

# Audit Quality and Tax Avoidance: The Role of Independent Commissioners and Audit Committee's Financial Expertise

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**Abstract:** This study aims to examine the effect of audit quality on tax avoidance. It further examines whether an independent board of commissioners and the audit committee's expertise affect the relationship between audit quality and tax avoidance. The study observed manufacturing companies listed on the Indonesia Stock Exchange (IDX) and the Malaysia Stock Exchange in 2018. Tax avoidance is measured by abnormal book-tax difference, while audit quality is proxied by Big Four-accounting firm and the audit tenure. The test results show that Big Four firms lower the tax avoidance level done by corporations, but not audit tenure. Furthermore, results also show that the audit committee's financial background weakens the relationship between audit quality and tax avoidance, but not an independent board of commissioners. The results are consistently found in both countries examined. The accounting firm that audits the company's financial statements gives an impact on the displayed actual company value, but not with audit committee's expertise which ineffective in carrying out its supervisory function without an understanding of the company's operational and business activities; thus the diversity of audit committee backgrounds is still needed. Furthermore, regulators should consider adopting a policy related to the estimated useful life of assets to minimise the gaps between accounting regulations and tax regulations.

**Keywords:** *Audit Committee's Expertise, Audit Quality, Independent Commissioners, Tax Avoidance*

## Introduction

Tax is an essential element for every country (Putranti & Setiawanta, 2015). According to Feranika (2016), state revenue from the taxation sector in Indonesia is enormous. However, even so, tax revenue's realisation has never reached the target (Sandy & Lukviarman, 2015), presumably because taxpayers indicate tax avoidance practices. According to Yenny Sucipto as Secretary-General of the Indonesian Forum for Budget Transparency (FITRA), tax avoidance and tax evasion data are still difficult for public access (Himawan, 2017). In Indonesia, the annual rate of tax avoidance is estimated to be One hundred ten trillion Rupiah and as much as 80 per cent of it is a contribution from corporate taxpayers. Companies' efforts to carry out tax

avoidance activities occur in Indonesia and various countries (Hadi & Mangoting, 2014), including Malaysia.

In Malaysia, based on a publication issued by PricewaterhouseCoopers Malaysia, there has been an increasing trend in tax avoidance since 2010. One of the tax avoidance cases in Malaysia was Ibraco-Paremba, the taxpayer of a property development, where The Court of Appeal has landmark judgment regarding the case that dealt with Section 140 of the Act. The courts found that the transactions were carried out through shell companies with the primary purpose of avoiding tax that would have been paid by the taxpayer (PricewaterhouseCoopers, 2014).

Tax avoidance practices cannot be separated from agency theory (Puspita &

Harto, 2014). Management's decision to avoid tax can create a conflict of interest between a company's management and its stockholders, further causing an agency problem (Eksandy, 2017). According to Lim (2011), there will be agency problems in tax avoidance treatment with the form of information asymmetry (Lastiati et al., 2020), which reflected in the opportunistic behaviour of management (Desai et al., 2007; Desai & Dharmapala, 2006; and Wilson, 2009 in Lastiati et al., 2020). Tax avoidance provides managers with opportunities to take opportunistic actions with short-term goals, which could harm the shareholders in the long term (Minnick and Noga, 2010 in Sandy & Lukviarman, 2015). One of the efforts that could be made to bridge the agency conflicts in tax avoidance practices, according to Desai & Dharmapala (2006) and Armstrong et al. (2012), is to implement governance (Sandy & Lukviarman, 2015). Companies with good governance will be more compliant in meeting tax payment obligations (Sartori, 2010 in Winata, 2014).

Companies that continuously carry out tax avoidance will cause losses to the state by reducing state tax revenues (Khairunisa, Hapsari, & Aminah, 2017). Therefore, companies must fulfil their responsibilities as corporate taxpayers (Yunistiyani & Tahar, 2017). The company's financial reports contain information that can be used by investors and stakeholders in making decisions (Rachmawati & Martani, 2014), so that the quality of the audit of financial reports is essential to be able to show the actual value of the company, including whether there are any indications of tax avoidance (Khairunisa, Hapsari, & Aminah, 2017). In conducting an audit, management's responsibility and those charged with governance related to the preparation of financial statements and audits are a fundamental part (Institut Akuntan Publik Indonesia, 2013). Those who are charged with governance are the independent commissioners and the audit committees. This study examines the effect of audit quality on tax avoidance and the effect of independent boards of commissioners and audit committee's expertise on the relationship between audit quality and tax avoidance.

This study can provide some contributions in several ways. First, empirically, an accounting firm's size could

affect the audit quality, including tax avoidance indications. Second, an audit committee filled by financial experts does not guarantee a better supervisory function. Third, as a matter of consideration for companies and investors, in practice, to pay more attention to the quality of the audit of financial statements by taking into account the accounting firm used in auditing. Also, paying attention to the company's non-financial aspects, such as the background of the audit committee's expertise, so that its supervisory function can run effectively and its financial statements can be displayed with actual value, including in terms of taxation. Lastly, as a material of consideration for regulators in adopting new policies to minimise the gaps between accounting regulations and tax regulations, the company's responsibility regarding financial statements' reliability could be increased. Indonesia and Malaysia are developing countries with similar cultures based on Hofstede Cultural Dimension (Hatane, Halim, & Tarigan, 2019). With the similarity of these characteristics, tax avoidance practices in Indonesia and Malaysia can be compared.

This research is further organised into four sections. Section 2 covers a literature review and hypothesis development. Section 3 describes the research sample, the research model, and the operational definitions and measurement variables. Section 4 covers descriptive statistical analysis, classical assumption tests, and regression analysis. Finally, Section 5 provides the conclusion.

## Literature Review and Hypothesis Development

### *Tax Avoidance*

According to Winata (2014), tax avoidance is an effort made by companies to minimise the cost of paying taxes but not getting out of tax regulations. Unlike tax evasion, the efforts to save tax costs violate applicable regulations because the company deliberately does not report its tax obligations or eliminates transactions so that the tax rate paid is low. Tax avoidance is carried out by companies because there are still loopholes for taxpayers due to differences in regulations governing accounting and taxation (Rachmawati & Martani, 2014).

The differences in accounting and taxation regulations are grouped into permanent differences and temporary differences (Rachmawati & Martani, 2014). According to Persada & Martani (2010), permanent differences occur because of differences in tax objects specifically not allowed in taxation regulations. This difference does not result in a deferred tax asset or liability because it does not affect future tax payments. Meanwhile, according to Rachmawati & Martani (2014), temporary differences, namely the time difference, are recognising income or expenses according to accounting with temporary tax regulations, resulting in recognition of income or expenses shifts between them next tax year. Temporary differences can affect tax payments in the future, giving rise to deferred tax assets or liabilities (Persada & Martani, 2010).

The difference between accounting and taxation regulations is known as Book Tax Differences (BTD). Research conducted by Phillips, Pincus, & Rego (2003), Tang & Firth (2011), and Wilson (2009) show that BTD is influenced by regulatory differences between accounting and taxation, earnings management, and tax planning activities (Tang & Firth, 2012). Research by Chan, Lin, and Mo (2010) found that the more significant the gap between accounting regulations and taxation, the higher the non-compliance in taxation because the considerable BTD value provides more opportunities for tax avoidance (Tang & Firth, 2012).

#### *The Difference Between NBTD and ABTD*

In Tang and Firth (2012), Book Tax Differences (BTD) are divided into Normal BTD (NBTD) and Abnormal BTD (ABTD). NBTD is used to detect differences that arise from different accounting and tax regulations, whereas ABTD is used to detect differences that arise due to earnings management, tax management, and other actions related to an increase in accounting profit but lower taxes paid. The amount of ABTD has a positive effect on incentives for-profit management and tax planning. A large and positive ABTD value results from excess post-tax profit recording from increases in profit management and tax avoidance practices, while an immense and negative ABTD value indicates the opposite.

This study uses ABTD calculations obtained from the Total BTD residual, as was done by Tang & Firth (2012). Total BTD which is regrouped into NBTD and ABTD can examine the effect of Total BTD and evaluate NBTD and ABTD on tax avoidance, focusing on the effect generated by ABTD can provide more information related to tax avoidance.

#### *Audit Quality, Audit Tenure and Tax Avoidance*

The audit quality is influenced by the auditor's educational background, audit structure, ability in supervision, and workload (Khairunisa, Hapsari, & Aminah, 2017). Meanwhile, according to Nizarul et al. (2007), audit quality is related to the length of the auditor's tenure at the company, the number of clients, the client's financial health condition, and reviews by third parties (Nadia, 2015). Competence, independence, and size of accounting firms are also the audit quality scope (Nadia, 2015).

Big Four accounting firm is considered to be able to produce high audit quality because it is a large size accounting firm, in which a large firm can show the ability of auditors to be professional and independent (Nadia, 2015). Large accounting firms tend to have good quality auditor competencies that can detect the possibility of profit manipulation by companies for tax purposes (Nadia, 2015). Furthermore, large accounting firms have a lower level of fraud and can display its real value (Damayanti & Susanto, 2015). Large firms will avoid lawsuits and fraud that can impact their reputation (Khairunisa, Hapsari, & Aminah, 2017).

Unlike Big Four firms, the length of the auditor's tenure in the company can reduce audit quality. In Indonesia, based on the Regulation of the Minister of Finance Number 17 / PMK.01 / 2008 concerning Public Accountant Services in Article 3 concerning Limitation of Service Periods, the provision of general audit services on financial reports is carried out by an Accounting Firm for a maximum of 6 (six) consecutive financial years with a cooling-off period of 1 (one) year and by a Public Accountant for a maximum of 3 (three) consecutive financial years with a cooling-off period of 1 (one) year.

In Malaysia, based on the By-Laws (On Professional Ethics, Conduct and Practice)

of The Malaysian Institute of Accountants in Paragraphs R540.5, an Engagement Partner (EP), an Engagement Quality Control Review (EQCR), and other core audit partner roles maximum 7 (seven) consecutive years with a cooling-off period of 3 (three) years for EP (Engagement Partner) and EQCR (Engagement Quality Control Review), and 2 (two) years for other core audit partners.

Accounting firms with a working relationship (audit tenure) that is too long allow the creation of risk of excessive familiarity and affect auditors' independence and objectivity (Nadia, 2015). Besides, the length of the audit tenure can create economic incentives for auditors. It will have an impact on decreasing auditor independence so that that audit tenure can reduce audit quality. The results of previous research conducted by Sandy & Lukviarman (2015) and Eksandy (2017) suggest that the higher the audit quality, the lower the tax avoidance. Then research conducted by Jeong & Bae (2013) and Lestari & Nedya (2019) regarding audit tenure suggests that the longer the audit tenure, the higher the tax avoidance. Based on the literature review mentioned above, therefore the hypotheses can be formulated as follows:

H<sub>1a</sub>: The higher the audit quality, the lower the tax avoidance will be

H<sub>1b</sub>: The longer the audit tenure, the higher the tax avoidance will be

#### *Independent Commissioners, Audit Quality and Tax Avoidance*

According to Pohan (2008), an independent board of commissioners is someone who does not have any relationship with controlling shareholders, directors or commissioners, and does not have a position in a related company (Sandy & Lukviarman, 2015). In other words, the independent board of commissioners is part of the board of commissioners that does not have any relationship with the company, which comes from an independent party or an outside party (Yunistiyani & Tahar, 2017).

In Indonesia, based on the Financial Services Authority Regulation Number 33 / POJK.04 / 2014 concerning the Board of Directors and Board of Commissioners of Issuers or Public Companies, the number of

Independent Commissioners must be at least 30% (thirty per cent) of the total members of the Board of Commissioners if the Board of Commissioners consists of more than 2 (two) people.

In Malaysia, based on Main Market Listing Requirements Chapter 15 on Corporate Governance, Independent Directors' composition is at least 2 (two) people, or 1/3 of the Board of Directors contains Independent Directors. If the number of the Board of Directors is not 3 (three) people or multiples, then the minimum number must be close to 1/3 of the number of boards. If there is an event that causes a vacancy in the number of the Board of Directors, the issuer concerned must fill in the vacancy within three months.

Indonesia and Malaysia have different board systems. With a Two-Tier system, Indonesia's separate task of managing daily management activities carried out by the Board of Directors and super supervised and monitored by the Board of Commissioners (Santoso, 2010). It is considered more capable of creating checks and balances because the management and supervision roles are separate and strictly regulated (Daniri, 2005 in Santoso, 2010).

Meanwhile, Malaysia with the One-Tier system, which is the role of daily management with an inseparable supervisory role and is the responsibility of the Board of Directors (Kamardin & Haron, 2011 in Hatane, Chandra, & Tarigan, 2019), is considered less effective according to Santoso (2010) due to several reasons: (1) the proportion of executive directors and non-executive directors is not balanced; (2) the confusing roles of both because the duties and authorities are not strictly separated; and (3) can create a conflict of interest because the number of executive directors tends to be the majority. However, Malaysia still regulates the board of directors' composition, which requires companies to have Independent Directors (Kamardin & Haron, 2011 in Hatane, Chandra, & Tarigan, 2019).

Independent board of commissioners is believed to be more objective because it is an outsider board so that the supervisory role will be more efficient (Hadi & Mangoting, 2014). According to Sari (2014), the more the number of independent boards of commissioners, the tighter management supervision will be



(Feranika, 2016). According to Hassan et al. (2014), management's tight supervision will minimise misstatement or fraud risks, including tax avoidance that may be done by management. The company will produce quality financial reports because it can reflect its original conditions (Widani & Bernawati, 2020).

Having less possibility of misstatement or fraudulent practice will assist external auditors in conducting quality audits due to the less likely abnormalities in management's financial statements so that the tendency of companies to do tax avoidance is low. Therefore, independent commissioners can strengthen the relationship between audit quality and tax avoidance. Based on the literature review mentioned above, therefore the hypotheses can be formulated as follows:

H<sub>2</sub>: Independent boards of commissioners strengthens the relationship between audit quality and tax avoidance.

#### *Audit Committee's Expertise, Audit Quality and Tax Avoidance*

The audit committee has a role in overseeing the governance and external audit of its financial statements (Damayanti & Susanto, 2015). According to Badolato et al. (2014), the audit committee needs to have competence and expertise in accounting and finance (Wulandari, 2019). In Indonesia, based on the Financial Services Authority Regulation Number 55 / POJK.04 / 2015 concerning the Establishment and Guidelines for the Implementation of the Audit Committee in Article 7, it is mandatory to have at least 1 (one) member with an educational background and expertise in accounting and finance.

In Malaysia, based on the Main Market Listing Requirements Chapter 15 on Corporate Governance, at least 1 (one) member of the audit committee is a member: (1) Malaysian Institute of Accountants; (2) If not a member of the Malaysian Institute of Accountants, the member must have at least 3 (three) years of working experience and have passed the specification examination as written in Part I of the First Schedule of the Accountants Act 1967; or (3) Is a member of one of the accountants association as described

in Part II of the First Schedule of the Accountants Act 1967.

Audit committees with financial expertise understand better the gaps in tax regulations and how to avoid detection risk so that they can provide useful opinions regarding tax avoidance (Puspita & Harto, 2014). According to Abbott & Parker (2000) in Widani & Bernawati (2020), an extensive audit committee with financial expertise will make it difficult for management to manipulate financial reports due to the effectiveness of internal control over many audit committees with financial expertise.

It can improve the audit function for external company reporting because it can provide useful opinions related to tax avoidance (Puspita & Harto, 2014), which according to Abbott et al. (2003), including minimising the possibility of fraud and tax avoidance practices by companies (Widani & Bernawati, 2020). Therefore, the audit committee's expertise can strengthen the relationship between audit quality and tax avoidance. Based on the literature review mentioned above, therefore the hypotheses can be formulated as follows:

H<sub>3</sub>: The audit committee's expertise strengthens the relationship between audit quality and tax avoidance.

## **Materials and Methods**

### *Sample Selection*

This study's populations are manufacturing companies listed on the Indonesia Stock Exchange (IDX) and the Malaysia Stock Exchange during 2018. Sampling in this study uses purposive sampling, a method based on specific criteria or considerations. The criteria are as follows; 1) The company presents annual financial reports for the 2018 period, 2) The financial reporting year ends on December 31 to maintain uniformity of the sample and analysis results, 3) Annual financial statements are presented in Rupiah / RM currency so that the criteria for measuring the currency are the same, the use other than that currency can cause differences from the exchange rate, which keeps changing even though it can be converted, 4) Not a Final Income Taxpayer

because it has its tax base and tax rate, 5) Presents data regarding the Independent Board of Commissioners / Independent Director, Audit Committee, and information related to Accounting Firm that audits the company.

### **Operational Definition and Variable Measurement**

#### *Tax Avoidance*

In this study, the measurement of tax avoidance refers to Tang and Firth (2011) using the residual method from BTD to obtain the Abnormal Book Tax Differences (ABTD) (Tang & Firth, 2012). The ABTD value is the portion that the Total BTD does not describe. Total BTD is regressed with non-discretionary items known to cause NBTD thus does not reflect income management or tax avoidance. The following formula calculates abnormal Book Tax Difference (ABTD):

$$BTD_{it} = \beta_0 + \beta_1 \Delta INV_{it} + \beta_2 \Delta REV_{it} + \beta_3 TL_{it} + \beta_4 TLU_{it} + \beta_5 BTD_{it-1} + \varepsilon_{it}$$

Explanation:

- $BTD_{it}$  = BTD reported by company i in year t  
 $\beta_1 \Delta INV_{it}$  = changes in investment in gross tangible fixed assets and intangible fixed assets from year  $t-1$  to year t  
 $\beta_2 \Delta REV_{it}$  = change in income from year  $t-1$  to year t  
 $\beta_3 TL_{it}$  = the amount of net operating loss of company i in year t, if the company does not experience an operating loss, the value is "0"  
 $\beta_4 TLU_{it}$  = The number of losses that have been compensated (tax losses utilised) for the company i in year t, if the company does not compensate for the loss, the value is "0"  
 $\beta_5 BTD_{it-1}$  = BTD reported by company i in year  $t-1$   
 $\varepsilon_{it}$  = error / residual ( $ABTD_{it}$ ) for company i in year t

To obtain the  $BTD_{it}$  value, the calculation refers to the research of Lastiati et al. (2020) with the following formula:

$$BTD_{it} = (\text{Net Income} \times \text{Statutory Tax Rate}) - \text{Current Tax Expense}$$

#### *Audit Quality*

Two proxies measure audit quality. The first proxy uses a dummy variable, that is, if the company is audited by Big Four accounting firm (Price Waterhouse Cooper-PWC, Deloitte Touche Tohmatsu-Deloitte, Klynveld Peat Marwick Goerdeler-KPMG, and Ernst & Young-E & Y) will be given a score of 1. In

contrast, the companies that not audited by Big Four accounting firm will be given a score of 0 (Eksandy, 2017). The second proxy is measured by audit tenure because an auditor's independence is often related to the client's length of the audit tenure (Nadia, 2015). In Nadia (2015) audit tenure is measured by the following calculations:

$$\text{Audit tenure} = \text{Number of Years the Auditor Audits the Client}$$

#### **Independent Commissioners**

According to Sari (2014), the more the number of independent boards of commissioners, the

tighter management supervision will be (Feranika, 2016). In Sandy & Lukviarman (2015) independent commissioners are measured by the following calculation:

$$\text{Independent Commissioner} = \frac{\text{Number of Independent Commissioners}}{\text{Total Board of Commissioners}} \times 100\%$$

*Audit Committee's Expertise*

Audit committees with financial expertise understand better the gaps in tax regulations and how to avoid detection risks and provide

useful opinions regarding tax avoidance (Puspita & Harto, 2014). In Puspita & Harto (2014), the audit committee's expertise (ACE) is measured by the following calculations:

$$ACE = \frac{\text{Number of Audit Committee Members with Accounting and Financial Skills}}{\text{Total Audit Committee Members}}$$

The audit committee's expertise in this study refers to the research of Badolato et al. (2014) in Wulandari (2019) by classifying biographical information that can reflect the

experience of members of the audit committee in accounting, supervision of financial report preparation, or expertise in using financial reports.

**Table 1.** Expertise Criteria in the Field of Accounting and Finance

No	Position	No	Position
1	Accounting Expertise	11	Financial Expertise
2	Chief Financial Officer	12	Banker
3	Accounting Officer	13	Analyst
4	Chief Accountant	14	Loan Officer
5	Controller	15	Investment Manager
6	Certified Public Accountant	16	Fund Manager
7	Chartered Accountant	17	Asset Manager
8	Financial Officer	18	Treasurer
9	Head of Accounting	19	Finance Director
10	Employment of Audit Firm	20	Manager Finance
		21	Vice President of Finance

*Company Size (SIZE)*

According to Dewi and Jati (2014), company size is the size of a company reflected in its total assets (Khairunisa, Hapsari, & Aminah, 2017). Hidayanti (2013) states that the greater the company's size, the more capable the company to use its resources to do good tax planning (Hadi & Mangoting, 2014). In Wulandari (2019) company size is calculated by the following formula:

$$\text{Company Size (SIZE)} = \ln (\text{Total Assets})$$

*Return On Asset (ROA)*

Return On Asset (ROA) describes management's ability to earn a profit (Damayanti & Susanto, 2015). The higher the ROA value, the higher the profits the company will get. According to Rusydi and Martani (2014), companies with a high level of profitability can manage the company with

various methods in order to avoid taxes, so that there are indications that these companies can practice tax avoidance by not presenting profits as they should (Hadi & Mangoting, 2014). In Puspita & Harto (2014) ROA is calculated by the following formula:

$$\text{Return On Asset (ROA)} = \frac{\text{Net Income}}{\text{Total Assets}}$$

*Leverage*

Leverage is a ratio measuring a company's debt financing (Kasmir, 2013). If the company's leverage ratio is high, it means that the value of the company's debt is greater than the value of capital so that the company is threatened with the default because it cannot fulfil its obligations to pay the debt. Debt owed by the company will incur interest expense to be paid. Companies with a high debt level will pay more interest in decreasing profits and reducing the tax payable. Besides, companies

with a high DER (Debt to Equity Ratio) tend to avoid taxes (Sari, 2019). Leverage is calculated using the Debt to Equity Ratio (DER) with the following formula:

$$\text{Leverage (LEV)} = \frac{\text{Total Liabilities}}{\text{Equity}}$$

### Research Model

Two research models were used in this study. The first model sees the relationship between the independent and dependent variables, and the second model sees the effect of the moderating variable on the relationship between the independent and dependent variables. The research model is as follows:

$$TA = \alpha - \beta_1 KA + \beta_2 SIZE + \beta_3 ROA + \beta_4 LEV + e \quad (1)$$

$$TA = \alpha - \beta_1 KA - \beta_2 KKI - \beta_3 KKA - \beta_4 KA * KKI - \beta_5 KA * KKA + \beta_6 SIZE + \beta_7 ROA + \beta_8 LEV + e \quad (2)$$

Explanation:

$\alpha$  : constant  
 TA : Tax Avoidance  
 KA : Audit Quality  
 KKI : Independent Commissioners  
 KKA : Audit Committee's Expertise  
 SIZE : Company Size  
 ROA : Return On Asset (ROA)  
 LEV : Leverage  
 e : error / residual

## Results and Discussions

### Research Samples

Based on data from the Indonesia Stock Exchange (IDX) and the Malaysia Stock Exchange in 2018, the total population of Manufacturing Companies is 348. The sampling technique uses purposive sampling, so the sample in this study are 295 companies. The sample selection process can be seen in Table 2.

**Table 2.** Sample Selection Process

Explanation	Indonesia	Malaysia	Total
Manufacturing companies listed on the IDX	144	-	144
Manufacturing company listed on the Malaysia Stock Exchange	-	204	204
Data is not presented completely	(1)	(1)	(2)
The financial reporting year does not end on December 31	-	(14)	(14)
Financial statements are presented other than in Rupiah / RM	(29)	(4)	(33)
Is a Final Income Taxpayer	(3)	(1)	(4)
<b>Total Research Sample</b>	<b>111</b>	<b>184</b>	<b>295</b>

### Descriptive Statistical Analysis

Table 3, Table 4 and Table 5 presents the descriptive statistical results to see the value of the minimum, maximum, mean, and standard deviation of the pooled samples and samples in Indonesia and Malaysia. Tax avoidance proxied by ABTD, in the pooled sample has a

mean value of 0.022, meaning that companies tend not to do tax avoidance because the ABTD value only explains 0.022 of BTB and the remaining 0.978 is explained by NBTD. The mean value for samples in Indonesia and Malaysia are 0.027 and 0.020. These results indicate that on average, a company with a tendency to avoid taxes in Indonesia is higher than Malaysia.

**Table 3.** Descriptive Statistics - Pooled sample

	Minimum	Maximum	Mean	Std. Dev.
<b>ABTD</b>	-.067	.126	.022	.027
<b>TEN</b>	1	6	2.146	1.191
<b>KKI</b>	.25	1	.465	.121
<b>KKA</b>	0	1	.611	.302
<b>SIZE</b>	10.503	33.474	23.006	4.447



<b>ROA</b>	-.454	6.478	.048	.391
<b>LEV</b>	-5.214	14.691	1.029	1.773
Dummy = 1			Dummy = 0	
%			%	
<b>BIG4</b>	39.32%		60.68%	

**Table 4.** Descriptive Statistics - Indonesia sample

	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Dev.</b>
<b>ABTD</b>	-.071	.121	.027	.035
<b>TEN</b>	1	3	1.739	.735
<b>KKI</b>	.25	1	.423	.125
<b>KKA</b>	0	1	.748	.294
<b>SIZE</b>	23.576	33.474	28.326	1.585
<b>ROA</b>	-.454	.467	.032	.113
<b>LEV</b>	-5.214	14.691	1.544	2.627
Dummy = 1			Dummy = 0	
%			%	
<b>BIG4</b>	33.33%		66.67%	

**Table 5.** Descriptive Statistics - Malaysia sample

	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Dev.</b>
<b>ABTD</b>	-.061	.108	.020	.023
<b>BIG4</b>	0	1	.430	.496
<b>TEN</b>	1	6	2.391	1.338
<b>KKI</b>	.25	.8	.490	.112
<b>KKA</b>	0	1	.528	.276
<b>SIZE</b>	10.503	25.779	19.797	1.656
<b>ROA</b>	-.412	6.478	.058	.488
<b>LEV</b>	-2.875	6.389	.718	.803
Dummy = 1			Dummy = 0	
%			%	
<b>BIG4</b>	42.93%		57.07%	

Number of observations = 295

Variable definitions:

ABTD = Abnormal BTB company obtained from residual / error BTB estimation model;

BIG4 = dummy variable, where "1" is for companies whose financial statements are audited by Big Four accounting firm and "0" for those that are not;

TEN = audit tenure, the number of years the auditor audits the company;

KKI = the independent commissioners / independent directors in the company;

KKA = the audit committee's financial expertise in the company;

SIZE = company size;

ROA = the company's Return on Assets (ROA) ratio;

LEV = the level of debt (leverage) of the company.

Table 3, Table 4 and Table 5 presents the descriptive statistical results to see the value of the minimum, maximum, mean, and standard deviation of the pooled samples and samples in Indonesia and Malaysia. Tax avoidance proxied by ABTD, in the pooled

sample has a mean value of 0.022, meaning that companies tend not to do tax avoidance because the ABTD value only explains 0.022 of BTB and the remaining 0.978 is explained by NBTB. The mean value for samples in Indonesia and Malaysia are 0.027 and 0.020.

These results indicate that on average, a company with a tendency to avoid taxes in Indonesia is higher than Malaysia.

Audit quality proxied by Big Four accounting firm, in the pooled sample shows that Big Four firms audit 39.32% of companies and the rest 60.68% audited by Non-Big Four firms. In Indonesia sample, 33.33% of the companies were audited by the Big Four firms, and the remaining 66.67% were audited by the Non-Big Four firms, while in Malaysia sample 42.93% of the companies were audited by the Big Four firms and Non-Big Four firms audited the remaining 57.07%. These results indicate that companies' financial statements in Indonesia and Malaysia are audited more by Non-Big Four accounting firms than by Big Four accounting firm.

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Audit quality proxied by the audit tenure, in the pooled sample shows a mean value of 2.146, meaning on average, auditor audits the company for two consecutive financial years. The mean value in Indonesia and Malaysia samples are 1.739 and 2.391, meaning on average, the auditor audits the company for one financial year and two consecutive financial years, respectively. These results indicate that on average, audit tenure in companies in Indonesia tends to be shorter than in Malaysia.

KKI is the independent commissioners / independent directors in the company, in the pooled sample it has a mean value of 0.465, meaning that the independent commissioners / independent directors in the company are 46.5% and the remaining 53.5% is not independent. The mean value in Indonesia and Malaysia samples is 0.423 and 0.490, which means that the independent commissioners /

independent directors in the company are 42.3% and 49% respectively, and the remaining 57.7% and 51% are not independent. This shows that Indonesia's average number of independent commissioners is lower than the number of independent directors in Malaysia.

KKK is the number of audit committees with financial expertise, the pooled sample has a mean value of 0.611, meaning that the number of audit committees with financial expertise in the company is 61.1% and the rest 38.9% is not. The mean value in Indonesia and Malaysia samples are 0.748 and 0.528, meaning on average, the number of audit committees with financial expertise in the company is 74.8% and 52.8% respectively, and the remaining 25.2% and 47.2% are not. It shows that Indonesia's average number of audit committees with financial expertise is higher than in Malaysia.

Firm size (SIZE) proxied by the natural logarithm (Ln) of total assets, in the pooled sample has a mean value of 23,006. The mean value in the samples in Indonesia and Malaysia are 28,326 and 19,797. These results indicate that Indonesia's average firm size (SIZE) is more significant than in Malaysia. Return on Assets (ROA) proxied by the ratio of Return on Assets (ROA), in the pooled sample has a mean value of 0.048. The mean value in samples in Indonesia and Malaysia are 0.032 and 0.058. These results indicate that the average ROA ratio in Indonesia is smaller than in Malaysia. The debt level (leverage) is proxied by the Debt to Equity Ratio (DER), in the pooled sample has a mean value of 1.029. The average value in samples in Indonesia and Malaysia are 1.544 and 0.718. These results indicate that the average corporate debt in Indonesia is higher than in Malaysia.

#### *Classical Assumption Tests*

The normality test results using the Skewness Kurtosis Test show that all variables have a probability value below 0.05. The ABTD Model with Big Four accounting firm has  $\text{Prob} > \chi^2$  0.0000 < 0.05 and the ABTD Model with Audit Committee's Expertise has  $\text{Prob} > \chi^2$  0.0000 < 0.05, meaning that the data is not normally distributed. Nachrowi and Usman (2006) in Wulandari (2019) state that if

research is carried out in large amounts of data, violations of the normality assumption are not significant and tend to be ignored.

The results of the multicollinearity test using the VIF (Variance Inflation Factor) test show that all variables have no multicollinearity problem because in the ABTD Model with Big Four accounting firm, the tolerance values of BIG4, SIZE, ROA, LEV have tolerance values of 0.991953, 0.933930, 0.982552, 0.950796 greater than 0.10 and the VIF values of 1.01, 1.07, 1.02, 1.05 are smaller than ten. In the ABTD Model with Audit Committee's Expertise, the tolerance values of BIG4, KKA, MOD\_BIG4\_KKA, SIZE, ROA, LEV have tolerance values of 0.202501, 0.523215, 0.184019, 0.836968, 0.962172, 0.950360 greater than 0.10 and the VIF values of 4.94, 1.91, 5.43, 1.19, 1.04, 1.05 are smaller than 10.

The heteroscedasticity test results using the Breush-Pagan / Cook-Weisberg test show no heteroscedasticity problem because the probability is greater than 0.05. The probability value of the ABTD Model with Big Four accounting firm is  $\text{Prob} > \chi^2_{0.05} = 0.2273 > 0.05$  and the ABTD Model with Audit

Committee's Expertise is  $\text{Prob} > \chi^2_{0.05} = 0.0940 > 0.05$ .

### Regression Analysis

#### *The Effect of Audit Quality on Tax Avoidance*

Based on the results of the hypothesis test presented in Table 6, the F-test results of 0.000 (less than  $\alpha = 1\%$ ) indicate that overall the independent variables (BIG4) and control variables (SIZE, ROA, LEV) can explain the dependent variable well (ABTD) at the 1% significance level. The adjusted  $R^2$  value of 0.067 indicates that 6.7% of the dependent variable (ABTD) can be explained by the independent variable (BIG4) and control variables (SIZE, ROA, LEV), the remaining 93.3% is explained by other variables outside the study. The independent variable (BIG4) has a negative effect on the dependent variable (ABTD) with a significance value of 0.015 (less than  $\alpha = 5\%$ ) and a coefficient value of -0.0068452. It shows that the hypothesis that has been formulated in  $H_{1a}$  is accepted.

**Table 6.** Regression Results of the ABTD Model with Big Four Accounting Firm

Variable	Predicted Sign	Coef.	t-stat	p-value
C	?	.0000741	0.01	0.497
BIG4	-	-.0068452	-2.19	0.015 **
SIZE	+	.0009557	2.70	0.004 ***
ROA	+	.0090874	2.32	0.011 **
LEV	+	-.0027566	-3.13	0.001 ***
Dependent Variable: ABTD				
Adjusted $R^2$				0.067
F-stat				6.31 ***
Prob. F-stat				0.000

\*\*\* Significant at the 1% level

\*\* Significant at the 5% level

\* Significant at the 10% level

Number of observations = 295

Variable definitions:

BIG4 = dummy variable, where "1" is for companies whose financial statements are audited by Big Four accounting firm and "0" for those that are not;

SIZE = company size;

ROA = the company's Return on Assets (ROA) ratio;

LEV = the level of debt (leverage) of the company.

This result is in line with previous research conducted by Sandy & Lukviarman

(2015) and Eksandy (2017), which suggested that the higher the audit quality is, the lower

the tax avoidance. Big Four accounting firm is a large-sized accounting firm, in which large firms have good quality auditor competencies such as experience, training, and international recognition that can detect the possibility of earnings manipulation by companies for tax purposes. Besides, large accounting firms are synonymous with high reputations (Nadia, 2015) and have lower levels of fraud risks and can display the real value of the company (Damayanti & Susanto, 2015) because large firms will avoid lawsuits and risks that can impact their reputation (Khairunisa, Hapsari, & Aminah, 2017). So according to Chai & Liu (2010), the more quality audits performed by auditors, the lower the level of profit

manipulation by the company for tax purposes (Damayanti & Susanto, 2015).

The control variable (SIZE) has a positive effect on the dependent variable (ABTD) with a significance value of 0.004 (less than  $\alpha = 1\%$ ) and a coefficient value of .0009557. The control variable (ROA) has a positive effect on the dependent variable (ABTD) with a significance value of 0.011 (less than  $\alpha = 5\%$ ) and a coefficient value of .0090874. The control variable (LEV) has a negative effect on the dependent variable (ABTD) with a significance value of 0.001 (less than  $\alpha = 1\%$ ) and a coefficient value of -.0027566.

**Table 7.** Regression Results of the ABTD Model with Audit Tenure

Variable	Predicted Sign	Coef.	t-stat	p-value	
C	?	-.0023574	-0.25	0.401	
TEN	+	.0010778	0.82	0.207	
SIZE	+	.0010793	2.98	0.002	***
ROA	+	.0097227	2.45	0.008	***
LEV	+	-.0028182	-3.18	0.001	***
Dependent Variable: ABTD					
Adjusted R <sup>2</sup>				0.054	
F-stat				5.21	***
Prob. F-stat				0.001	
*** Significant at the 1% level					
** Significant at the 5% level					
* Significant at the 10% level					
Number of observations = 295					
Variable definitions:					
TEN = audit tenure, the number of years the auditor audits the company;					
SIZE = company size;					
ROA = the company's Return on Assets (ROA) ratio;					
LEV = the level of debt (leverage) of the company.					

Based on the results of the hypothesis test presented in Table 7, the F-test results of 0.001 (less than  $\alpha = 1\%$ ) indicate that overall the independent variables (TEN) and control variables (SIZE, ROA, LEV) can explain the dependent variable well (ABTD) at the 1% significance level. The adjusted R<sup>2</sup> value of 0.054 indicates that 5.4% of the dependent variable (ABTD) can be explained by the independent variable (TEN) and control variables (SIZE, ROA, LEV), the remaining 94.6% is explained by other variables outside the study. The independent variable (TEN) does not affect the dependent variable (ABTD)

because the significance value is 0.207 (greater than  $\alpha = 10\%$ ). It shows that the hypothesis that has been formulated in H<sub>1b</sub> is rejected.

This result is not in line with research by Jeong & Bae (2013) and Lestari & Nedya (2019), suggesting that the longer the audit tenure, the higher its tendency to do tax avoidance. According to Nuratama (2011) in Suyadnya & Supadmi (2017), a long audit tenure, as long as it does not exceed the regulatory, which is three consecutive financial years in Indonesia and seven consecutive financial years in Malaysia, will make auditors have knowledge and experience more towards

the company so that it can design effective audit procedures. Companies in Indonesia sample have a maximum audit tenure of 3 consecutive financial years. Meanwhile, sample companies in Malaysia have maximum audit tenure for six consecutive financial years. It shows that auditors' independence is maintained so that the audit tenure in this study is effective and has no tax avoidance effect.

The control variable (SIZE) has a positive effect on the dependent variable (ABTD) with a significance value of 0.004 (less than  $\alpha = 1\%$ ) and a coefficient value of .0009557. The control variable (ROA) has a positive effect on the dependent variable (ABTD) with a significance value of 0.011 (less than  $\alpha = 5\%$ ) and a coefficient value of .0090874. The control variable (LEV) has a negative effect on the dependent variable (ABTD) with a significance value of 0.001 (less than  $\alpha = 1\%$ ) and a coefficient value of -.0027566.

*The Effect of Independent Commissioners on the Relationship between Audit Quality and Tax Avoidance*

The moderating variable hypothesis test presented in Table 8 only uses the independent variable with the Big Four accounting firm proxy because based on the hypothesis test results in Table 6 and Table 7, the accepted hypothesis is only  $H_{1a}$ . The F-test result of 0.000 (less than  $\alpha = 1\%$ ) shows that overall the independent variables (BIG4 and KKI), moderating variables (MOD\_BIG4\_KKI) and control variables (SIZE, ROA, LEV) can explain the dependent variable (ABTD) well at the 1% significance level.

The adjusted  $R^2$  value of 0.067 indicates that 6.7% of the dependent variable (ABTD) can be explained by independent variables (BIG4 and KKI), moderating variables (MOD\_BIG4\_KKI) and control variables (SIZE, ROA, LEV), other variables outside the study explain the remaining 93.3%. The moderating variable (MOD\_BIG4\_KKI) has no effect on the dependent variable (ABTD) because the significance value is 0.124 (greater than  $\alpha = 10\%$ ). It shows that the hypothesis that has been formulated on  $H_2$  is rejected.

**Table 8.** Regression Results of the ABTD Model with Independent Commissioners

Variable	Predicted Sign	Coef.	t-stat	p-value	
C	?	-.0009332	-0.07	0.471	
BIG4	-	.0208379	1.67	0.048	**
KKI	-	.003424	0.20	0.421	
MOD_BIG4_KKI	-	-.0301458	-1.16	0.124	
SIZE	+	.0009303	2.54	0.006	***
ROA	+	.0089253	2.24	0.013	**
LEV	+	-.0027594	-3.13	0.001	***
Dependent Variable: ABTD					
Adjusted $R^2$				0.067	
F-stat				4.51	***
Prob. F-stat				0.000	
*** Significant at the 1% level					
** Significant at the 5% level					
* Significant at the 10% level					
Number of observations = 295					
Variable definitions:					
BIG4	= dummy variable, where "1" is for companies whose financial statements are audited by Big Four accounting firm and "0" for those that are not;				
KKI	= the independent commissioners / independent directors in the company;				



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MOD_BIG4_KKI	= moderating variable, multiplication between BIG4 and KKI;
SIZE	= company size;
ROA	= the company's Return on Assets (ROA) ratio;
LEV	= the level of debt (leverage) of the company.

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Possibly, the independent commissioners in the company have not played a supervisory role properly, so that the corporate governance mechanism is not working effectively (Asri & Suardana, 2016). The independent commissioner acts as a legislative body (Putranti & Setiawanta, 2015) and oversees management actions to remain under and comply with applicable regulations (Yunistiyani & Tahar, 2017) has not been maximised. Despite their role as a legislative body (Putranti & Setiawanta, 2015), independent commissioners are quite difficult to carry out direct internal supervision because decision making is still carried out by management (Agusti, 2014), including in terms of presenting financial statements and decisions to practice tax avoidance. Thus independent commissioners do not affect the relationship between audit quality and tax avoidance.

The control variable (SIZE) has a positive effect on the dependent variable (ABTD) with a significance value of 0.004 (less than  $\alpha = 1\%$ ) and a coefficient value of .0009557. The control variable (ROA) has a positive effect on the dependent variable (ABTD) with a significance value of 0.011 (less than  $\alpha = 5\%$ ) and a coefficient value of .0090874. The control variable (LEV) has a negative effect on the dependent variable (ABTD) with a significance value of 0.001

(less than  $\alpha = 1\%$ ) and a coefficient value of -.0027566.

#### *The Effect of the Audit Committee's Expertise on the Relationship between Audit Quality and Tax Avoidance*

The moderating variable hypothesis test presented in Table 9 only uses the independent variable with the Big Four accounting firm proxy because based on the hypothesis test results in Table 6 and Table 7, the accepted hypothesis is only  $H_{1a}$ . The F-test result of 0.000 (less than  $\alpha = 1\%$ ) shows that overall the independent variables (BIG4 and KKA), moderating variables (MOD\_BIG4\_KKA) and control variables (SIZE, ROA, LEV) can explain the dependent variable (ABTD) well at the 1% significance level.

The adjusted  $R^2$  value of 0.068 indicates that 6.8% of the dependent variable (ABTD) can be explained by independent variables (BIG4 and KKA), moderating variables (MOD\_BIG4\_KKA) and control variables (SIZE, ROA, LEV), other variables outside the study explain the remaining 93.2%. The moderating variable (MOD\_BIG4\_KKA) has a positive effect on the dependent variable (ABTD) with a significance value of 0.070 (less than  $\alpha = 10\%$ ). It shows that the hypothesis that has been formulated on  $H_3$  is rejected.

**Table 9.** Regression Results of the ABTD Model with the Audit Committee's Expertise

Variable	Predicted Sign	Coef.	t-stat	p-value
C	?	.0040426	0.47	0.320
BIG4	-	-.002202	-0.32	0.375
KKA	-	-.0051967	-0.75	0.228
MOD_BIG4_KKA	-	.0151316	1.49	0.070 *
SIZE	+	.0009256	2.48	0.007 ***
ROA	+	.0091605	2.31	0.011 **
LEV	+	-.0027767	-3.16	0.001 ***
Dependent Variable: ABTD				
Adjusted $R^2$				0.068
F-stat				4.59 ***
Prob. F-stat				0.000

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- \*\*\* Significant at the 1% level  
 \*\* Significant at the 5% level  
 \* Significant at the 10% level
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Number of observations = 295

Variable definitions:

BIG4	= dummy variable, where "1" is for companies whose financial statements are audited by Big Four accounting firm and "0" for those that are not;
KKA	= the audit committee's financial expertise in the company;
MOD_BIG4_KKA	= moderating variable, multiplication between BIG4 and KKA;
SIZE	= company size;
ROA	= the company's Return on Assets (ROA) ratio;
LEV	= the level of debt (leverage) of the company.

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According to Inaam & Khamoussi (2016) in Baldavoo & Nomlala (2019), governance, especially the audit committee, affects the audit quality because of its role in overseeing management activities. The audit committee will deal directly with the external auditor in discussing the audit results included in the characteristics of good governance. Audit committees with financial expertise understand better the gaps in tax regulations and how to avoid detection risks (Puspita & Harto, 2014). However, an extensive audit committee with financial expertise if it is not supported by an understanding of the background of the company's operating and business activities, will not provide the expected benefits and cannot improve the supervisory function of the company (Sihombing & Laksito, 2017). Therefore the audit committee's financial expertise weakens the relationship between audit quality and tax avoidance.

The control variable (SIZE) has a positive effect on the dependent variable (ABTD) with a significance value of 0.004 (less than  $\alpha = 1\%$ ) and a coefficient value of .0009557. The control variable (ROA) has a positive effect on the dependent variable (ABTD) with a significance value of 0.011 (less than  $\alpha = 5\%$ ) and a coefficient value of .0090874. The control variable (LEV) has a negative effect on the dependent variable (ABTD) with a significance value of 0.001 (less than  $\alpha = 1\%$ ) and a coefficient value of -.0027566.

## Conclusion

The audit quality, proxied by Big Four accounting firm, had a significant negative effect on ABTD. This result is in line with previous research conducted by Sandy & Lukviarman (2015) and Eksandy (2017), suggesting that the higher the audit quality, the lower the tax avoidance. Meanwhile, audit quality proxied by the audit tenure has no significant effect on ABTD. This result is not in line with research by Jeong & Bae (2013) and Lestari & Nedy (2019), suggesting that the longer the audit tenure, the higher the tax avoidance. The independent commissioners do not significantly affect the relationship between audit quality and tax avoidance, and the audit committee's financial expertise weakens the relationship between audit quality and tax avoidance.

This study's results are expected to help companies and investors pay more attention to the accounting firms chosen to audit the company's financial statements. In addition to having better quality auditor competence, large accounting firms, especially those included in the Big Four, will also avoid fraud risks because it can impact their reputation. Thus, the actual company value can be displayed. Companies and investors also need to pay attention to the audit committee's expertise. An audit committee with a background in financial without an understanding of the company's operational and business activities is not effective in carrying out its supervisory function, so that diversity of audit committee backgrounds is still needed to oversee management activities

in terms of financial reporting and improve the audit function for external reporting. Furthermore, regulators are expected to adopt a policy that can reduce the company's opportunities for tax avoidance, which is caused by gaps between accounting regulations and tax regulations, for example by considering regulations related to the estimated useful life of assets. It can increase the company's responsibility regarding the reliability of financial statements.

This study has several limitations, including; 1) This study uses a manufacturing company as the research sample, so that the results of the study cannot be used in general for other industrial sectors listed on the Indonesia Stock Exchange (IDX) and Bursa Malaysia, 2) The research period only uses the year 2018 so that the number of samples is limited and the testing is less optimal, 3) This study only uses Big Four accounting firm and the audit tenure as a proxy for audit quality as well as independent commissioners and the expertise of the audit committee as a supervisory function in governance. Besides, this study only compares two countries with similar characteristics, Indonesia and Malaysia.

For further research, the following points can be considered; 1) Further research should expand the object of research, for example by using all industries listed on the Indonesia Stock Exchange (IDX) and the Bursa Malaysia in order to provide general results, 2) Future studies should extend the research period so that the test results can be more optimal 3) Future studies should add more research variables such as audit fees to measure audit quality, the competence of the board of commissioners, or compares with other countries so that the implications for tax avoidance on companies in Indonesia can be further examined.

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