Indian Journal of Economics and Business
Vol. 20 No. 4 (December, 2021)

http://www.ashwinanokha.com/IJEB.php

Does Audit Quality Moderate the Nexus Between Corporate Governance and Accounting Earnings Quality in Emerging Economies?

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Received: 13th July 2021
Revised: 26th August 2021
Accepted: 16th December 2021

ABSTRACT

This study analyzed the effect of corporate governance on accounting earnings quality. The study's dominant theory is the agency theory, which is concerned with the decoupling of the owner and agent. Asymmetry results from their separation, which may frustrate the firm's stakeholders. In this regard, corporate governance exists to foster an appropriate culture between the individuals involved by overseeing and restraining the second party's opportunism on the one hand, and boosting shareholder trust on the other, by establishing transparent financial information. Accounting earnings quality is a composite metric created by combining four accounting approaches (persistence, smoothness, predictability, and accruals quality). Audit quality is employed as a moderator in this study. A total of seventy non-financial firms listed on the PSX were chosen as a sample through purposive sampling. Reports from relevant firms were retrieved from the PSX website, and data was collected for the study's related variable. The hypotheses stated have been tested using several regression approaches. The fixed effect model was chosen based on the results of the various tests conducted in this study. The results suggest that BI, BGD, BActi, SOC ISO, and InsidSO have a positive effect on earnings quality; however BCR has a negative impact. Two CG traits, BS and FSO, on the other hand, have had little impact on the quality of profits. The studies also highlighted that the association between CGI and earnings quality is moderated by audit quality. Concerned professionals, policymakers, academics, audits, financiers, and merchants will benefit from the study's insights.

Key Words: CG mechanisms, CG Index, accounting earnings quality, Big4, agency theory, accounting methods.

INTRODUCTION

Accounting scandals and irregularities perpetrated by a company's management with the goal of misleading the board of directors and investors and distorting their decisions are referred to as corporate scandals (Li, 2011). Misappropriation of funds, stock price manipulation, loans disguised as sales, falsely overstatement of revenue, keeping huge debts off the balance sheet, ostensibly proving loans as revenue, undervaluation of expenditures, overstating the cost of assets, and under-reporting the liabilities of the relevant corporation are all examples of intentional scandals. Cadbury committee introduced governance practices for the first time in 1992 in its Cadbury report, which was published in the United Kingdom (Cadbury, 1992). Corporate governance, according to this committee, serves as an effective framework for directing and controlling a firm's entire activities and affairs in order to ensure seamless operation. Because corporate governance is a technique (system) for controlling and directing the overall affairs of a corporation in order to protect stakeholders' interests (Chen, Kao, & Tsao, 2010). In March 2002, SECP, with the help of ICAP, imposed the first code of corporate governance on Pakistan stock exchange listed companies in order to achieve three key goals: accountability, transparency, and shareholder protection (Elshandidy & Hassanein, 2014). In this study CGI index also used which have been assumed from the research study of Saeed and Saeed (2018). In this study, nine characteristics of Pakistani corporate governance are used as predictor variables. These variables are explored individually to see whether they have any influence on accounting earnings quality.

Financial reporting for a company, according to the International Accounting Standard Board (IASB), must have excellent attributes such as relevance, timeliness, transparency, comparability, verifiability and understandability. Accounting performance, such as cash flow statement, profit and loss account, and balance sheet of any relevant firms, must be included in financial reporting for stakeholders (Aifuwa & Embele, 2019). Choi and Pae (2011) The key goal of financial reporting, according to the study, is to have informative results for decision-making.

The quality of accounting results is boosted by a firm's corporate governance, particularly reduces the agency problem that exists in firms owing to information asymmetry between shareholders and workers. There is no one-size-fits-all metric for assessing the quality of profits (P. Dechow, Ge, & Schrand, 2010; Gaio & Raposo, 2014). As a nutshell, this study employs four accounting proxies in evaluating the authenticity of accounting earnings. Earnings quality is a standard aggregate measure derived from the four accounting-based metrics of earnings quality used in this study. (Eliwa, 2015).

Accruals quality

Following up on prior research (Hoang, Abeysekera, & Ma, 2017; Latif, 2018), this research makes use of P. M. Dechow and Dichev (2002). Accruals of any corporation, according to this model, are the function of three types of CFOs: previous (t-1), present (t), and future (t+1) year. Accrual quality (AcQ) is the level of credibility in the relationship between cash flows and accruals of the companies involved. Accruals account for the vast majority of the difference between a company's cash and earnings.

Earning Persistence

Earning persistence is the level with which existing era earnings continue in the future (Önce & Çavuş, 2019). In literature of accounting earnings is believed as persistence if the earnings of existing period (e.g. increasing in receipts-sale) are continue in next period. Persistence is the up-to-date earnings that recur in coming period and reliability of described earnings.

Earnings-Predictability

It is the aptitude and capability of previous firm earnings to anticipate future earnings of the respective firm over a given timeframe (B. Francis, Hasan, & Wu, 2013).

Earnings Smoothness

It refers to the lower volatility in the reported earnings of firms over a given period of time. It's computed by dividing the sample firms' OCF by the SD (σ) of reported earnings (Bowen, Rajgopal, & Venkatachalam, 2008).

Aggregated accounting earnings quality score

Following the study of Hoang (2014), this research study has also produced a standard composite EQ scoring rate from the four (4) accounting metrics in examining the effect of CG indices (CGI) for sampling firms in Pakistan between 2010 to 2019.

Audit Quality

The audit quality is considered as a moderating variable in this study. If the audit firm is one of the Big four, such as KPMG, E&Y, Delloite, and PWC, a nominal value of "1" is used; otherwise, "0" (Shatnawi, Hanefah, Adaa, & Eldaia, 2019).

REVIEW OF LITERATURE

Theoretical Literature

Corporate governance is a subject containing theoretical approaches. As a result, all of the relevant theories are closely examined.

Agency Theory

Alchian and Demsetz first proposed this theory in 1972, and J. and Meckling later confirmed it in (1976) (Panda & Leepsa, 2017). It focuses on the connection between top management and shareholders in general. For decision-making, the former gives the latter power to act on their behalf. However, the latter fails to promote the principal's interests other than his own, possibly causing to agency conflict and asymmetric in communication (Glinkowska & Kaczmarek, 2015).

Stakeholders Theory

Stakeholder theory was developed to fill a vacuum in Agency theory, because in previous theories, only shareholders are considered as interested parties, though in Stakeholder theory, a multitude of stakeholders are considered as relevant parties caused by agency challenges (Ezelibe, Nwosu, & Orazulike, 2017).

Positive accounting theory

It outlines the predictions of accounting methods used in businesses for their accounting records, but it does not define which method may be used. Conservatism, according to this view, is the optimum accounting concept for achieving advantages when managers are participating in negotiations. As a result, this theory confines management's opportunism to the benefits of relevant firms (Yunos, Ahmad, & Sulaiman, 2014).

Stewardship Theory

According to this theory, the principal-agent alliance is synchronized though both parties prioritize the company's interests instead of their own (Subramanian, 2018).

Resource Dependency theory

According to this theory, resource suppliers may influence the decision-making of relevant firms. In Pakistan, the government and the overall public are the sources of information. Several previous researches have proven that the country's influence is acting up (Panda & Leepsa, 2017; Pfeffer, 1973; Ren, 2014). This will show how the govt influences accounting reporting by crucial firms.

Signaling theory

The conduct of two parties with contrary information is described by this theory. Financial statements and company financial reports, according to this theory, are a signal conveyed by management to stakeholders whom is expecting for it. This theory defines the behavior of two parties who have contradictory pecuniary information about the firm (Bae, Masud, Kaium, & Kim, 2018). Managers and shareholders are the two stakeholders in existing theories. Management sends out signals in the form of financial reports, which are then interpreted by shareholders (Hoang, Abeysekera, & Ma, 2019).

Empirical Literature

This component of the study includes prior literature as well as ten hypotheses based on past work.

Board independence and accounting earnings quality

Adegbie, Salawu, and Shiyanbola (2019) conducted research in Indonesia using data from ISE between 2015 and 2019 and concluded that the independence of the board of directors has a positively insignificant relationship with accounting earnings quality. Its conclusions, on the other hand, are in direct opposition to the findings in previous study of Fodio, Ibikunle, and Oba (2013) and Wasan and Mulchandani (2020) who claimed that there was a nexus between independent directors and reporting quality. Independent directors benefit shareholders by protecting them against unscrupulous management behavior, which reduces financial distress and encourages high-quality financial reporting. Furthermore, it reveals that a larger portion of independent directorships on boards results in firms scrutinizing accounting earnings quality. Kukah, Amidu, and Abor (2016) reported that independent shareholdings prohibit (apprehend) opportunist management from falsifying earnings, resulting in better reporting earnings quality in GSE of Africa sample firms, as according empirical research conducted in Africa. In this context, independent directorships contribute in addressing agency tensions between the parties. Koevoets (2017) examined US-registered firms from 2007 to 2015 and found that BI has a negative impact on profits integrity. In light of the foregoing considerations, the following hypothesis (H_1) is presented:

H_1: The amount of independent directors on the board has a significant impact on accounting earnings quality in non-financial firms of PSX.

Board size and accounting earnings quality

Adegbie et al. (2019) used non-financial firms to look at the link between CG and accounting earnings quality. The study included 161 companies that were listed on the NSX between 2003 and 2017. For the study's hypothesis, they used the M. Reg. model. They concluded that the size of the boar is related to the quality of accounting earnings.

They argued for a big board of directors in the sample companies with a variety of expertise, backgrounds, and information who can readily oversee management to diminish asymmetry information on the one hand and drive management to increase accounting earnings quality on the other. Koevoets (2017) has found a negative link between the study's variables. In light of the aforementioned arguments, the following hypothesis (H2) is addressed:

H_2: Board size with a large number of directors has a significant positive impact on accounting earnings quality in non-financial firms of PSX,

Board gender diversity and accounting earnings quality

Hoang (2014) empirically conducted a research study in Vietnamese, collecting data from 150 registered businesses. The proposed hypotheses were analyzed using OLS estimators. In Vietnamese registered enterprises, he showed that board diversity is positively related to accounting earnings quality (accumulated score). He went on to say that his findings support agency theory because a higher aggregate score indicates higher accounting earnings quality in Vietnam's registered enterprises. Hoang et al. (2017) did a study to look at the linkage between CG and aggregated earnings quality and found that having a female director on a Board of Directors speeds up monitoring as a female board member and so boosts the earnings quality of the sample firms. In light of the foregoing considerations, the third hypothesis (H_3) is proffered:

H_3: gender diversity on the board has a significant positive impact on accounting earnings quality in non-financial firms of PSX.

Board remuneration and accounting earnings quality

The firm governance system should be given significant monitoring consideration in all relevant firms because it is the main directive tool for exterminating opportunism of firm identifying and monitoring the flow of information asymmetries, which may lead to improved accounting earnings quality (Gaio & Raposo, 2014). All benefits paid to directors of board of directors in respective firms are considered to as remuneration. In this study, it was found that BCR has a negative (significant) impact on accounting earnings quality, stating that lower directorship compensation exposes an accounting quality result (Gaio & Raposo, 2014). In view of the aforementioned considerations, the following hypotheses are proposed (H_4) is addressed:

H_4: A board with a larger cash remuneration proportion has a negative impact on accounting earnings quality in non-financial firms of PSX.

Board activity and accounting earnings quality

Adegbie et al. (2019) have studied the association between CG and accounting earnings quality. For the years 2003-2017, the research included 161 non-financial firms. The regression model of research was used to test hypotheses that had been developed. For the purpose of testing the study's hypothesis, they used a multiple regression. They obtained findings that suggest a negative nexus. They argue that the low frequency of board activity (conferences) is negative since directors are unable to debate the pertinent problems required for management direction, hence increasing accounting earnings quality in enterprises. They also mentioned in this regard that a lower frequency in firms leads to a slower detection of irregularities in the firms. Istianingsih (2021) found positive while Hoang et al. (2017) during the assessment of the key variables BGD and EQ, negative results were reported. In light of the following points, the research hypothesis (H5) is presented:

H_5: Board activity with higher frequency has significant positive impact on accounting earnings quality in non- financial firms of PSX.

Insider ownership and accounting earnings quality

Pratiwi and Pralita (2021) have carried out an empirical study in Malaysia, gathering data from 29 IDX enterprises between 2016 and 2018. To test the hypotheses, relevant secondary collected data were analyzed. Insider's shareholdings and earnings quality were found to be positively significant. They argued it reduces agency issues and it might give accountability and protection to all of the company's stakeholders. Pham (2020) conducted a research study in Kent between 2004 to 2018, collecting sample data from DataStream and using logit model to explore the observed hypothesis. Internal governance and accounting earnings quality were revealed to be positively influence in their findings. In light of the previous considerations, the following hypotheses are proposed (H6) is presented:

H_6: A higher proportion of insider equity share ownership has a strong positive impact on accounting earnings quality in non-financial firms of PSX.

Institutional ownership and accounting earnings quality

Pratiwi and Pralita (2021), Over the past three years, studied the relationship between CG and earning quality in Malaysian businesses (2016-2018). Institutional investors and earnings quality had a positive link, according to their findings. According to the study, the positive association indicates that ISO is properly implemented in Malaysia through monitoring management. This may deter the agency issue and, as Ayadi and Boujelbène (2015), for the years 2003 to 2011, there was a positive association between ISO and accounting earnings quality in French. Chalaki, Didar, and Riahinezhad (2012) found no effect of ISO and reporting quality in firms registered in TSE. Istianingsih (2021) conducted study and discovered a negative association. In light of the foregoing considerations, the research hypothesis (H_7) is addressed:

H_7: A greater number of institutional equity share ownership has a significant positive impact on accounting earnings quality. in non-financial firms of PSX.

Foreign-ownership and accounting earnings quality

Hoang (2014) explored the role of foreign shareholdings on the link between earnings quality and CS reporting in Vietnamese-registered companies. The Fixed effect is also used to test this association. In the sample firms, he showed that FSO had no effect on the relationship between EQ & CS disclosure. Kukah et al. (2016) have conducted empirical research on the impact of CG on AIQ using data from 20 non-financial firms in the GSE from 2003 to 2013. They concluded that foreign shareholding protects impulsive managers from earnings manipulation due to the higher accounting earnings quality in GSE sampled firms. In light of the foregoing considerations, the following hypothesis (H8) is addressed:

H_8: Foreign equity share ownership with higher proportion has significant positive impact on accounting earnings quality in non-financial firms of PSX.

Share ownership concentration and Earnings quality

Empirical research works by Ayadi and Boujelbène (2015) ascertained that concentrated shareholdings have a positive impact on accounting earnings quality in French from 2003 to 2011. Between 2009 and 2012, Al-Rassas and Kamardin (2015) did a research study in Malaysia and reported a poor association. Chalaki et al. (2012) observed no influence of concentrated shareholdings on reporting quality in the TSE for the period 2003-2011 in their study (earnings quality). Thus the following hypothesis (H_9) is reported in light of the above arguments:

H_9: A higher proportion of Share ownership concentration has significant positive impact on accounting earnings quality in non-financial firms of PSX.

CG Index, accounting earnings quality and Audit quality

Istianingsih (2021) conducted a research study with a sample of 570 firms from 2015 to 2019, and the results of his analysis revealed that audit has a completely positive effect on accounting earnings quality. For the year 2016, Wong, Ganesan, Pitchay, Haron, and Hendayani (2019) used 120 non-financial enterprises in Malaysia. External audit did not modify the link of CG and firm repercussions in Malaysian firms, according to the findings of their research. Mardessi and Fourati (2021) conducted a study to see how audit quality affects the relationship between CG features and reporting quality. The variables were discovered to have a positive association. According to Alzoubi (2016) the EM level is much lower for companies that use Big4 services compared to those that do not. To undertake financial and non-financial audits, the Big4 audit firms employ competent and rigorous auditors. The moderating influence of audit quality in non-financial enterprises was investigated by Khodamiepoor, Delfam and Sabrjoo (2014). They determined that audit quality has a positive impact on the nexus between CG and financial reporting. In light of the foregoing considerations, the following hypothesis (H_{10}) is provided:

H_{10}: Audit quality has moderating effect on the nexus between the CG index and accounting earnings quality in non-financial firms of PSX,

Conceptual Framework

Corporate governance (IV)

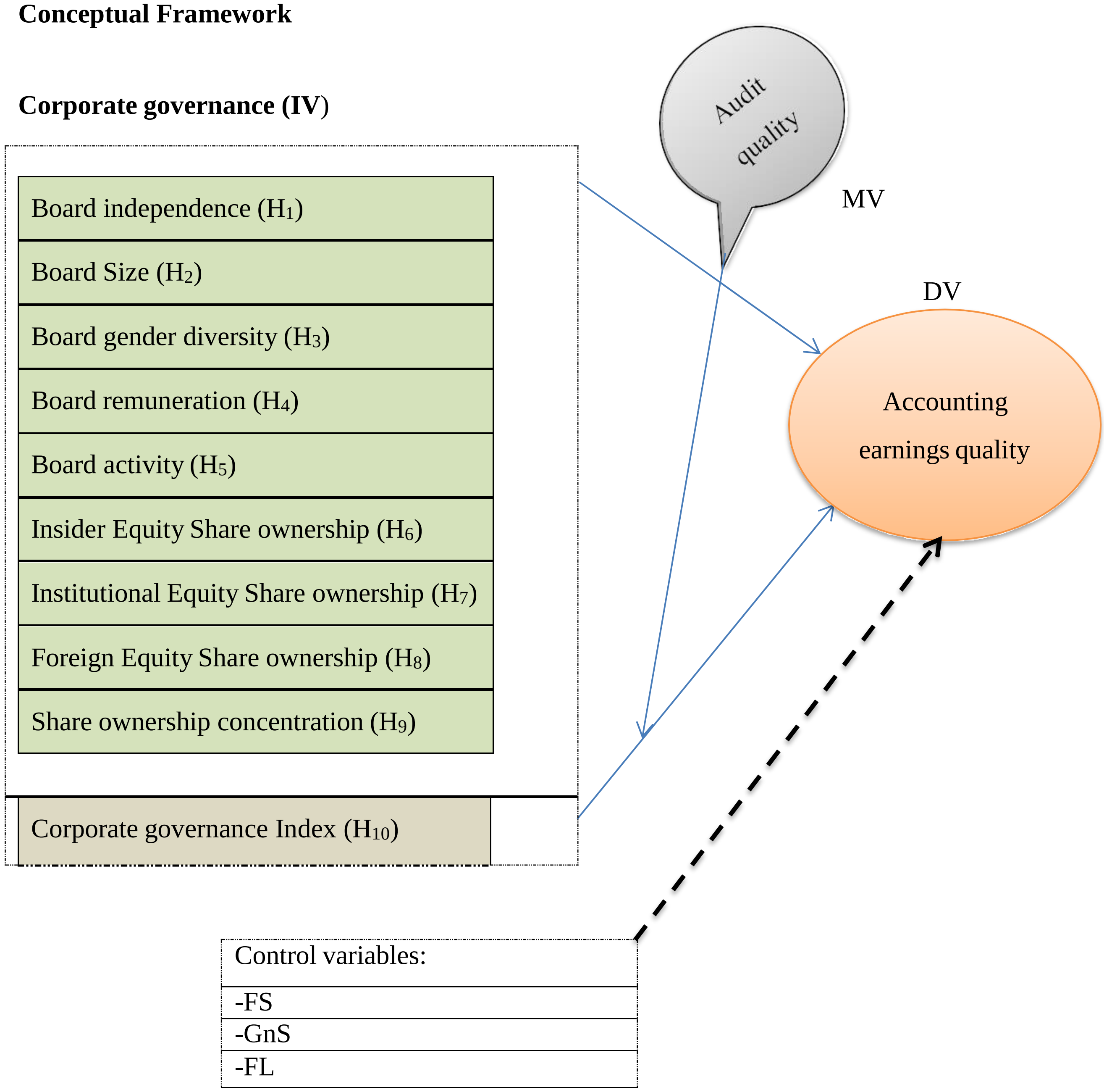

Figure 2.1: Conceptual Framework

METHODOLOGY

Data, Sample and Population

In light of the discussion and extensive literature research, the current research is quantitative in scope. The Panel data type is used by the researcher. Panel data was gathered from several firms throughout a variety of time periods. Top 100 firms listed on Pakistani stock markets made up the study's population. Sample firms of study are top 70 Non-financial firms. The data used in this study spans ten years, from 2010 to 2019. PSX, Open door for all, and firm websites were used to collect data for all relevant variables.

Measurement of Variables

Measuring of accounting earnings quality

Two of the most frequent methods for assessing earning quality are accounting and market-based procedures (Azar, Zakaria, & Sulaiman, 2019). Accounting-based measurement is often employed in earning quality study (J. Francis, LaFond, Olsson, & Schipper, 2004). As a result, in line with Hoang et al. (2017) and Hoang (2014), this study adopted accounting earnings measures and developed summed score from these four accounting proxies.

Accruals quality (AQ)

Following previous studies (Eliwa, 2015; Hoang et al., 2017; Latif, 2018), this study employed model developed by P. M. Dechow and Dichev (2002).

$$\frac{\Delta WC\mathrm{it}}{\mathrm{TAi,t-1}} = \beta o + \beta 1 \frac{CFOi,-1}{TAi,-1} + \beta 2 \frac{CFOi,}{TAi,-1} + \beta 3 \frac{CFOi,+1}{TAt,-1} + \mathcal{E}it$$

Earning Persistence

The following model is used by for estimation of β_1 (An, 2017; Eliwa, 2015):

$$\mathrm{Eit}/(\mathrm{TAit}-1) = \beta o + \beta 1 \ (Ei,t-1) \ / \ (TAit-1) + \mathcal{E}it$$

Earnings-Predictability

Following Dichev and Tang (2009), I use the root of the predicted error term obtained from the persistency of earnings regression as follows:

$$\mathrm{EP}_{i,t} = \sqrt{(\sigma 2(\varepsilon it))}$$

Earnings Smoothness

It's calculated by dividing the sample firms' OCF by the standard deviation of reported earnings. (Bowen et al., 2008). Francis et al. (2004) on the other hand, used a comparable ratio by scaling both sample variables by lagged company assets, as shown below:

$$\mathrm{ESmooth,it} = ((Eit)/(TA\ i,t-1)) \ / \ \sigma((CFO\ i,t)/(TAi,t-1))$$

Aggregated earnings quality score

Following the studies (Hoang, 2014; Hoang et al., 2017; Hung & Van, 2020; Li, 2011), a standard composite EQ Score was constructed from the four (4) accounting indicators in order to study the impact of CGI in sample companies of PSX.

Measurement of Corporate Governance Attributes

In this study, corporate governance traits are employed as explanatory variables to examine their individual effect on accounting earnings quality, as suggested by Latif (2018). There are nine (9) individual CG indicators in all.

BI (independent directors) is calculated by dividing the total number of independent directors by the size of the board (total directors onboard). The strength of the firm's board of directors is defined by BS (board Size). The percentage of female directors on a company's board of directors is known as BGD (Board Diversity). All benefits provided to the firm's directors have been quantified as BCRit (Director Remuneration). Bacti (board activity) is defined as the percentage of directors' attendance at the firm's annual general meetings compared to the total number of annual general meetings held by firms. Insider investors (InsdSO) are the percentage of equity shares held by insider directors out of the total number of equity shares held by the company. ISO (Investors of Institutions) is the percentage of equity-shares held by institutional investors out of all equity-shares held by corporations. FSO (Foreign Investors Shareholders) is the percentage of equity shares held by investors from other countries. The percentage of total shares held by the top five shareholders out of the total firm's shares is known as SOC (concentrated ownership).

Measurement of CG Index

CGI index was also used in this study, which was presumed based on Saeed and Saeed (2018) research work. The corporate governance index was created by combining the nine CG characteristics to examine the collective effect on accounting earnings. The CG Index was constructed using PCA (principal component analysis).

$$CGI = \Sigma\ [w1BI + w2BS + w3BR + w4BGD + w5BActi + w6InsidSO + w7\ InSO + w8\ FSO + w9SOC]$$

Evaluation of Audit quality

The audit quality of this study is determined by a binary variable (dummy variable) that is coded 1 if the company is audited by a Big4 or associated audit firm, and 0 if the company is not audited by the Big4 or affiliated audit firms (Kukah et al., 2016).

Evaluation of Control Variables

The most of scholars have employed it by taking log of each firm's total assets (Vuong, 2021). The percentage growth in total sales for the specific enterprises under consideration is used to compute sale growth or growth in sales (GnS) (A. S. Ahmed & Duellman, 2007). The leverage ratio is determined by dividing the sample firms' liabilities (debts) by their total assets (Hernawati, 2021).

Econometric Models

Model 1:

The nexus between CG mechanisms and accounting earnings quality

$$AcEQ_{it} = \beta_o+\beta_1(BI_{it}) + \beta_2(BS_{it}) +\beta_3(BGD_{it}) +\beta_4(BCR_{it})+\beta_5(BActi_{it})+ \beta_6(InsdSO)+\beta_7(InSO_{it}) +\beta_8(FSO_{it})+ \beta_9(SOC_{it}) + \beta_{10}\ LTA_{it} +\beta_{11}FL_{it} + \beta_{12}GnS_{it} +\varepsilon_{it}$$

Model 2:

Audit quality influence on nexus between CGI and AcEQ

$$AcEQ_{i,t} = \beta_o+\beta_1CGI_{i,t} + \beta_2\ AudQ_{i,t} + \beta_3\ (CGI_{it}*AudQ_{i,t}) + +\beta_4\ LTA_{i,t} +\beta_5FL_{i,t} + \beta_6GnS_{i,t} +\varepsilon_{i,t}$$

ANALYSIS

Descriptive statistics

Descriptive statistics describe the data's nature and main properties (Song, 2013). It gives two forms of information: (a) central tendency assessment and (b) dispersion measurement. (a) The central tendency displays the data's central location using three features: Arithmetic Mean (Only Mean), Median, and Mode. The table below shows descriptive statistics for all variables considered in this study.

Table 1: Descriptive statistics

Variable	Mean	Std. Dev.	Min	Max
Dependent Variables				
AcEQ (Aggregated)	8.9540	12.006	1.000	0026
Independent Variables				
BI	0.2560	0.174	0.122	0.927
BS	7.3630	1.677	0005	0014
BGD	0000.1	0.101	.0000	.5710
Log BCR	45.752	30.10	.5000	0100
Bacti	5.8030	2.953	0004	0015
InsidSO	27.696	16.05	.0000	99.20
ISO	12.934	11.46	.0000	85.86
FSO	7.0830	14.87	.0000	093.2
SOC	14.720	19.44	.0000	96.45
Index of CG				
CGI	0.1410	0.116	.0000	0.990
Moderating variable				
AudQ	0.390	0.293	.0000	0001
Interaction terms				
CGI*AudQ	0.0990	0.095	-0.290	00.99
Control variables				
LTA	10.443	0.588	7.175	12.04
FL w	0.4770	0.246	0.120	.8640
GnS w	0.5030	0.789	-0.636	2.559

Correlation matrix

In a research study, the correlation matrix aids in identifying the problem of multicollenearity among selected sample variables. In regression models, there is a scenario when two or more independent variables are highly associated with each other. The correlation matrix also depicts the strength of the relationship between the research study's independent variables. The sample parameters do not have a high correlation. Multicollenearity exists in the sample data, according to Gujarati and Porter (2009), if the VIF is greater than 10 (>10).

Table 2 Pearson Correlation

Variables	AcEQ	BI	BS	BGD	BCR	BActi	InsidSO	ISO	FSO	SOC	CGI	AQ	LTA	FL	GnS-
AcEQ	1														
BI	0.046	1													
BS	0.068	0.054	1												
BGD	0.118**	-0.155***	-0.057	1											
BCR	-0.532***	0.051	-0.037	0.084	1										
BActi	0.117**	-0.035	-0.096*	-0.16**	-0.15***	1									
InsidSO	0.017	0.032	0.143**	-0.054	0.117**	-0.035	1								
ISO	0.058	-0.089*	0.0621	0.015	-0.129**	-0.039	0.110*	1							
FSO	-0.150***	-0.027	0.006	-0.046	0.037	-0.025	0.078	0.047	1						
SOC	-0.429***	-0.065	-0.036	0.25***	0.291***	-.140**	-0.105*	-0.13**	0.025	1					
CGI	0.106*	-0.063	-0.039	0.143**	-0.024	-0.019	0.017	0.24***	-0.058	-0.026	1				
AQ	0.016	-0119**	-0.021	0.18***	0.019	0.053	-0.039	-0.048	-0.015	0.037	0.065	1			
LTA	0.127**	0.062	0.227***	-0.081	-0.082	-.22***	0.009	0.027	-0.067	-0.064	-0.077	-0.0601	1		
FL-w	0.587***	-0.198***	0.077	0.06	-0.29***	-0.047	-0.048	0.041	-0.135**	0.019	0.057	-0.034	0.238***	1	
GnS-w	0.026	0.017	0.073	-0.087	-0.014	0.075	-0.014	-0.056	-0.055	0.051	-0.068	0.076	0.169***	0.012	1

* p<0.05, ** p<0.01, *** p<0.001

Regression Analysis

Model 1:

CG Characteristics and Accounting Earnings Quality

The effects of CG features on accounting earnings quality in Pakistani firms are addressed by using empirical model below.

$AcEQ_{it} = \beta_o + \beta_1(BI_{it}) + \beta_2(BS_{it}) + \beta_3(BGD_{it}) + \beta_4(BCR_{it}) + \beta_5(BActi_{it}) + \beta_6(InsdSO_{it}) + \beta_7(InSO_{it}) + \beta_8(FSO_{it}) + \beta_9(SOC_{it}) + \beta_{10}\, LTA_{it} + +\beta_{11}\, FL_{it} + \beta_{12} GnS_{it} + \varepsilon_{it}$

Robust Fixed-effect model

Relevant tests were carried out, and it was determined that the sample data of non-financial firms had hetroscedasticity and autocorrelation. This research study used Robust Fixed Effect models to deal with hetroscedasticity and autocorrelation flaws detected in all models during diagnostics, following Hoang et al. (2017) and Makhlouf, Al-Sufy, and Almubaideen (2018). For the sake of regression analysis, VIF has been tested. The greater VIF score is 1.29, which is clearly below the top ten values for the total regression model. As a result, none of our models have this issue. To solve serial correlation and hetroscedasticity concerns, regression with robust standard error was used to assess the relationship shown in models (White, 1980).

Table 3: Regression results (Std. Err. adjusted)

AcEQ	Coef.	Robust St. Err.	t-value	p-value	[95% Conf	Interval]	Sig
BI	1.474272	.7777672	1.90	0.063	-.083179	3.031724	*
BS	.0591272	.1133637	0.52	0.604	-.286134	.1678796	
BGD	4.474010	5.699723	2.31	0.035	-6.93948	15.88751	**
BCR	-.0309977	.0130160	-2.38	0.021	-.057061	-.0049335	**
Bacti	.2403223	.1041218	2.31	0.025	.031822	.4488225	**
InsidSO	.0303860	.0138656	2.19	0.033	.002620	.0581513	**
ISO	.0178972	.0135776	2.32	0.039	-.009291	.0450860	**
FSO	-.0214157	.0225251	-0.95	0.346	-.066521	.0236899	
SOC	.0236476	.0136963	1.73	0.090	-.051074	.0037787	*
LTA	-1.59101	.9043321	-1.76	0.084	-3.40191	.2198755	*
FL_w	17.41415	1.184349	14.70	0.000	15.0425	19.78577	***
GnS_w	-.2668314	.2168095	-1.23	0.223	-.700985	.1673222	
Constant	17.1706	9.55978	1.80	0.078	-1.97243	36.31382	*

Mean dependent Var	9.409	SD dependent Var	7.977
R-squared within	0.3852	Number of obs	700
F-test	58.705	Prob > F	0.000
Overall R-squared	0.4612	R-squared between	0.3980

**** p<1 percent, ** p< 5 percent, and * p< 10 percent*

Board independence (BI) and earnings quality are positively significant, according to the findings in table 3. It states that boards with a higher percentage of independent directorships are more likely to successfully control a management team in order to disclose the quality of earnings in financial reporting of sample companies. Its findings are comparable to those of Adegbie et al. (2019), but they are in sharp contrast to those of Aifuwa and Embele (2019), who found a negative association.

Table 3 shows that the size of the board of directors has no effects on the quality of earnings in the firms reviewed. This proves that because of shareholder protection, overall board size (number of directors) does not alter the accounting earnings quality of firms. The findings are similar to those of Adegbie et al. (2019), but they differ with those of Hoang et al. (2017), who found positive relationship between board size and earnings quality.

At a 5% significance level (P-value =.035), gender diversity on boards has a positive significant impact on accounting earnings quality in PSX sample firms. These findings, as shown in table 3, are similar to those of Hoang et al. (2017), indicating that having a female director on a board of directors enables faster monitoring as a female member and so improves firm earnings quality.

At a 5% level, directors remuneration has a negative significant impact on earnings qualit y (β= -.0309977& P-value = 0.021), meaning that lower directorship payments expose a higher accounting quality result (K. Ahmed & Henry, 2012; Gaio & Raposo, 2014). The impact of country on the relationship between CG and accounting earnings quality should not be neglected, because the relationship in a developed economy is quite robust, whereas in a developing economy, due to limited shareholder protection, the relation is relatively weak (Gaio & Raposo, 2014).

Board activities among the Board of Directors (BoDs) are required because all pertinent issues are resolved on time. As seen in table 3, board activity and earnings have a considerable positive relationship. These findings back up Istianingsih (2021) conclusions; however they don't back up Hoang et al. (2017).

The findings in Table 3 show that inside shareholders have a positive and significant relationship with accounting earnings quality. This means that inside directorship could help to avoid opportunism while also ensuring a higher degree of earnings quality. The results for InsidSO and AcEQ corroborate the impacts described by Pratiwi and Pralita (2021).

Institutional investors, on the other hand, have a critical understanding of financial quality reporting though they can study financial statements and report rationally. As a result, they can conveniently monitor a company's financial performance and detect and counteract willful fraud in the accounting cycle (Istianingsih, 2021). In PSX sample firms, institutional shareholdings show a positive (P-value 0.039) association with earnings quality. These findings back up the conclusions of the previous study (Istianingsih, 2021).

Through the involved management of the firms, outside investors with a higher percentage on the board can greatly strengthen monitoring operations and assure compliance in reporting. They also ensure that management is protected against overoptimistic and exploitative actions when it comes to earnings announcements. In conclusion, institutional investors are cautious of authority issues, which could lead to higher earnings quality (Koji, Adhikary, & Tram, 2020).

For the sample companies in Pakistan, the relationship between foreign ownership and earnings quality was assessed. According to the findings of this study, the foreign investors have no significant relationship with earnings quality in Pakistani sample firms from 2010 to 2019. Foreign share ownership with a lower percentage of ownership in a company is unlikely to provide considerable motivation to manage the company's management because the quality of financial reporting is unaffected. It means that foreigners are interested in running businesses according to their own set of norms and regulations, which may be in conflict with those of the relevant firms (Koji et al., 2020).

Shareholders own a bigger percentage of the company, allowing them to participate in management activities and other important choices. Concentrated ownership has a positive significant relationship with accounting earnings quality. It is possible to conclude that a higher percentage of equity shares held by a few shareholders have a considerable positive impact on accounting quality of results. These conclusions from the analysis of concentrated shareholding and accounting earnings quality are consistent with findings of Sousa and Galdi (2016). The conclusions of this study, however, differ with those of Boonlert-U-Thai, Meek, and Nabar (2006).

Accounting earnings quality is negatively influenced by firm size. These findings are consistent with those reported by Pratiwi and Pralita (2021), but differ from those reported by Yodbutr (2017), who found a positive relationship between earnings quality and business size.

GnS (Sale Growth) has a negligible impact on accounting earnings quality. These findings corroborate Yodbutr (2017). Leverage is positively significant, according to the findings. These findings are consistent with those of Lyu, Yuen, and Zhang (2017). In this study, the intercept term α_0 is positive and statistically significant.

Model 2

Audit quality has a moderating effect on the link between CGI and AcEQ.

$$AcEQ_{i,t} = \beta_o+\beta_1 CGI_{i,t} + \beta_2\, AudQ_{i,t} + \beta_3\, (CGI_{i,t}*AudQ_{i,t}) + \beta_4 LTA_{i,t} + \beta_5 FL_{i,t} + \beta_6 GnS_{i,t} +\varepsilon_{i,t}$$

Robust Fixed-effect model

VIF was carried out in order to do regression analysis. VIF has a higher value of 1.29, which is significantly lower than 10 for the whole regression model (Gujarati & Porter, 2009). As a result, this is not an issue for our entire model. In order to eliminate the issue of hetroscedasity in a fixed-effect model of this study, a robust fixed-effect model is used, as recommended by Wooldridge (2015).

Table 4: Robust Fixed-Fixed Regression results (Std. Err. adjusted)

AcEQ	Coef.	Robust St. Err.	t-value	p-value	[95% Conf	Interval]	Sig
CGI	6.349426	2.821542	2.25	0.028	.7206033	11.97825	**
AudQ	1.169637	.58778600	1.99	0.051	-.0029640	2.342238	*
CGI*AudQ	18.53448	8.986624	2.06	0.043	.6066532	36.46230	**
LTA	-3.692864	1.832460	-2.02	0.048	-7.348521	-.0372069	**
FL_w	13.41867	2.191037	6.12	0.000	9.047673	17.78967	***
GnS_w	-.4258171	.1929587	-2.21	0.031	-.8107592	-.0408750	**
Constant	38.54991	19.34335	1.99	0.050	-.0390179	77.13884	*

Mean dependent Var	8.954	SD dependent Var	12.006
R-squared between	0.310	Number of obs	700
F-test	53.949	Prob > F	0.000
Overall R-squared	0.2600	R-squared within	0.1685

**** p<.01, ** p<.05, * p<.1*

The results show that the model is extremely significant. At a 5% level of significance, CGI and earnings quality are both positively significant. It means that an effective CG has the capacity to monitor the conduct of opportunistic management of firms in order to make sure accounting earnings quality, which is crucial in growing economies such like Pakistan. It demonstrates that firms audited by one of the big4 have different results than firms that do not use the big4's services. Due to the monitoring of crafty management's opportunistic attitude, the former firms will fare better than the latter (El-habashy, 2019; Zhang, 2017). At the 5% level of significance in the sampled firms, audit quality positively moderates the nexus between CGI and aggregated earnings quality. It means that the audit quality, which has been employed as a moderating variable, is good enough to establish a positive significant relationship between CGI and AcEQ in listed companies. These findings back up the conclusions presented by Al-Matari, Al-Matari, and Saif (2017) and Masmoudi (2021). The results of table 4 reveal that control variables have varying effects on company earnings. Leverage has a beneficial impact on PSX profitability, whereas company size and sales growth have a detrimental effect. In this research investigation, the intercept term 0 is positive and significant at the 5% significance level.

DISCUSSION OF FINDINGS

Discussions of Results of Hypotheses Testing

Hypothesis 1: For the period 2010-2019, independent directors can affect the accounting earnings quality of Pakistani firms involved, according to the H1 in this study. The hypothesis was tested in STATA, and the findings show that independent directors have a significant impact on accounting earnings quality. As a result, in light of the regression model's findings, the formed H1 has been accepted. The empirical conclusions of this study back up the proposed hypothesis (H1) and the findings of Adegbie et al. (2019). Its findings, however, contradict those of Wasan and Mulchandani (2020), who found a negative relationship between independent directors and sample firm accounting quality.

Hypothesis 2: In H2, it was hypothesized that having a larger board of directors has an effect on accounting earnings quality in specified stock exchange firms. After putting this hypothesis to the test in STATA, it was determined that board size has no effect on firm earnings. As a result, the hypothesis was rejected because it contradicted the study's stated hypothesis. It's also worth noting that the findings are consistent with Adegbie et al. (2019). These findings, however, contrast those of Hoang et al. (2017).

Hypothesis 3: In the current study, it was hypothesized that board diversity in terms of gender affects the accounting earnings quality of sample Pakistani firms. This hypothesis was verified via STATA and the results are just as follows: = 4.474010, P-value =.035. It has been proven that there is a favorable association between diversity and accounting earnings quality, implying that a board of directors with a female director streamlines monitoring as a female member and thus boost business earnings quality. As a result, the hypothesis (H3) is accepted in this research. The findings are in line with the initiatives of Hoang et al. (2017).
Hypothesis 4: In H4, it was projected that the remuneration paid to BODs would have an impact on the earnings of certain Stock exchange firms. As β = -.0309977 and = 0.021 were discovered, H4 of the study was accepted because the model is significant at 5%. It is reasonable to conclude that an increase in needless payments to BODs has a negative impact on the quality of accounting results of Pakistani sample companies. Furthermore, it means that smaller directorship payments represent a healthier result in terms of earnings quality (K. Ahmed & Henry, 2012; Gaio & Raposo, 2014).

Hypothesis 5: Based on the literature, the current study's hypothesis (H5) is that board involvement influences the quality of accounting earnings of the selected firms. The relationship between Bacti and AcEQ was empirically explored in a regression model. Board activity and earnings are substantially connected, as evidenced at the 5% level of significance, according to the conclusions, which include beta =.2403223) and probability value 0.025 0.05). These findings up closer the hypotheses proposed as well as the findings of Istianingsih (2021) and Chou). These, on the other hand, contradict the findings of Hoang et al. (2017)

Hypothesis 6: This study's hypothesis (H6) was evaluated, and results on the relationship between InsidSO and AcEQ, including Beta and p-value (=.0303860 & = 0.033), were discovered. These consequential findings of the model about the variables exhaustively support the developed hypothesis and results as reported by Pratiwi and Pralita (2021).

Hypothesis 7: For the period 2010-2019, institutional investors have a favorable influence on the earnings quality of Pakistani enterprises. The following regression model was used in the newest version of STATA to test the hypothesis. After testing H7, it was discovered that the P-value is 0.039, which is less than 0.05, implying that institutional investors influence accounting earnings quality, and so the hypothesis has been accepted with confidence. Findings of the ideal model support the articulated hypothesis along with results as shown by Istianingsih (2021).

Hypothesis 8: After reading authentic literature, it was hypothesized in hypothesis (H8) that foreign shareholdings (FSO) have an impact on the accounting earnings quality of Pakistani sample enterprises. In order to run it in STATA, the regression model was used. Foreign shareholdings have no link with accounting earnings quality, according to the regression table's findings. As a result of the insignificant results, the relevant hypothesis has been rejected. This study's findings do not support either the hypothesis or the outcomes presented by VO and Chu (2019).

Hypothesis 9: According to this study's hypothesis (H9), stock concentration in sample firms has a beneficial impact on accounting earnings quality. The results of the following empirical regression model, which was regressed in STATA, support the formulated hypothesis and outcomes as reported by Sousa and Galdi (2016). Its findings, however, differ from those published by Boonlert-U-Thai et al. (2006).

Hypothesis 10: Based on the research, it was postulated (H10) that audit quality has an impact on the link between CGI and AcEQ in firms involved. According to the regression model, audit quality has a positive relationship with earnings, with one unit change (raise) in audit quality resulting in 1.17 % variance (increase) in accounting earnings quality of sample firms. Similarly, at a higher level of significance, the interaction term's coefficient (β) is 18.53448 (positive) and the P-value is 0.043. The interaction term ($CGI_{i,t}$*$AudQ_{i,t}$) produces results that support the association between CGI and accounting earnings quality in the sample firms. The presence of audit quality increases the association between the CG index and accounting earnings quality, as seen by the positive sign of the interaction term. The outcomes revealed by Al-Matari et al. (2017).

CONCLUSION

IMPLICATION OF THE THESIS (STUDY)

The main consequences of any financial system are financial reports (as required by all involved stakeholders). Firms' financial systems generate financial reports that comprise all essential financial information and are distributed to stakeholders for valuable decision-making both inside and outside the firms. There are a variety of users and practitioners of financial reporting who want information for a variety of goals. The relevant literature (Hapsoro & Suryanto, 2017) supports this. The key aspects covered in financial reports are the accounting consequences of the financial statements, CFS, FFS, and Balance sheet. Manipulation, irregularities, misrepresentation, and all types of accounting errors, on the other hand, may have negative financial effects. In this regard, the CG system is a critical instrument for dealing with such detrimental accounting acts. As a result, the findings of this study assist in offering information to concerned consumers that may be beneficial to them. Accounting practitioners, financial policymakers, finance academics, professional auditors, and stakeholders of enterprises in the global relevant economy will all benefit from the study's conclusions.

Limitations and research flow for the future

Despite its various contributions to the relevant domains, this research study has several limitations.

First, this research is limited to PSX-listed companies for a 10-year period from 2010 to 2019. As a result, it is hereby advised that future research studies in the same field may consider time period 2020 onwards.

Second, in this study, we used audit quality as moderator and examined its effect on the nexus between CG index and composite accounting earnings quality. Future research should look into the moderating effects of IFR, GAAP, disclosure quality, P&C and digital marketing on the CGI-earnings quality nexus.

Third, the top-listed non-financial enterprises in terms of market capitalization are taken into account in this analysis. Future research will look at SMEs, private financial institutions, and publicly traded companies to see how composite CG affects earnings quality in the context of external audit as a moderator for the best exposer.

Fourth, the study's principal concern is the generalization of findings. This study's sample includes the top hundred publicly traded firms on the PSX. Due to challenges in procuring their reports for data collection, firms who are not listed on PSX are completely omitted. Due to their diverse financial practices and regulations, financial firms are not included in this study. As a result, the conclusions of this study could not be applied to financial firms or unregistered Pakistani firms. However, the findings are limited to non-financial enterprises in Pakistan. Thus future studies may consider adding financial firms for comparison purposes.

Fifth, the impact of some corporate governance factors on earnings quality has been investigated in this study. Other factors, both internal and external, could influence the firm's earnings quality that future studies might consider.

Seventh, there are numerous models that can be utilized to analyses data. For the aim of panel data analysis, this research study uses multiple regressions. As a result, future studies may employ GMM to analyze the relevant data.

Finally, the consolidated score of four accounting basis earnings metrics are used in this study. Future researchers could use market-based measures for measurement of earnings quality.

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