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Moderating Role of Audit Quality in GCG, Financial Distress, and Tax Avoidance

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ABSTRACT

The purpose of this study is to determine whether audit quality can serve as a moderator between good corporate governance (GCG), financial distress, and tax avoidance. Profitability and firm size are used as control variables in this study. Using 68 manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2019-2021, this study employed quantitative analysis with Partial Least Squares Structural Equation Modeling (PLS-SEM) analysis using WarpPLS 7. Audit quality in this study can serve as a moderating variable. The Control variable, the Return on Asset indicator, has a direct influence on Financial Distress and Tax Avoidance. However, control (Profitability) has a negative impact on Tax Avoidance. The finding that Audit Quality is able to moderate the relationship between Audit Committee and Tax Avoidance indicates that high-quality external auditors can increase the effectiveness of supervision and accountability.

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1. INTRODUCTION

Practicing Good Corporate Governance (henceforth GCG) can theoretically increase the value of the company. The practice can reduce the risks associated with decisions taken for the beneficial purposes of the board of directors. It is argued that the practice can boost the level of investor confidence. The term Corporate Governance (CG) was first introduced by the Cadbury Committee in 1992 in its report known as the Cadbury Report (Tjager et.al., 2003). The diverse definitions of corporate governance are shaped by the underlying theory. One such definition, proposed by Zarkasyi (2006), states that good corporate governance is a system, process, and set of rules that govern the relationships among various stakeholders. Humairoh and Nurulita (2022) used good corporate governance as a factor to detect financial difficulties in a company. This

definition primarily focuses on the interactions between shareholders, the board of commissioners, and the board of directors, all aimed at achieving the company's goals.

Citing Corporate Governance from [Indonesia Stock Exchange \(n.d.\)](#), the goal of corporate governance is to optimize the long-term value of a company for shareholders and other stakeholders. The benefits of implementing GCG can positively impact the creation of corporate accountability, fair and independent transactions, and the reliability and improvement of information quality to the public. [Payanti and Jati \(2020\)](#) stated that the GCG practices can hinder management from engaging in detrimental actions to the company. In other words, these practices encourage management to avoid aggressive strategies for managing their tax burden, which aims to enhance company performance ([Lestari and Putri, 2017](#)).

A company first experiences financial distress before finally facing bankruptcy. During financial distress, the company is in a state of crisis. In this situation, it can be said that the company's financial resources have decreased for operating its business. As a result, the effort to generate profit is not as proportionate as the obligations or debts that are due. The study of corporate bankruptcy was first initiated by Beaver in 1966. His method utilized the company's financial ratios from the five years preceding bankruptcy. The limitations of this approach were subsequently addressed by Edward I. Altman in 1968, who employed a univariate approach. Altman's improvement involved incorporating multiple research variables into an equation and testing them simultaneously. This predictive method for bankruptcy became known as the Altman Z-score method. It can effectively and accurately identify companies at risk of bankruptcy and assess the likelihood of such an event occurring. As a result, this method is more commonly used in research related to corporate bankruptcy analysis compared to other approaches.

Tax avoidance differs from tax evasion. Tax evaders do not technically break the law; rather, they exploit loopholes in existing regulations that are often lax ([Mukti et al., 2024](#)). However, the government dislikes this practice because higher tax revenue enables the country to optimize its budget for national development. This study was conducted in the manufacturing sector. The sample selection was based on the sector's significant contribution to the national economy, both in terms of industrial output and employment. In addition, the manufacturing sector also tends to have a complex organizational structure and a high level of compliance with regulations, making it relevant to be analyzed in terms of corporate governance, financial distress, and tax avoidance. The novelty of this research was that the 2019-2021 period was chosen because, first, it covers an important phase before and during the COVID-19 pandemic, thus allowing analysis of the dynamics of financial performance, corporate governance, and tax avoidance practices in volatile economic conditions ([Angelia and Mawardi, 2021](#)). Second, it covers the phase before and during the COVID-19 pandemic, which puts significant pressure on companies' financial conditions. Thus, the selection of this period allows for a more comprehensive analysis of the company's response to the crisis, as well as its impact on the quality of financial statements and corporate governance. Furthermore, the 2019-2021 financial report data is fully available on the official website of the Indonesia Stock Exchange, thus ensuring the reliability and accuracy of the financial report data. Another novelty was that Audit Quality empirically has a positive influence on tax avoidance, but on the other hand, the Audit Committee has a negative influence on tax avoidance ([Edgina and Julisar, 2024](#)). Therefore, in this study, an empirical test will be conducted to determine whether audit quality can act as a moderating variable on financial distress and tax avoidance. Relevant research explored various factors that affect audit quality and the role of moderating variables ([Alareeni, 2019](#)). Auditor ethics and professionalism also significantly improve audit quality ([Yulianti et al., 2022](#)).

Financial distress is identified through accounting information contained in financial statements, while tax avoidance reflects managerial decisions that affect tax reporting and financial performance. Furthermore, the audit committee and audit quality function as important governance mechanisms that enhance the reliability, transparency, and credibility of accounting information. Therefore, understanding the relationship between financial distress, audit quality, audit committee effectiveness, and tax avoidance contributes to the accounting literature, particularly in the areas of financial reporting quality, corporate governance, and taxation.

Previous studies have primarily examined the direct effects of financial distress, audit quality, and corporate governance mechanisms on tax avoidance. However, limited evidence exists regarding whether audit quality can moderate the relationship between financial distress and tax avoidance. This study addresses this gap by investigating the moderating role of audit quality in explaining managerial tax avoidance behaviour under financial distress conditions. The COVID-19 pandemic created unprecedented financial pressure on firms, potentially altering managerial incentives regarding tax avoidance practices. By examining the 2019–2021 period, this study provides evidence on the relationship between financial distress and tax avoidance under both normal and crisis conditions. This study extends prior literature by integrating financial distress, audit committee effectiveness, and audit quality into a single framework to explain tax avoidance behaviour. Such an integrated model remains relatively limited in the Indonesian manufacturing sector. Unlike prior studies that predominantly examine tax avoidance from taxation or corporate governance perspectives, this study analyses tax avoidance through the lens of financial reporting quality by incorporating financial distress, audit committee effectiveness, and audit quality as determinants and monitoring mechanisms affecting managerial reporting decisions.

2. METHODS

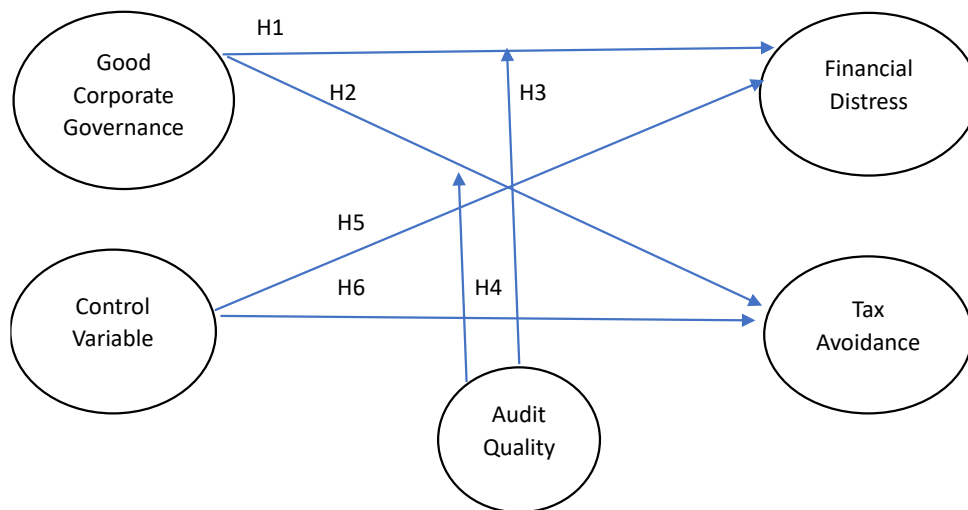
The research design is causality research design. According to [Sekaran and Bougie \(2020\)](#), causality research is research conducted to examine the cause-and-effect relationship between variables. The study employs Partial Least Squares Structural Equation Modelling (PLS-SEM) using WarpPLS 7 software to examine the proposed structural relationships, including the moderating effect of Audit Quality.

This research aims to analyse the effect of Good Corporate Governance on Financial Distress, Tax Avoidance, with Audit Quality serving as a Moderating Variable. It also examines the effects of Profitability and Firm Size, which act as control variables, on Financial Distress and Tax Avoidance, again considering Audit Quality as a moderating variable. Thus, this study was conducted to investigate the causality of the cause-and-effect relationship between variables.

The technique of sample selection in this study was purposive sampling. A non-probability sampling, this method limited data collection to samples that could provide only the information needed in this study. There are several criteria in the selection of respondents (companies). First, the respondents are manufacturing companies consistently listed on the Indonesia Stock Exchange in 2019-2021 and have financial statements with a period of December 31. Second, the respondents published their financial statements in Rupiah. Third, the respondents did not experience losses during the 2019-2021 period. Fourth, the companies have institutional ownership during the 2019-2021 period. Fifth, the respondents have a Cash Effective Tax Rate of $0 < \text{CETR} < 1$ during the 2019-2021 period. The operational definitions and variable measurements are summarized in **Table 1**, while the research model is illustrated in **Figure 1**.

Table 1. Operational definitions and variable measurement

No	Variable	Measurement	Reference
1.	GCG = Good Corporate Governance IND = The Proportion of Independent Commissioners AC = Audit Committee INST = Institutional Ownership	$IND = \frac{\text{Number of Independent Commissioners}}{\text{Total of Commissioners}}$ $AC = \frac{\text{AC Outside the Independent Commissioners}}{\text{Entire Audit Committee of Company}}$ $INST = \frac{\text{The number of institutional shares}}{\text{The number of shares outstanding}}$	Mulyani et al. (2018); Yuniarwati et al. (2017), Fauzan and Nurharjanti, (2019); Oktavia, (2020); Yuniarwati et al. (2017); Rahmat et al. (2009); Puspita et al. (2018); Moeljono, (2020) Sonia and Suparmun, (2019); Sari et al. (2020),
2.	CV = Control Variable ROA = Profitability Size = Firm Size	$ROA = \frac{\text{Net Income}}{\text{Total Asset}}$ $SIZE = \text{Logaritma Natural (Total Asset)}$	Katz et al., (2013); Shubita, (2024); Subagiastra et al. (2016); Christopoulos et al. (2018); Hidayat and Meiranto (2014); Yuniarwati et al. (2017). Moeljono, (2020); Yuniarwati et al. (2017).
3	AQ = Audit Quality	1 (one) is assigned to financial statements audited by the Big Four (PricewaterhouseCoopers, Deloitte, Klynveld Peat Marwick Goerdeler, and Ernst and Young), and the number 0 (zero) is assigned to those that are not audited by the Big Four.	Amara et al (2025); Indrayati et al. (2021); Santosa et al., (2020); Qawqzeh (2023); Richardson et al. (2013); Jostarndt and Sautner, (2008); Senbet and Wang, (2012); Junaidi et al. (2023); Shahwan, (2015); Yuniarwati et al., (2017).
4.	FD = Financial Distress CETR = S	$Z = 1,2A + 1,4B + 3,3C + 0,6D + 1E$ A = Net working capital divided by total assets B = Retained earnings divided by total assets C = Earnings before interest and taxes divided by total assets D = Market value of equity to book value divided by total debt E = Sales divided by total assets Z = Overall index $CETR = \frac{\text{Cash Tax Paid}}{\text{Pre-tax Income}}$ CETR = Cash Effective Tax Rate (cash paid for tax expense divided by profit before tax). Cash Tax Paid = The amount of tax expense paid by the company based on the company's financial statements. Pre-tax Income = Profit before tax of the company based on the company's financial statements	Monika and Noviani (2021); Jouali et al. (2024), Sipayung et al. (2023); Yuniarwati et. al. (2017)



Source: Author's Own Creation

Figure 1. Research Model.

3. RESULTS AND DISCUSSION

3.1. Research Object

The population of this study consists of all manufacturing companies listed on the Indonesia Stock Exchange during the period from 2019 to 2021. From the criteria that have been established as requirements for this research, there are 68 companies that can be used as samples in this study.

3.2. Evaluation of Measurement Model

The measurement in this study for the first stage involves examining Combined Loadings and Cross Loadings.

From the first stage of data processing (**Table 2**), the researcher examines the results of the combined loadings and cross-loadings. If the results of Combined Loadings and cross-loadings are less than 0.6, then the variable or indicator is removed. This is stated by [Ximénez et al. \(2022\)](#) and [Hair et al. \(2010\)](#). In this first stage, The Proportion of Independent Commissioners (IND) yielded a result of (-0.681), and Institutional Ownership (INST) yielded a result of (0.370). Based on these results, The Proportion of Independent Commissioners (-0.681) and Institutional Ownership (0.370) were removed from the measurement.

After The Proportion of Independent Commissioners and institutional ownership was removed from the test, a retest was conducted. The results after The Proportion of Independent Commissioners and Institutional Ownership were removed from the test are displayed in **Table 2a**. Second Stage Combined Loadings and cross-loading.

Table 2. First stage of combined loadings and cross-loading

	GCG	Control	Distres	TaxAvoi	Quality	Quality
IND	-0,681	0,232	0,313	-0,058	-0,279	-0,010
AC	0,706	-0,178	0,334	-0,194	0,094	-0,209
INST	0,370	0,768	-0,061	0,263	-0,695	0,381
ROA	-0,037	0,737	0,650	-0,004	-0,185	-0,010
SIZE	0,037	0,737	-0,650	0,004	0,185	0,010
FIND	0,000	0,000	1,000	0,000	0,000	0,000
CETR	0,000	0,000	0,000	1,000	0,000	0,000
AQ	0,000	0,000	0,000	0,000	1,000	0,000
AQ*IND	-0,023	0,194	0,153	0,210	-0,221	-0,806
AQ*AC	-0,340	-0,302	0,293	0,185	0,151	0,468
AQ*INST	0,348	0,732	-0,036	0,202	-0,613	0,409

Source: Data Processing Results

Table 2a. Second stage of combined loadings and cross-loading

	GCG	Control	Distres	TaxAvoi	Quality	Quality
AC	1.000	0.000	0.000	0.000	0.000	0.000
ROA	0.059	0.737	0.583	-0.046	-0.168	0.138
SIZE	-0.059	0.737	-0.583	0.046	0.168	-0.138
FIND	0.000	0.000	1.000	0.000	0.000	0.000
CETR	0.000	0.000	0.000	1.000	0.000	0.000
AQ	0.000	0.000	0.000	0.000	1.000	0.000
AQ*AC	0.000	0.000	0.000	0.000	0.000	1.000

Source: Data Processing Results

After the first stage of removal, the results obtained at this stage are the Latent Variable – Cronbach's Alpha. The Cronbach Alpha results are displayed in **Table 2b**. Second Stage Latent Variable – Cronbach Alpha. Based on the testing with Latent Variable – Cronbach Alpha, the control variable (SIZE) yielded a result below the standard of 0.70, which is 0.159.

Table 2b. Stage two latent variable – cronbach alpha

GCG	Control	Distres	TaxAvoi	Quality	Quality
1,000	0,159	1,000	1,000	1,000	1,000

Source: Data Processing Results

At this stage, the test results also examine the results from Normalized combined loadings and cross-loadings (**Table 2c**), Pattern loadings and cross-loadings (**Table 2d**), Normalized pattern loadings and cross-loadings (**Table 2e**), and Normalized structure loadings and cross-loadings (**Table 2f**).

Table 2c. Normalized combined loadings and cross-loadings

	GCG	Control	Distres	TaxAvoi	Quality	Quality
AC	1,000	0,000	0,000	0,000	0,000	0,000
ROA	0,068	0,701	0,680	-0,054	-0,196	0,160
SIZE	-0,054	0,779	-0,536	0,042	0,154	-0,127
FIND	0,000	0,000	1,000	0,000	0,000	0,000
CETR	0,000	0,000	0,000	1,000	0,000	0,000
AQ	0,000	0,000	0,000	0,000	1,000	0,000
AQ*AC	0,000	0,000	0,000	0,000	0,000	1,000

Source: Data Processing Results

Table 2d. Pattern loadings and cross-loadings

	GCG	Control	Distres	TaxAvoi	Quality	Quality
AC	1,000	0,000	0,000	0,000	0,000	0,000
ROA	0,059	0,585	0,583	-0,046	-0,168	0,138
SIZE	-0,059	0,889	-0,583	0,046	0,168	-0,138
FIND	0,000	0,000	1,000	0,000	0,000	0,000
CETR	0,000	0,000	0,000	1,000	0,000	0,000
AQ	0,000	0,000	0,000	0,000	1,000	0,000
AQ*AC	0,000	0,000	0,000	0,000	0,000	1,000

Source: Data Processing Results

Table 2e. Normalized pattern loadings and cross-loadings

	GCG	Control	Distres	TaxAvoi	Quality	Quality
AC	1,000	0,000	0,000	0,000	0,000	0,000
ROA	0,068	0,683	0,680	-0,054	-0,196	0,160
SIZE	-0,054	0,817	-0,536	0,042	0,154	-0,127
FIND	0,000	0,000	1,000	0,000	0,000	0,000
CETR	0,000	0,000	0,000	1,000	0,000	0,000
AQ	0,000	0,000	0,000	0,000	1,000	0,000
AQ*AC	0,000	0,000	0,000	0,000	0,000	1,000

Source: Data Processing Results

Table 2f. Normalized structure loadings and cross-loadings

	GCG	Control	Distres	TaxAvoi	Quality	Quality
AC	0,975	-0,056	0,169	-0,120	0,022	-0,059
ROA	0,087	0,701	0,613	-0,156	0,313	0,053
SIZE	-0,186	0,779	-0,065	-0,031	0,572	-0,162
FIND	0,157	0,357	0,903	-0,095	0,150	0,019
CETR	-0,119	-0,127	-0,102	0,967	0,049	0,147
AQ	0,020	0,503	0,142	0,043	0,851	0,009
AQ*AC	-0,060	-0,065	0,021	0,149	0,011	0,985

Source: Data Processing Results

Table 3. Stage three of combined loadings and cross-loading

	GCG	Control	Distres	TaxAvoi	Quality	Quality
AC	1.000	0.000	0.000	0.000	0.000	0.000
ROA	0.000	1.000	0.000	0.000	0.000	0.000
FIND	0.000	0.000	1.000	0.000	0.000	0.000
CETR	0.000	0.000	0.000	1.000	0.000	0.000
AQ	0.000	0.000	0.000	0.000	1.000	0.000
AQ*AC	0.000	0.000	0.000	0.000	0.000	1.000

Source: Data Processing Results

From the three tables (**table 2c**, **table 2d**, **table 2e**, **table 2f**), the value of the Control variable (SIZE) is greater than the value of the Control variable (ROA). Therefore, Control (SIZE) is removed as an indicator. Then the results are displayed in **Table 3**. Third Stage Combined Loadings and Cross-loading.

The measurement results of the Latent Variable are displayed in **Table 4**. Latent Variable for R-squared (R^2) yields 0.429 for Financial Distress and 0.096 for Tax Avoidance. According to Sugiyono (2018), there is a moderate level of relationship between Good Corporate Governance, Control, and Financial Distress. Meanwhile, there is a weak relationship between Good Corporate Governance, Internal Control, and Tax Avoidance, as shown in **Table 5** - Correlation Coefficient (R -squared = R^2).

The measurement of Adjusted R-squared (Adjusted R^2) yields 0.420 (42.00%) for Financial Distress. It can be concluded that Good Corporate Governance and Control (Profitability) have an influence of 42% on Financial Distress, while the remaining 58.00% is influenced by factors outside this study. For Tax Avoidance, Good Corporate Governance and Control (Profitability) influence 0.082% (8.20%). The remaining 91.80% is influenced by factors outside this study. Composite reliability, Cronbach's Alpha, and Average Variances Extracted give a value of 1 for all variables because these variables only have 1 indicator.

Table 4. Latent variable

	GCG	Control	Distress	Tax Avoid	Quality	Quality
R-Squared (R^2)			0.429	0.096		
Adjusted R-squared (R^2)			0.420	0.082		
Composite reliability	1.000	1.000	1.000	1.000	1.000	1.000
Cronbach's alpha	1.000	1.000	1.000	1.000	1.000	1.000
Average variances extracted	1.000	1.000	1.000	1.000	1.000	1.000

Source: Data Processing Results

Table 5. Correlation coefficient (R -squared = R^2)

Interval Correlation Coefficient	Level of Relationship
0,00 – 0,199	Very Low
0,20 – 0,399	Low
0,40 – 0,599	Fair
0,60 – 0,799	Strong
0,80 – 1,000	Very Strong

Source: [Sugiyono \(2018\)](#)

After the test results meet the standards, hypothesis testing is conducted. The results of the hypothesis test are displayed in **Table 6**.

Table 6. Hypothesis test results

Variabel	Hypothesis	Path Coefficient	P Values	Results
GCG (Audit Committee)	H ₁	0,057	0,205	Rejected
GCG (Audit Committee)	H ₂	-0,032	0,322	Rejected
GCG (Audit Committee)	H ₃	-0,066	0,170	Rejected
GCG (Audit Committee)	H ₄	0,196	P<0,01	Accepted
Control (Profitability)	H ₅	0,648	P<0,01	Accepted
Control (Profitability)	H ₆	-0,229	P<0,01	Accepted

Source: Data Processing Results

H₁ posits that Good Corporate Governance, as indicated by the presence of an Audit Committee, has a direct effect on Financial Distress. However, the analysis yields a P-value of 0.205, which is greater than the significance threshold of 0.005. As a result, this hypothesis is rejected. Therefore, Good Corporate Governance, as indicated by the Audit Committee, does not impact Financial Distress. This suggests that the number of Audit Committee members in the company does not influence Financial Distress. This research was in line with the research conducted by ([Puspaningsih et al., 2023](#); [Kurnia and Astuti, 2023](#); [Hanny et. al., 2023](#)). However, the research conducted by [Bila et al. \(2024\)](#) and [Wowor et. al. \(2022\)](#), Audit Committee hurts Financial Distress. But research conducted by ([Robbani et. al., 2024](#); [Dirman, 2020a](#); [Widiyanto et. al., 2022](#)) suggests that the Audit Committee has a positive effect on Financial Distress

H₂ posits that Good Corporate Governance, using the Audit Committee indicator, shows no direct influence on Tax Avoidance, with a P Value of 0.322, which is greater than 0.005. Therefore, this hypothesis is rejected. This indicates that Good Corporate Governance, as measured by the Audit Committee indicator, does not affect Tax Avoidance. It can be interpreted that the number of Audit Committee members in the company does not impact Tax Avoidance. This research was in line with the research conducted by [Yuniarwati et al. \(2017\)](#), but not in line with the research conducted by [Edgina and Julisar \(2024\)](#), [Fauzan and Nurharjanti \(2019\)](#).

H₃ posits that Good Corporate Governance, with the Audit Committee indicator, affects Financial Distress when moderated by Audit Quality. The analysis yields a P-value of 0.170, which is greater than 0.05; therefore, the hypothesis is rejected. This indicates that Good Corporate Governance with the Audit Committee indicator, moderated by Audit Quality, does not affect Financial Distress.

H₄ posits that Good Corporate Governance, with the Audit Committee indicator, affects Tax Avoidance when moderated by Audit Quality, yielding a P Value of less than 0.01. Since this is less than 0.05, the hypothesis is accepted. The findings of this study indicate that the audit committee has a positive and statistically significant effect on tax avoidance, a result that appears to diverge from the conventional expectation within corporate governance literature that monitoring mechanisms should constrain tax avoidance practices.

Agency Theory written by [Jensen et al \(1976\)](#) suggests that corporate governance mechanisms are designed to reduce agency conflicts between managers and shareholders. However, the findings imply that the audit committee may support tax avoidance activities when these

activities are perceived as enhancing shareholder wealth through tax savings. Under effective audit quality, the audit committee can monitor management to ensure that tax avoidance strategies remain within regulatory limits, thereby reducing the risk of opportunistic managerial behavior while still allowing the company to benefit from legitimate tax planning. This finding indicates that the monitoring role of the audit committee may extend beyond restricting managerial actions to facilitating efficient tax management that serves shareholders' interests.

In this context, the role of the audit committee extends beyond mere monitoring to encompass strategic oversight that improves the quality of corporate decision-making. As argued by Desai et al. (2006), tax avoidance can reflect not only managerial opportunism but also value-enhancing activities when conducted within appropriate governance frameworks. Thus, tax avoidance may be better interpreted as a form of legal and structured tax planning rather than inherently opportunistic behaviour.

Furthermore, the moderating role of audit quality provides additional explanatory power for this relationship. High-quality audits enhance financial reporting credibility and ensure compliance with regulatory standards. According to DeAngelo (1981), audit quality is defined as the probability that an auditor both detects and reports material misstatements, thereby serving as an effective external monitoring mechanism. In line with the monitoring hypothesis, high audit quality is expected to constrain aggressive tax behaviour while allowing firms to engage in prudent and compliant tax planning.

The divergence between these findings and prior studies that report a negative relationship between audit committees and tax avoidance, reported by Fauzan and Nurharjanti (2019) may be attributed to differences in measurement approaches, sample characteristics, and institutional settings. For instance, variations in tax avoidance proxies, such as effective tax rates or book-tax differences, may capture different dimensions of tax behaviour Hanlon and Heitzman, (2010). Additionally, in emerging market contexts, governance mechanisms may simultaneously function to control opportunistic behaviour and facilitate efficiency-driven strategies.

Accordingly, this study suggests that the effectiveness of corporate governance mechanisms should not be evaluated solely based on their ability to reduce tax avoidance. Instead, their role in shaping tax strategies that are both efficient and compliant should also be considered, reflecting a more nuanced understanding of governance practices in contemporary corporate environments.

H₅ posits that Control, as measured by the Return on Asset indicator, has a direct effect on Financial Distress, also yielding a P Value of less than 0.01. Consequently, this hypothesis is accepted. This can be interpreted to mean that an increase in control, as indicated by Return on Asset (Profitability), leads to a decrease in Financial Distress. In this context, a decrease in Financial Distress suggests that the company is less likely to experience financial difficulties which is consistent with previous research (Dirman, 2020). However, this research is not in line with research conducted by Valentina and Jin (2020), that profitability had a negative effect on financial distress.

H₆ posits that Control, using the Return on Asset (Profitability) indicator, has a direct effect on Tax Avoidance, with a P Value of less than 0.01, leading to the acceptance of this hypothesis. However, it is noted that Control has a negative influence. This means that Control with the Return on Asset indicator is inversely related to Tax Avoidance. Specifically, if the Return on

Assets decreases, Tax Avoidance tends to increase. In other words, if the company struggles to generate profits, it is more likely to engage in tax avoidance. Conversely, if the company is profitable, it is less inclined to pursue tax avoidance. This research was in line with the research conducted by [Helen and Haninun \(2024\)](#), [Shafira and As'ari \(2023\)](#). The output of the data processing results is shown in **Figure 2**.

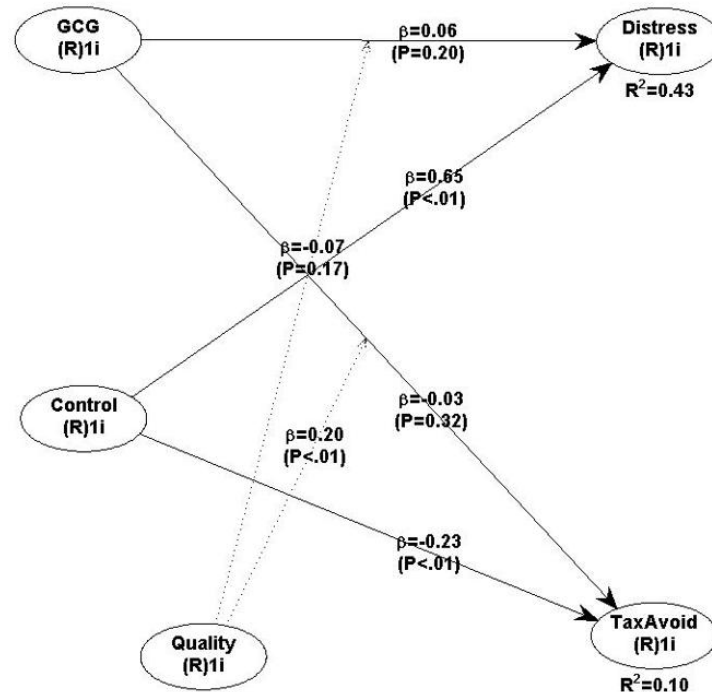


Figure 2. Output of Data Processing Results

4. CONCLUSION

Good Corporate Governance with indicators: The Proportion of Independent Commissioners, Audit Committee, and Institutional Ownership. From the test results, The Proportion of Independent Commissioner and Institutional Ownership in this study cannot be used as indicators because they have a cross-loading factor smaller than 0.6. Therefore, only the Audit Committee can be used as a measurement for Good Corporate Governance. Control Variables with Indicators of Profitability and Firm Size. In this study, Firm Size has a cross-loading factor smaller than 0.6, so Firm Size is excluded from the measurement for Control Variables. Therefore, only Profitability can be used as a measurement for Control Variables. Testing the influence of GCG on Financial Distress by examining Audit Quality as a moderating variable shows insignificant results. This indicates that Audit Quality has not yet been able to strengthen the relationship between GCG and the company's financial condition. However, when Audit Quality moderates the relationship between GCG (with the Audit Committee indicator) and Tax Avoidance, it is found that Audit Quality has a significant influence, meaning that Audit Quality is able to strengthen the role of the Audit Committee in suppressing tax avoidance practices. Thus, Audit Quality has affect client satisfaction in a multidimensional approach in any kind of business activities, in what shapes client perception ([Welia and Munandar, 2025](#))

Furthermore, from the control variable perspective, Profitability has been proven to have a direct impact on Financial Distress. Companies with a high level of profitability tend to be more

capable of avoiding deteriorating financial conditions. Furthermore, profitability also has a negative impact on tax avoidance, indicating that profitable companies are more likely to comply with tax obligations and are less inclined to engage in tax evasion.

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