard deviation of 1.621523, indicating a significant difference in financial distress conditions between companies. The KA variable has an average of 0.249000 with a low standard deviation (0.067338), indicating a tendency for uniform audit committee characteristics. Meanwhile, the IND

variable has an average of 1.734043 with a standard deviation of 1.532084, indicating that the study sample covers a fairly diverse range of industrial sectors.

Panel Data Regression Analysis

Table 2. Panel Data Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.119633	0.227370	13.72048	0.0000
ESG	0.016930	0.003262	2.519107	0.0138
FD	0.070678	0.039953	3.769008	0.0003
IND	0.015039	0.042515	2.353724	0.0236

Source: Processed data (2026)

$$KLK = 3,119633 + 0,016930 ESG + 0,070678 FD + 0,015039 IND$$

The constant value (α) of 3.119633 indicates that when the ESG, FD, and IND variables are assumed to be zero, the financial statement fraud is at the baseline level of 3.119633. The ESG variable has a regression coefficient of 0.016930, meaning that every one unit increase in ESG will increase KLK by 0.016930, thus indicating a positive relationship between ESG and KLK. The FD variable has a coefficient of 0.070678, indicating that the higher the level of financial distress of a company, the greater the tendency for KLK to occur. Meanwhile, the IND variable has a coefficient of 0.015039, indicating that an increase in the industry variable is also followed by an increase in KLK, so this variable is also related to the level of financial statement fraud.

Moderated Regression Analysis (MRA)

Table 3. Moderated Regression Analysis (MRA)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.422764	0.884554	2.738968	0.0063
ESG	0.004043	0.013586	3.297548	0.0010
FD	0.003653	0.155558	3.023482	0.0027
KA	2.796935	3.328320	4.840345	0.0000
IND	0.017725	0.043808	2.404609	0.0194
ESG_KA	0.222913	0.051413	4.445659	0.0000
FD_KA	0.262673	0.598538	3.438857	0.0006

Source: Processed data (2026)

$$KLK = 2,422764 + 0,004043 ESG + 0,003653 FD + 2,796935 KA + 0,222913 ESG_KA + 0,262673 FD_KA + 0,017725 IND$$

The constant (α) value of 2.422764 indicates that when the ESG, FD, KA, and IND variables are assumed to be zero, the financial statement fraud (FCR) is at the baseline level of 2.422764. The ESG coefficient of 0.004043 indicates that each one-unit increase in ESG will increase FCR by 0.004043, assuming other variables remain constant. A significance value of 0.0010 < 0.05 indicates that ESG has a positive and significant effect on FCR. The FD coefficient of 0.003653 indicates that each one-unit increase in FCR will increase FCR by 0.003653, with a significance value of 0.0027 < 0.05, indicating that FCR also has a positive and significant effect on FCR.

In addition, the ESG_KA interaction coefficient of 0.222913 indicates that the audit committee strengthens the influence of ESG on KLK, and a significance value of 0.0000 < 0.05 confirms that the moderating effect is significant. Similarly, the FD_KA interaction coefficient of 0.262673 indicates that the audit committee strengthens the influence of FD

on KLK, with a significance value of $0.0006 < 0.05$, which means the moderating role of the audit committee is also significant in the relationship.

Hypothesis Testing

Coefficient of Determination (R^2)

Based on Table 4.11, the test results above show that there is an Adjusted R^2 value of 0.331791 explaining that KLK is influenced by ESG, FD, KA, ESG * KA, FD * KA and IND control of 33.17% and the remaining 66.83% is influenced by other factors not examined in the study.

F-Statistic Test (F-Test)

The Simultaneous Effect Significance Test (F Test) aims to determine whether all independent variables and moderating variables in the model simultaneously influence KLK. Based on the results in table 3 above, it shows that the calculated F value is 7.762880 $>$ F table 2.38, and the significance value is $0.001255 < 0.05$, so the hypothesis is accepted.

T-Test Statistic (t-Test)

The calculated t value is $3.297548 >$ t table 1.963, and the significance value is $0.0010 < 0.05$, so the hypothesis is accepted. ESG has a significant effect on KLK. The calculated t value is $3.023482 >$ t table 1.963, and the significance value is $0.0027 < 0.05$, so the hypothesis is accepted. FD has a significant effect on KLK. The calculated t value is $4.445659 >$ t table 1.963, and the significance value is $0.0000 < 0.05$, so the hypothesis is accepted. KA is able to moderate the relationship between ESG and KLK. The calculated t value is $3.438857 >$ t table 1.963, and the significance value is $0.0006 < 0.05$, so the hypothesis is accepted. KA is able to moderate the relationship between FD and KLK.

The Impact of ESG Performance on Financial Report Fraud

Based on the regression analysis, the calculated t-value was 3.297548, which is greater than the t-table value of 1.963, and the significance value was 0.0010, which is lower than the 0.05 level. These results indicate that the ESG variable significantly influences the ESG level. Therefore, any change in the ESG performance level will significantly impact the ESG level, thus accepting H1 proposed in this study. The implementation of ESG performance in a company can be an indicator of greater transparency in its operational activities, thereby increasing stakeholder trust (R. Amalia & Kusuma, 2023).

Industries such as energy, mining, or manufacturing generally face greater pressure from regulators and the public regarding environmental and social impacts. This encourages companies in these industries to provide more extensive ESG compared to sectors with a smaller environmental impact. This is intended to improve the company's financial performance, which can positively impact stock value and sales growth (Husnah, 2023).

ESG supports stakeholder theory (Aydoğmuş et al., 2022), where companies with better ESG performance have fewer financial irregularities (Liu & Jin, 2023). ESG is significantly related to financial performance, with companies that more ESG information having better financial performance than those that do not. These results validate stakeholder theory, which argues that companies should not only focus on maximizing profits but also consider the interests of other stakeholders, including the environment (Husnah, 2023).

Furthermore, ESG performance suggests that conformity to corporate norms has not been sufficient to increase corporate legitimacy in society (Nugroho & Hersugondo, 2022). Based on stakeholder theory, companies that seriously implement ESG tend to have good governance and high transparency, thereby reducing the practice of fraudulent financial reporting. However, the findings of this study indicate that ESG has a significant and

positive correlation with financial statement fraud, indicating that the higher the level of ESG, the higher the level of financial statement fraud in companies in the ASEAN region, contrary to predictions from stakeholder theory.

This research is more in line with agency theory, where management can utilize ESG as an image-building tool or legitimacy strategy to gain public trust and conceal the practice of financial statement manipulation for personal gain (Agustini et al., 2023). These findings align with the view of Nareswari et al (2023) that ESG does not always reflect good governance practices. Under certain conditions, increased ESG can be used as an image-building strategy to build a company's reputation without being accompanied by improvements in the quality of internal oversight. Therefore, high levels of ESG may not necessarily reduce financial statement fraud, and in some cases, it may even correlate with increased fraudulent financial statement practices. ESG does not impact a company's financial performance, and therefore has no impact whatsoever (Manullang et al., 2024).

Conversely, this study disagrees with Wang & Liu (2025), who found that ESG performance showed a significant negative effect on financial fraud, suggesting that strong ESG performance helps reduce the occurrence of financial fraud. Wijaya & Kuang (2023) stated that to avoid financial fraud, company management must adopt effective strategies. Financial fraud can be avoided by effectively managing intellectual capital and implementing ESG principles within a company. The government also needs to formulate policies that can accelerate the implementation of ESG practices in businesses, aiming to promote corporate sustainability. Lower ESG risk implies the ability of ESG implementation to mitigate economic value risks and reduce the costs of conflict, uncertainty, and reputational harm (Yudhanto & Simamora, 2023).

Kolin et al (2024) found that ESG negatively impacting a company's financial performance can be caused by the high costs incurred in the implementation process, resulting in a disproportionate net profit for the company relative to the total assets used. ESG implementation and reporting require significant investments in time, labor, and funds.

The Influence of Financial Distress on Financial Report Fraud

The regression analysis results show a calculated t-value of 3.023482, which is greater than the t-table of 1.963, and a significance value of 0.0027, which is less than 0.05, indicating that FD has a significant effect on KLK, thus H2 is accepted. This finding aligns with agency theory, which explains the conflict of interest between management as agents and owners as principals. Companies experiencing financial distress often exhibit indicators such as declining profits, declining cash flow, increasing debt, and declining asset quality (Hajek & Munk, 2024).

Regarding financial distress, some industrial sectors have higher levels of financial risk than others. Industries such as energy, manufacturing, and consumer cyclicals are heavily influenced by commodity price fluctuations, economic conditions, and high levels of market competition. These conditions can increase the likelihood of companies experiencing financial distress. Companies in sectors with high financial risk tend to face greater pressure to maintain financial performance, increasing the potential for financial statement manipulation.

Financial reports have a significant influence on public assessments, particularly those made by shareholders. Unreliable financial reports caused by fraudulent behavior can impact shareholders (Wijaya & Kuang, 2023). In times of financial distress, management is under pressure to maintain performance, safeguard the company's reputation, and meet investor and creditor expectations (Handayani & Annisa, 2024). This pressure can drive

management to manipulate or fabricate financial reports to make the company's condition appear better than it actually is, thus increasing the risk of financial reporting fraud.

The greater a company's financial distress, the more they must improve their environmental performance to increase their attractiveness and obtain higher prices in transactions (Laus et al., 2025). In situations of financial distress, the likelihood of opportunistic management behavior increases due to limited liquidity and declining performance to maintain rationality and avoid worsening financial conditions or disrupting the stability of the financial system as a whole (Sakawa et al., 2024).

This research aligns with the findings of (Handayani & Annisa, 2024), (Riyanti, 2024), and (Putri & Hariadi, 2023), which show that financial distress has a positive effect on financial reporting fraud. Financial distress indicates that management's performance as a company agent is not optimal. This situation can impact the quality and integrity of financial reports, as managers face pressure to maintain good performance amidst declining company conditions. When a company experiences severe financial distress, managers tend to reduce the application of accounting conservatism principles to make profits and financial conditions appear better than they actually are.

This can occur because when a company experiences financial distress, management is under significant pressure to maintain company performance, maintain its reputation, and meet investor and creditor expectations. Conditions of financial distress, such as declining profits, weakening cash flow, and increasing debt, can encourage management to engage in opportunistic behavior, including manipulating financial reports to make the company appear better than it actually is. Therefore, the higher the level of financial distress a company experiences, the greater the incentive for management to commit financial reporting fraud in an effort to maintain the company's image and stability.

This research disagrees with Amalia et al., (2025) study, which stated that financial distress does not significantly influence financial statement fraud. This suggests that a company's financial difficulties do not necessarily encourage individuals within the organization to manipulate financial statements. Financial pressures faced by a company do not automatically increase fraudulent practices. The existence of an effective monitoring system and internal control mechanisms within the organization can limit the opportunity for fraudulent acts. Furthermore, the existence of clear internal policies and the implementation of strict rules and sanctions can help reduce the tendency of management to manipulate financial statements, even when the company is experiencing financial difficulties.

Committee Moderates the Relationship between ESG and Financial Reporting Fraud

Based on the regression analysis, the calculated t-value was 4.445659, which is greater than the t-table value of 1.963, and the significance value was 0.0000, which is less than 0.05. This indicates that the KA variable, as a moderating variable, has a significant effect and moderates the relationship between ESG and ESG, thus accepting H3. ESG performance is a company's effort to fulfill stakeholder rights and minimize agency conflicts (Wijaya & Kuang, 2023). This is supported by stakeholder theory, as long as the audit committee functions effectively, the company will be better able to maintain stakeholder trust without resorting to manipulative practices (Andriani & Arsjah, 2022). A larger board of commissioners will optimize monitoring and supervision, thereby maintaining the quality of ESG (Anjani et al., 2024).

The results of this study indicate that the existence of an audit committee actually strengthens the relationship between ESG. In companies with high levels of ESG, the audit committee is not fully effective in preventing the misuse of ESG as an image-building tool.

From an agency theory perspective, although the Audit Committee serves as an oversight mechanism, its effectiveness is largely determined by its independence, competence, and quality of oversight. If these functions are not functioning optimally, management still has the opportunity to exploit ESG opportunistically (Anjani et al., 2024).

The audit committee's primary role is essentially to assume broader responsibilities, not only as a governance and control mechanism but also as an ongoing oversight of the entire performance-building process, ensuring greater accountability in addressing and addressing weaknesses in its role (Haddad et al., 2022). Specifically, the audit committee oversees the performance of mandatory and voluntary ESG. Therefore, the audit committee handles the preparation, presentation, and integrity of financial statements, applies accounting principles and financial reporting, and maintains internal controls in accordance with applicable financial accounting standards (Fuadah et al., 2022).

Qurniasih et al, (2025) explain that ESG performance is considered a costly activity, thus not providing significant returns to investors, resulting in a negative impact on company value. However, in practice, audit committees focus more on compliance and internal control over regulations and risk management, making them less effective in curbing opportunistic management behavior related to ESG. Consequently, if audit committee members lack expertise or a deep understanding of ESG, their ability to evaluate the impact of ESG on the overall corporate strategy is impaired.

This research disagrees with Rachmadiansyah et al, (2025) who found that audit committees do not significantly influence ESG performance, as this is more dependent on top management's commitment to sustainability and external factors such as regulations and stakeholder pressure. The existence of an audit committee does not significantly weaken management's incentives to misrepresent financial statements (Kirana et al., 2023). Audit committee independence serves as a significant and attenuating moderating variable in the ESG relationship. This means that while ESG performance generally lowers a company's cost of capital, this effect is weaker in companies with more independent audit committees. In other words, when audit committee independence is high, the additional benefit of ESG in lowering the cost of capital is no longer significant (Sari et al., 2026).

In contrast, research conducted by Manullang et al., (2024) and Amalia et al,(2025) explains that the role of the audit committee in relation to financial statement fraud shows that although the audit committee has a responsibility to maintain the integrity and transparency of financial reporting, the results of this study indicate that the audit committee does not have a significant influence in preventing financial statement fraud, either negatively or positively. The effectiveness of the audit committee's role is highly dependent on management follow-up and the strength of the implementation of applicable regulations. Without management action, the audit committee's oversight function becomes less than optimal. Furthermore, the audit committee's limited level of independence or lack of access to adequate information can also affect its ability to moderate the relationship in preventing financial statement fraud.

Audit Committee Moderates the Relationship between Financial Distress and Financial Reporting Fraud

The regression analysis results show that the interaction coefficient between FD and KA is 0.262673, indicating that the audit committee moderates the relationship between FD and KLK by 0.262673. Furthermore, the significance value of 0.0006, which is less than 0.05, indicates that the variable is statistically significant. Thus, the audit committee is proven to act as a moderating variable in the relationship between financial distress and financial statement fraud, with its presence strengthening the influence of financial distress on the occurrence of financial statement fraud.

Some industrial sectors experience higher levels of business uncertainty, making companies more vulnerable to financial distress. Under these conditions, the pressure faced by management to maintain company performance can increase, potentially leading to financial statement manipulation. Based on agency theory, the existence of an audit committee can reduce the tendency of managers who have the motivation, opportunity, and ability to exploit these opportunities to commit financial statement fraud (Nugroho & Diyanty, 2022).

The purpose of the audit committee is to assist the supervisory board or commissioners in evaluating the performance of internal and external auditors and the effectiveness of the internal control system. Audit committee members must be independent, not involved in the company's day-to-day operational activities, and possess experience that supports effective oversight (Novianty et al., 2025). The existence of an audit committee in a company is expected to further help create good company conditions and prevent financial statement fraud (Asni & Heniwati, 2023). Audit committees are expected to be able to suppress the tendency of managers who have the motivation and opportunity to commit fraud, so that these opportunities do not materialize in the practice of financial statement fraud (Nugroho & Diyanty, 2022).

Mukhtaruddin et al., (2022) stated that if a company has good AQ, fraudulent acts caused by FD will be reduced. This is consistent with agency theory, which states that a third party is needed to bridge the gap between the interests of the agent and the principal. The auditor is the intended third party who can oversee the company's operations, especially if the company is experiencing financial difficulties. The auditor will be responsible for determining whether the company can overcome these challenges without engaging in fraudulent tactics, thus resolving the financial difficulties. Companies experiencing financial difficulties tend to be acquisition targets by other companies (Laus et al., 2025).

This study aligns with Putri & Hariadi, (2023) and Riyanti, (2024) who found that financial difficulties have a positive effect on financial statement fraud. However, they did not find that the audit committee can act as a moderator in the influence of financial difficulties on financial statement fraud. The audit committee is unable to moderate the elements of fraud as a trigger for financial statement irregularities (Kirana et al., 2023). This negative relationship between audit committees and increased financial statement fraud may stem from auditors having limited time to thoroughly understand a company's operations and internal controls, potentially making it more difficult to detect and prevent fraudulent activities by clients (Nejad et al., 2024).

Conversely, this study disagrees with research by Amalia et al., (2025) and Azis & Annisa, (2023), which found that although financial distress has the potential to encourage companies to commit fraud, the presence of an audit committee was not proven to strengthen or weaken the relationship between the two variables. This suggests that the audit committee does not act as an effective moderating variable in this relationship. One reason why financial distress does not show a significant effect when moderated by the audit committee is because financial distress is often triggered by external factors beyond the scope of a company's internal oversight. Furthermore, if fraud is committed in response to financial pressure, it is likely carried out strategically by management, making it difficult to detect through conventional audit mechanisms.

CONCLUSION

Based on the research results, it can be concluded that ESG performance has a positive and significant effect on financial reporting fraud in companies in the ASEAN region, indicating that higher ESG is accompanied by increased fraud. This finding is inconsistent with stakeholder theory, but supports agency theory, which explains that ESG can be used as a means of legitimacy or image building to mask manipulation practices. Financial distress also has a positive and significant effect on financial reporting fraud, indicating that the higher a company's financial distress, the greater the incentive for management to engage in manipulation due to increased conflicts of interest and performance pressures. The audit committee has been shown to moderate the relationship between ESG and financial distress on financial reporting fraud, with a strengthening effect, indicating that the oversight function is not yet fully effective, especially under conditions of high stress. Meanwhile, the industry control variable indicates that differences in sector characteristics also influence the relationship between the variables, making the audit committee's role crucial in maintaining effective oversight and transparency of financial reporting.

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