

The Role of Auditor Characteristics on Tax Avoidance

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Received 4 January 2024; Revised 16 February 2024; Accepted 5 April 2024

Abstrak

Tujuan - Penelitian ini bertujuan untuk menyelidiki dampak karakteristik auditor terhadap praktik penghindaran pajak di Indonesia. Sifat-sifat seorang auditor dipengaruhi oleh spesialisasi industri mereka, opini audit, pemegang audit, dan biaya audit. Sementara itu, praktik penghindaran pajak dinilai dengan membandingkan Effective Tax Rate (ETR). **Desain/Methodologi/Pendekatan** - Penelitian menggunakan pendekatan regresi data panel untuk mengevaluasi data perusahaan yang terdaftar di Bursa Efek Indonesia dari tahun 2018 hingga 2022.

Temuan - Temuan menunjukkan bahwa masa jabatan audit berpengaruh negatif signifikan terhadap penghindaran pajak. Sementara itu, spesialisasi industri auditor, opini audit, dan biaya audit tidak berpengaruh signifikan terhadap penghindaran pajak.

Keterbatasan/Implikasi Penelitian - Temuan ini berkontribusi atas pengaruh karakteristik auditor terhadap praktik penghindaran pajak.

Kata Kunci: Karakteristik Auditor, Biaya Audit, dan Penghindaran Pajak

Abstract

Purpose - This study aims to explore the role of auditor characteristics on the practice of tax avoidance in Indonesia. Auditor characteristics are determined from the auditor industry specialization, audit opinion, audit tenure, and audit fee. Meanwhile, tax avoidance behavior is determined from a comparison of the effective tax rate (ETR).



Design/methodology/approach - The secondary data analysis on this study applies a panel data regression method to analyze data from companies listed on the Indonesia Stock Exchange between 2018 and 2022.

Findings -The findings indicate that audit tenure has a significant negative effect on tax avoidance. Meanwhile, auditor industry specialization, audit opinion, and audit fees do not have a significant effect on tax avoidance.

Research limitations/implications - The results of this study contribute to the role of auditor characteristics on tax avoidance practices.

Keywords: Auditor Characteristics, Audit Fee, and Tax Avoidance

Introduction

Indonesia is a developing country with relatively low income and developing infrastructure. The infrastructure mentioned includes both traditional and modern infrastructure. Cultures in developing countries often have problems paying taxes, such as a lack of awareness to pay taxes which leads to quite common cases of tax evasion (Finsiani & Aji, 2018). Taxes participate in a significant way in the prosperity and well-being of a country's society (Anderson & Ismail, 2023). Tax money is a major nation's principal source of income and will be utilized for long-term economic development, state debt repayment, and state integrity (Sari Dewi, 2022). The companies pay taxes on their net profit, when the amount of taxes paid increases, the state's revenue also increases. Taxes, on the other hand, are a burden to reduce net income for companies. This makes the government and the industry have goals that are in direct opposition to one another (Harsono & Halim, 2020). Companies endeavor to maximize earnings by avoiding tax responsibilities to survive while the government tries to boost tax revenue every year (Siregar, 2016). An action made by a taxpayer in order to avoid paying their taxes is referred to as tax avoidance. It affects the state and society by delaying government debt payments to other countries and delaying infrastructure development because government revenue does not meet goals or targets. However, if

people are disciplined in paying taxes and considering income, it is not impossible that money and prosperity coexist (Susanto, 2022). The existence of effort to withhold or avoid tax payments is due to loopholes in taxpayer rules and shortcomings in tax authorities (Sadeva et al., 2018).

Tax avoidance behavior executed by companies based on research by Christina et al. (2021), Lestari & Nedya (2019), and Lee & Kao (2018) is related to auditor industry specialization, audit opinion, audit fees, and audit tenure. According to Lee & Kao (2018), in the event that an auditor is positioned as a subject matter expert. This indicates if auditor industry specialists compared to auditors who are not industry specialists are better equipped to increase the quality of the profits that they get from audit clients. Lestari & Nedya (2019) say that audit tenure refers to the length of the auditors' cooperation with the company which creates closeness to management, which in turn means that the auditor is not independent. Therefore, it affects the competence of the auditors' work. This can cause auditors to try to accommodate management requests based on longstanding management requests, including requests to reduce tax burdens. According to Riguen et al. (2021), audit opinion is a statement made by an independent auditor when tasked with auditing statements of the company's financial position. If the auditor does not find any violations during the examination process regarding the company's condition, in conclusion regarding the audit, the auditor

will offer an audit opinion about the company's ability to maintain its continuity of its business operations. As stated by Riguen et al. (2021), if the audit is carried out by a competent auditor, the audit fee will be greater. Then, the results show that the amount of audit fee, which is the main source of auditor income, determines whether or not the quality of an auditor is good, and this can have a direct impact on the amount of tax avoidance. So, according to this account, it provides strong information of auditor characteristics that affect tax avoidance behavior.

Literature Review and Hypothesis

The act of engaging in tax evasion is an activity carried out by taxpayers which is used to avoid tax obligations (Hendi, 2021). This has an impact on the state and society, such as the obstruction of paying state debt to other countries and the obstruction of infrastructure development because the income received by the state does not achieve optimal results. So, the government's target or goal is hampered. Whereas, if people have the discipline to pay taxes and think about the benefits, the creation of prosperity and welfare together is not impossible. There is an effort to reduce or avoid paying taxes because there are loopholes found by taxpayers in tax regulations and weaknesses from tax authorities (Sadeva et al., 2018).

Taxes are the largest revenue of a country obtained by the citizens advocating for the advancement of the nation and the funding of government operations (Lestari & Nedya, 2019). Although it is said to be the largest revenue, it is still said to be unable to reach the optimal amount (Sadeva et al., 2018). In this case, companies that are also required to participate in tax payments assume that the aggregate tax sum compensated for by the state is a cost for the company and company owners with a large enough amount (Kamila, 2017). Therefore, companies often try to reduce taxes in

various ways. Meanwhile, according to Chen et al. (2010), companies are more interested in doing aggressive tax behavior. The aggressive tax practice is carried out by reducing taxable income through tax planning, whether the practice is classified as tax evasion or not. This also happens because of the many tax avoidance behaviors that are determined by the difference in the interest of the state which wants to collect as much tax as possible according to the tax rate. Meanwhile, taxpayers want the opposite, namely paying as little tax as possible so that this difference in interest can affect a country's tax optimization. According to Richmadenda dan Pratomo (2018), the goal of tax avoidance is to decrease or lower large tax payments. Napitulu et al. (2020) also define corporation tax avoidance as lawful tax evasion.

As stated by Dewi & Sari (2015), tax avoidance involves meeting tax requirements where this effort is made because taxpayers feel burdened to pay taxes. Meanwhile, according to Sandy & Lukviarman (2015), tax avoidance can occur due to the motive of the companies, namely activities to increase profits as expected by shareholders. Its practice is considered not to violate tax laws and regulations because this practice utilizes the loopholes in tax laws and regulations, so it affects revenue from the tax sector (Saputra et al., 2018).

Research carried out by Susanto (2022) regarding corporate tax evasion behavior employed by corporations is influenced by the characteristics of auditors and companies in Indonesia. Hypothesis testing in this study includes signature days, audit period, audit opinion, company size, company age, dividend, and debt exert negligible impact on avoidance. Meanwhile, return on asset, loss, and accrual exert a substantial effect on the practice of tax evasion. Christina et al., (2021) examined the characteristics of auditors and companies that contribute to tax evasion. Hypothesis testing within the scope of this investigation includes auditor tenure, audit fees, auditor's industry specialization,

deficit, profitability, utilization, company age, fiscal loss, reporting period, accrual, company size, and dividend exert an effect on tax evasion, but other factors do not. Research done by Riguén et al., (2021) discusses the characteristics of the variable auditors in this study, namely audit characteristics consisting of audit fee, auditor's specialization, audit opinion, audit rotation, and tax avoidance involving a balanced representation of genders as a moderating variable as well as control variables, namely utilize and size of the company. The hypothesis being tested in this study includes factors, such as audit fees, auditor industry specialization, audit opinion, and audit rotation have an effect on tax avoidance with gender diversity as a moderating factor.

Hypothesis

The Effect of Auditor Industry Specialization on Tax Avoidance

Specialization within the auditing industry is a competency in auditors obtained through the experience in conducting audits in certain industries so as to increase the auditors' understanding of the client industry (Kartika Sari, 2018). To generate high-quality and correct audit standards requires the specialization of auditors who are competent in their tax expertise. However, according to Lee & Kao, (2018), auditors who have industry specialization can help their clients to minimize their taxes, but this can have a reputational effect on the audit company in the event of an audit failure. According to Khairunisa et al. (2017), Setiyawati (2015), Amaliyah & Rachmawati (2019), assess that auditor specialization does not impact tax evasion. This is further corroborated studies carried out by Amalia & Ferdiansyah (2019) and Hanny et al., (2018) which state that the company's tax evasion techniques are not influenced by the auditor industry specialization. This is substantiated empirical studies carried out by Hanny et al., (2018) which stipulate that public accountants carry out audits in line

with applicable authority guidelines in Indonesia and Public Accountant Professional Standards so that auditors do not influence companies in implementing tax evasion behavior.

H1: Auditor Industry Specialization has a significant positive effect on Tax Avoidance.

The Effect of Audit Tenure on Tax Avoidance

Audit tenure according to Sari dan Rahmi (2021) relates to the duration of cooperation between audit companies and clients regarding the audit services received. This study assumes that the auditor's mandate is related to auditors' independence. According to research carried out by Dwi Hastuti & Ghozali (2015), audit tenure has a significant negative effect on tax avoidance. This means that in the context of a long audit tenure, auditors have the opportunity to get a deeper comprehension of the company's tax behavior, strengthen supervision, and implement comprehensive audit procedures. This can limit tax avoidance behavior that is not regulated by law. In addition, auditors who have a strong professional relationship with the companies can pay more attention to their integrity and reputation, as well as the companies' compliance with tax regulations. This is inversely proportional to research carried out by Kurniasih & Rohman (2021) and Lestari & Nedyia (2019) which stipulates that the closeness of the auditors' affiliation with the corporation arising from a too long tenure can result in a reduced level of auditors' independence which will affect the auditors' work competence. Richmadenda & Pratomo (2018) also state that audit tenure has a positive effect on tax avoidance. This is due to the closeness that exists is getting longer due to the auditors' work contract to customers so that the quality of the audit will be doubted and can provide opportunities for actions, such as tax avoidance. Furthermore, this is corroborated studies carried out by Lestari & Nedyia

(2019) which state that audit tenure has a positive effect on tax avoidance since the tighter the client-auditor connection, the higher the probability that the companies will engage in tax evasion.

H2: Audit Tenure has a significant negative effect on Tax Avoidance.

The Effect of Audit Opinion on Tax Avoidance

Audit opinion is a statement of opinion made by auditors by providing a conclusion on the fairness of the audit results. This fairness concerns financial position, cash flow, and materiality (Dewi, 2021). According to Riguen et al., (2021), audit opinion is a statement made by an independent auditor when tasked with auditing a corporation’s financial accounts (Hendi & Sitorus, 2023). If the auditor does not find a violation during the examination process of the company's condition, The auditor will evaluate the company's ability to continue operating as a going concern for maintaining the company's business continuity (Kartana & Wulandari, 2018). In research on audit opinion carried out by Salehi et al. (2020), it is stated that audit opinion exerts a

detrimental impact on the practice of tax evasion because audit opinion is given by the auditor on the basis of disclosure and fairness of financial statement information. These results disagree with research carried out by Ji (2019) which obtained positive results.

H3: Audit opinion has a significant negative effect on Tax Avoidance.

The Effect of Audit Fee on Tax Avoidance

Audit fee is payment by clients to auditors for audit services or other services that have been provided (Hu, 2018). Audit fees can be measured using the calculation of the innate logarithm of the total amount associated with audit fee paid to the auditors (Adelaide & Adhariani, 2019). Salehi et al. (2020) state that audit fees have a positive effect on tax avoidance because the high cost of the audit can be an indication of tax avoidance. Meanwhile, according to Hanlon et al., (2012), audit fees are positively correlated with tax evasion. This is due to the taxation burden of many differences between accounting profit and taxable profit that causes higher audit costs.

H4: Audit fees have a significant positive effect on Tax Avoidance.

The research model in this study is described as follows:

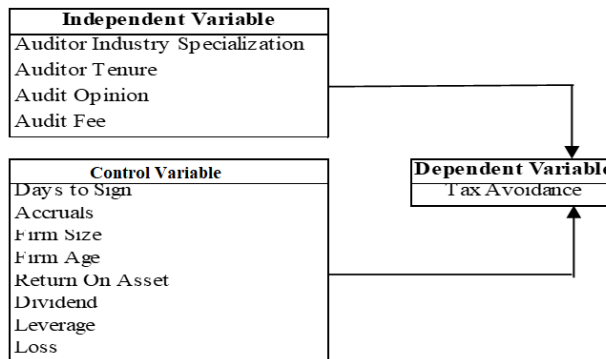


Figure 1
Theoretical Framework
 Source : Processed Data (2023)

Research Method

This research examines auditor industry specialization, fees, tenure, and opinion. These factors are independent. The focus of this study is tax avoidance. Signing days, accruals, company size, ROA, dividend payments, age, leverage, and loss are control variables. Secondary data from many sources is used in this investigation. Research data comes from audited financial records and reports posted on corporate websites between 2018 and 2022.

Measurement Of Variables

The measurements used to measure each variable in this study are as follows:

Table 1
Summary of Research Variables

VARIABLE	MEASUREMENT	
	NAME OF VARIABLE	INDICATOR
Dependent	Tax Avoidance	Measurement of tax avoidance using the Cash ETR variable, where Cash ETR is cash spent on tax costs divided by profit before tax.
Independent	Auditor Industry Specialization	The Auditor Industry Specialization variable is measured using a dummy variable, namely 1 for specialist auditors and 0 for non-specialist auditors.
Independent	Audit Tenure	The measurement used in the audit tenure variable is by adding up the consecutive years between KAP and the company, if a change of KAP is made, the audit tenure value will return to number one.
Independent	Audit Opinion	Audit opinion in this study is measured through indicator or dummy variables. The indicator variable will show the number 1 (one) if the company's audit opinion is an unqualified opinion and the indicator variable will show the number 0 (zero) if the company's audit opinion is a modified audit opinion.
Independent	Audit Fee	The measurement used in the audit fee variable uses the natural logarithm of the audit fee contained in the company's financial statements.
Control	Days to Sign	Days to sign is measured using the logarithm calculated from the difference between the date the auditor issues the audit report and the company's financial year.
Control	Accruals	Accruals are measured using the absolute value of total accruals divided by total assets.
Control	Firm Size	firm size is measured using the natural logarithm of total assets.
Control	Firm Age	firm age is measured using the logarithm of the number of years since the company was listed on the Indonesia Stock Exchange.
Control	Return On Asset	Return On Asset is calculated by dividing the company's annual income by its total assets.
Control	Dividend	Dividend is calculated using the natural logarithm of payments made by the company to shareholders.
Control	Leverage	Leverage is calculated through long-term debt divided by total assets.
Control	Loss	Loss is measured using a dummy, with one if loss and zero otherwise.

Source : Processed Data (2023)

Results and Discussion

Descriptive Statistics

This study employs quantitative research methodologies by utilizing secondary data extracted from the annual and financial reports of companies listed on the IDX (Indonesia Stock Exchange) spanning the period from 2018 to 2022. Following the analysis of the data using panel data regression techniques with Eviews and SPSS, hypotheses are subsequently conducted.

Table 2
Descriptive Statistics Test Results

Variable	Mean	Maximum	Minimum	Std. Dev.
Tax Avoidance	0.196441	2.910.000	-1.460.000	0.237168
Auditor Tenure	2.400000	6.000000	1.000000	1.330950
Audit Fee	21.04305	25.36000	18.68000	1.163000
Days	1.857932	2.170000	1.180000	0.151611
Accrual	-0.011729	0.410000	-0.290000	0.087630
Firm Size	29.76647	33.66000	26.29000	1.431671
Return On Assets	0.077458	0.450000	-0.300000	0.079055
Dividend	25.45658	30.36000	14.35000	2.384967
Firm Age	1.170000	1.600000	0.000000	0.319377
Leverage	0.145763	2.510000	0.000000	0.242312

Source : Processed Data (2023)

Table 2 presents a concise overview of the descriptive statistics for all research variables and is presented as information related to the characteristics of the research variables. The characteristics consist of the mean, maximum, minimum, and standard deviation values. Based on Table 2, the test results show the average value of Tax Avoidance of 0.196441 or 0.1964%. The standard deviation value of tax avoidance is 0.237168, meaning that the data deviates about 0.237168 from the average 0.196441. Then the average value of Auditor Tenure in the company is 2.400000 or 2.40%. The standard deviation value of Auditor Tenure is 1.330950, meaning that the data deviates about 1.330950 from the average of 2.400000. Meanwhile, the average value of the audit fee in companies is 21.04305 or 21.04%. The standard deviation value of the audit fee is 1.163000, thus this indicates that

the data deviates about 1.163000 from the average 21.04305.

Table 3
Dummy Descriptive Statistics Test Results

Variable	Dummy	Frequency	Percentage
Auditor Industry Specialization	0	36	13,10%
	1	239	86,90%
Audit Opinion	0	180	65,50%
	1	95	34,50%
Loss	0	274	99,60%
	1	1	0,40%

Source : Processed Data (2023)

Based on table 3, the auditor industry specialization shows that 239 samples or 86.90% use public accounting companies that have auditor industry specialization proxied by number 1. Meanwhile, there are 36 samples or 13.10% of the sample that do not use public accounting companies that have auditor industry specialization. The audit opinion shows that 95 samples obtained an unqualified opinion, namely 34.50% of the total sample. Meanwhile, there are 180 samples or 65.50% of the samples that obtain a modified unqualified opinion due to an emphasis on something about the company such as uncertainty in the company's sustainability to operate or a change in the company's external auditor. Loss shows that 274 samples or 99.60% of the samples do not experience fiscal losses while there is 1 sample or 0.40% of the samples that experiences fiscal losses.

Panel Data Regression Test

The research uses panel regression data analysis as the tool for data analysis. Consequently, the Hausman test and Lagrange Multiplier Test were employed to ascertain the optimal model for assessing the processed data.

Hausman Test

Table 4
Hausman Test Results

Effect Test	Probability
Cross-section Chi-square	0.2139

Source : Processed Data (2023)

Lagrange Multiplier Test

Table 5

Lagrange Multiplier Test

Effect Test	Probability
Cross-section Chi-square	0.0000

Source : Processed Data (2023)

The Hausman test is utilized to ascertain the suitability of either the Fixed Effect Model or Random Effect Model. In this study, the Hausman test yields an F probability value of 0.2139, indicating that the Random Effect Model is the preferred choice. Therefore, based on the results of the Hausman test, the regression technique employed is the Random Effect Model. Subsequently, the Lagrange multiplier test will be conducted to ascertain whether the Random Effect Model or Common Effect Model should be employed. The Lagrange multiplier test yields a probability value of 0.000, indicating statistical significance since it is below the threshold of 0.05, meaning. The chosen model is the Random Effect Model.

T Test

Table 6
T Test Results

Variable	Conclusion	Hypothesis
Tax Avoidance		
Auditor Industry Specialization	Not Significant	Rejected
Audit Tenure	Negative Significant	Accepted
Audit Opinion	Not Significant	Rejected
Audit Fee	Not Significant	Rejected
Days to Sign	Not Significant	
Accruals	Negative Significant	
Firm Size	Not Significant	
Firm Age	Negative Significant	
Return On Asset	Not Significant	
Dividend	Not Significant	
Leverage	Not Significant	
Loss	Positive Significant	

Source : Processed Data (2023)

The Effect of Auditor Industry Specialization on Tax Avoidance

According to the t-test table provided, the Auditor Industry Specialization variable has an effect on tax avoidance that is 0.1921 higher than 0.0500. As a result, hypothesis 1 is rejected, indicating that there is no significant negative impact of the auditor industry specialization variable on the tax

avoidance variable. The findings corroborate the studies carried out by Amalia & Ferdiansyah (2019) and Hanny Y & Niandari (2018), which assert that auditor industry specialty does not influence the company's tax avoidance tactics. Hanny Y & Niandari (2018) state that public accountants carry out audits in accordance with applicable regulations in Indonesia and Public Accountant Professional Standards so that auditors do not influence companies in carrying out tax avoidance behavior. These results contradict the results of Kurniasih & Kiswanto (2019) research which stipulates that the two variables have a negative effect and the results of Lee & Kao (2018) research which stipulates that the two variables have a positive effect.

The Effect of Auditor Tenure on Tax Avoidance

Referring to the t-test table provided above, the effect of the auditor tenure variable on tax avoidance of 0.0070 is smaller than 0.0500 so that hypothesis 2 has been confirmed, indicating the presence of significant negative effect of the auditor tenure variable on tax avoidance. This aligns with the findings of studies carried out by Dwi Hastuti & Ghozali (2015) which state that the two variables have a negative relationship. This means that in the context of a long audit tenure, auditors have the opportunity to better understand the company's tax behavior, strengthen supervision, and implement comprehensive audit procedures. This can limit tax avoidance behavior that is not regulated by law. In addition, auditors who have a strong professional relationship with the company can pay more attention to their integrity and reputation, as well as the company's compliance with tax regulations. These findings are incongruous with the outcomes of studies carried out by Lee & Kao (2018) and Lestari & Nedy (2019) which indicate that the length of time of auditors' service has a positive influence on the use of tax avoidance behavior. Lestari & Nedy (2019)

state that audit tenure has a positive effect on tax avoidance because the closer the relationship between the client and the auditor, the higher the possibility of tax avoidance, the higher the desire of the company to reduce the value of taxes.

The Effect of Audit Opinion on Tax Avoidance

According to the t-test table provided, the audit opinion variable has a statistically significant positive effect of 0.2866 on the tax avoidance variable, which is more than the threshold value of 0.0500. Therefore, hypothesis 3 is rejected, indicating as there is not any substantial negative impact of the audit opinion variable on tax avoidance. These findings align with the outcomes of studies carried out by Christina et al., (2021) and Pratiwi et al., (2019) which state that all auditors carry out financial statement audits in accordance with applicable audit standards so that the resulting audit opinion does not reflect that the corporation has engaged in tax avoidance methods. These results disagree with study carried out by Ji (2019) which obtained positive results and studies by Hastuti & Ghozali (2015); Khan & Chen (2017); Mangoting et al., (2019); Salehi et al., (2020) which obtained negative results.

The Effect of Audit Fee on Tax Avoidance

According to the t-test table provided, the audit fee variable has a significantly bigger influence on the tax avoidance variable than the threshold value of 0.0500. Therefore, hypothesis 4 is rejected, indicating that there is no substantial positive impact of the audit fee variable on tax avoidance. These findings align with the outcomes of the study that was carried out by Blandon et al., (2021) and Kraft & Lopatta (2016) which state that the two variables have no relationship. According to research by Kraft & Lopatta (2016), the audit services provided do not affect the company to plan a strategy to reduce taxes. Auditors carry out audit activities limited to providing assurance on

the presentation of financial statements, and in this case, the auditors are not involved in The company's implementation of tax avoidance behavior. These results are inconsistent based on the findings of study carried out by Lestari & Nedy (2019); Ogebeide (2017) which stipulate that audit fee has a negative effect on tax avoidance behavior and the results of research carried out by Abernathy et al., (2021); Adelaide & Adhariani (2019); Hu (2018); the study demonstrates that audit fees are positively correlated with avoidance.

R Test Results

Table 7
Adjusted-R Squared Test

Dependent Variable	Adjusted R-Squared
Tax Avoidance	0.504986

Source : Processed Data (2023)

The table of data test results indicates that the Adjusted-R Squared score is 0.504986, which is equivalent to 50.49%. This figure demonstrates the fact that the variables in this study are both independent and control variables that collectively account for 50.49% of the variation in tax avoidance. The remaining 49.51% can be attributed to additional factors not included in this study or to measurement error.

Conclusion and Recommendation

Conclusion

This study was conducted with the aim of identifying the influence that auditor qualities have on activities that involve tax avoidance. The panel data regression analysis reveals that auditor industry specialty, company size, audit opinion, dividend, audit fee, days to sign, leverage, and return on asset do not have a substantial impact on the ways that are used to avoid paying taxes. Over the course of the audit period, the amount of time that a company has been subjected to an audit, the amount of accrual, and the age of the company all have a notable adverse impact on tax avoidance

techniques. Meanwhile, loss has a significant positive effect on tax avoidance practice.

Suggestion

Researchers would like to submit several suggestions which are based on the findings of this study. So, in the future, further research can produce more useful research. Suggestions that can be conveyed are that further research can increase the observation time span so that the observation data is more varied. Besides that, further research can add other variables so that Tax Avoidance as the explanation of the dependent variable can be enhanced. Then, using other proxies that can be used to measure Tax Avoidance variables, such as CETR or Discreet Accrual is also recommended. The limitations in this study are the disclosure of audit cost variables which are still voluntary and the inconsistent distribution of dividends which causes incompleteness in the data so that the research sample that can be used is limited.

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