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# The influence of audit committees, independent commissioners, and audit quality on tax avoidance with company size as a moderating variable

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**Abstract**
The purpose of this study is to determine the effect of audit committees, independent commissioners, and audit quality on tax avoidance with company size as a moderation variable. This research belongs to the type of quantitative research. The data collection method in this study is by collecting financial statements of manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange for 2017-2021. Sampling technique with the purposive sampling method. The number of samples in this study was 100 sample data from 20 companies. The data analysis method used was multiple linear regression analysis and moderated regression analysis. The results of this study showed that audit committee variables did not have a significant effect on tax avoidance; Independent commissioner variables had a significant effect on tax avoidance; Audit quality variables had a significant effect on tax avoidance; Also company size variables were not able to moderate the influence audit committee on tax avoidance; Company size variables able to moderate the effect of audit committee on tax avoidance; Finally, company size variables unable to moderate the effect of audit quality on tax avoidance.

**Keywords:** Audit committee, Independent commissioner, Audit quality, Tax avoidance, Company size.

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## 1. Introduction

According to Law No. 16 of 2009 concerning General Terms and Procedures for Taxation, taxes are mandatory contributions to the state where the taxes are owed by individuals or entities that are coercive, with no direct compensation and are used for the needs of the state for the greatest extent possible. the magnitude of the prosperity and welfare of the people (Pratomo & Rana, 2021). Every year the target of tax revenue has been set by the government, but the realization is not in accordance with the target set. The following is a table of targets and realization of tax revenue in Indonesia for 2017-2021.

**Table 1. Target and Realization of Tax Revenue**

| Year | Target (Trillion) | Realization (Trillion) | Percentage |
|---|---|---|---|
| 2017 | 1472.7 | 1343.5 | 91.23% |
| 2018 | 1618,1 | 1518.8 | 93.86% |
| 2019 | 1786.4 | 1546,1 | 86.55% |
| 2020 | 1198.8 | 1070.0 | 89.26% |
| 2021 | 1229.6 | 1227.5 | 99.83% |

Based on table 1, information can be obtained that the realization of tax revenues every year does not meet the targets set by the government. Realization received from the tax sector in 2017 amounted to 91.23%, 2018 amounted to 93.86%, 2019 amounted to 86.55%, 2020 amounted to 89.26%, and 2021 amounted to 99.83%. One of the causes of not achieving the realization of tax revenue is due to tax avoidance efforts made by taxpayers.

Tax evasion does not necessarily imply inappropriate behavior because managing tax expenses is an appropriate component of a company's long-term strategy. Tax avoidance (*tax avoidance*) is an effort to minimize the tax burden that is often borne by companies, because it is still within the framework of applicable tax regulations (Yahya et al., 2021).

One of the tax evasion cases in Indonesia occurred in 2019, namely the New York Tax Justice Institute which revealed that PT Bentoel Internasional Investama Tbk, as a filial company for British American Tobacco (BAT), was suspected of practicing tax *avoidance*. The next case was carried out by PT Kalbe Farma Tbk. In 2017, the company received an Underpaid Tax Assessment Letter (SKPKB) in the amount of IDR 527.85 billion regarding 2016 income tax and VAT. The issuance of SKPKB by the Directorate General of Taxes indicates that the company is trying to minimize the tax paid by taking tax avoidance measures (Oktaviana & Kholis, 2021). This proves that tax avoidance by companies in Indonesia is quite high. Therefore, this research focuses on companies in Indonesia in the consumer goods sector.

There are factors that are thought to influence companies as taxpayers to avoid taxes, one of which is *Good Corporate Governance*. In this study the implementation of *good corporate governance* used is the audit committee, independent commissioners and audit quality.

The responsibility of an audit committee is to ensure that the company is able to work according to applicable laws and regulations, carry out activities in accordance with ethics, carry out effective monitoring of management conflicts of interest and possible fraud committed by employees of an entity. The audit committee is tasked with supervising financial reports and has influence in determining tax management, especially tax avoidance (Sarra, 2017).

Independent commissioners in a company are tasked with providing direction and supervision of the directors' policies for running the company, but the board of commissioners cannot participate in decision making. Within the company, an independent board of commissioners is able to improve supervision and can prevent tax aggressiveness from being carried out by management (Pratiwi, 2020).
quality refers to all possibilities when the auditor audits the client's financial statements and finds violations or errors in reporting them in the audited financial statements (Yahya et al., 2021). Companies that are audited by *The Big Four Public Accounting Firm (KAP)* usually produce better audit quality so that it will be increasingly difficult to carry out tax avoidance policies.
The influence of audit committees, independent commissioners, and audit quality on tax evasion is thought to be moderated by firm size. Large companies will always be a concern so that company management will be more compliant and transparent in presenting financial reports. Large companies will consider more risks in managing their taxes (Ginting, 2016).
Based on the description above, the authors formulate the problem as follows: (a) Does the audit committee affect tax evasion? (b) Does the independent commissioner affect tax evasion? (c) Does audit quality affect tax evasion? (d) Is company size able to moderate the effect of the audit committee on tax avoidance? (e) Is company size able to moderate the influence of independent commissioners on tax evasion? (f) Can company size moderate the effect of audit quality on tax avoidance?

## 2. Literature Review

### 2.1. Agency Theory

The agency theory that was first pioneered by Jensen and Meckling (1976) reveals that managers will look for opportunities to increase personal welfare above the interests of company owners (Gunawan, 2021). Agency theory is a theory that describes the relationship between two parties where one party as a principal hires or orders another party called an agent to carry out tasks on behalf of the principal (Siswanto, 2014).
The relationship between agency theory and this research is when company management tries to reduce taxes by avoiding taxes to get high profits, while principals do not want tax evasion because this is an act of manipulating financial statements.

### 2.2. Tax Evasion

Tax avoidance is a term used to describe legal arrangements of taxpayer affairs to reduce their tax obligations by taking advantage of existing tax law loopholes (Widiiswa & Baskoro, 2020). Tax evasion is not a violation of tax legislation or is not considered ethically wrong in the framework of the taxpayer's efforts to reduce, avoid, minimize or lighten the tax burden in ways that are permitted by tax laws (Zain, 2008).

### 2.3. Audit Committee

The Audit Committee is a committee established, appointed and dismissed by an independent board of commissioners (Pratomo & Rana, 2021). The audit committee has a duty to assist the commissioners in order to improve the quality of financial reports and increase the effectiveness of internal and external audits. The audit committee is also tasked with supervising to increase

effectiveness in creating quality financial disclosure and reporting, compliance with applicable laws and regulations, and adequate internal control (Sulistyanto, 2018).

### 2.4. Independent Commissioner

Independent commissioners are parties who carry out supervision and control in a company (Sulistyanto, 2018). The agency theory states that the greater the number of independent commissioners on the board of commissioners, the better in fulfilling the role of supervising and controlling the actions of the executive directors, namely with respect to the directors regarding their opportunism (Nuraeni, 2019).

### 2.5. Audit Quality

Audit quality is the auditor's ability to detect errors in financial statements and report them to users of financial statements (Purba & Umar, 2021). To be able to meet good audit quality, the auditor in carrying out his profession as an examiner must be guided by the accountant's code of ethics, professional standards, and financial accounting standards that apply in Indonesia. Auditing standards serve as guidance and a measure of the quality of auditor performance.

### 2.6. Company Size

Company size is a scale used to classify companies into large companies and small companies in various ways such as total sales assets, stock market value, average level of sales and number of sales (Machfoedz, 1944) in (Nuraeni, 2019). Company size directly reflects the high and low operating activities of a company. Large company sizes and widely circulated shares have the ability to generate high profits (Hanifah, 2021).

### 2.6. Framework and Hypotheses

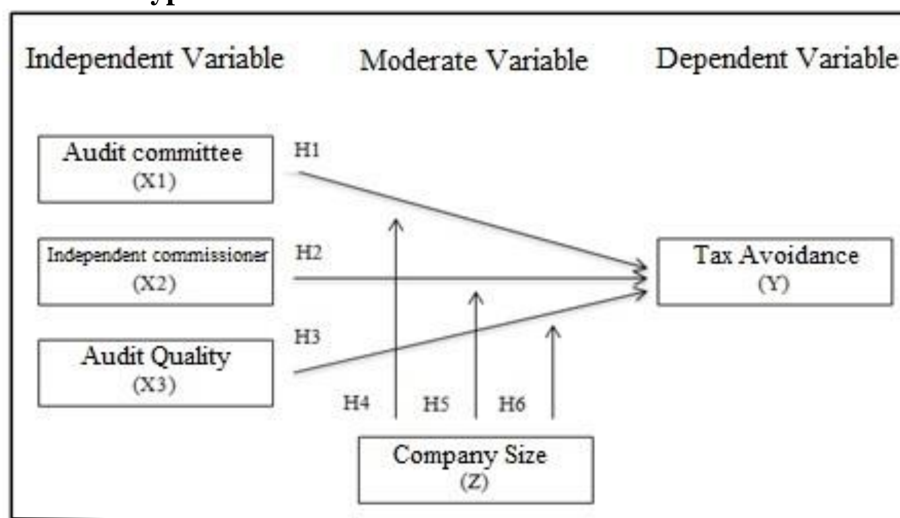


**Figure 1. Thinking Framework**

The hypothesis proposed is based on the following framework.

$H_1$: Audit committee has an effect on tax evasion.

$H_2$: Independent commissioners have an effect on tax evasion.

$H_3$: Audit quality has an effect on tax evasion.

$H_4$: Firm size is able to moderate the influence of the audit committee on tax evasion.

$H_5$: Firm size is capable moderate the effect of independent commissioners on tax evasion.
$H_6$: Firm size is able to moderate the effect of audit quality on tax evasion.

## 3. Research methods

There are three variables used in this study, namely the independent variable, the dependent variable, and the moderating variable. The independent variables in this study are the Audit Committee ($X_1$), Independent Commissioners ($X_2$), and Audit Quality ($X_3$). While the dependent variable is Tax Avoidance (Y). The moderating variable in this study is company size (Z). This study uses data sourced from financial reports and annual reports of manufacturing companies in the consumer goods industry sector listed on the IDX for 2017-2021 obtained from the website www.idx.co.id.

The population used in this study is manufacturing companies in the consumer goods industry sector which are listed on the IDX in 2017-2021. Sampling was carried out using the *Purposive Sampling method*, namely samples selected and categorized based on certain criteria (Sugiyono, 2008). The sample criteria that are categorized are as follows: (1) Companies listed as manufacturing companies in the consumer goods industry sector on the IDX in 2017-2021; (2) No losses in the current year; (3) The company has complete data needed according to the variables in the study. Based on these criteria, there were 20 companies that met the criteria to be a sample with 5 years of research, so that the number of samples used in the study amounted to 100 data samples.

## 4. Results and Discussion

### 4.1. Descriptive statistics

**Table 2. Descriptive Statistics**

| Variable | N | Minimum | Maximum | Means | std. Deviation |
|---|---|---|---|---|---|
| Audit Committee | 100 | 3.00 | 4.00 | 3.0400 | 0.19695 |
| Independent Commissioner | 100 | 0.33 | 0.83 | 0.4354 | 0.11832 |
| Audit Quality | 100 | 0.00 | 1.00 | 0.5400 | 0.50091 |
| Tax Evasion | 100 | 0.16 | 0.34 | 0.2452 | 0.03451 |
| Company Size | 100 | 25.80 | 32,82 | 29.1850 | 1.73020 |

In table 2, the tax avoidance variable shows a minimum value of 0.16 and a maximum value of 0.34 with a standard deviation value of 0.03451. The *mean* or average value of the tax avoidance variable is 0.2452. This shows that there are indications of tax avoidance practices in manufacturing companies in the consumer goods industry sector in Indonesia because the *Effective Tax Rate* (ETR) is below 25%, which is 24.52%.

### 4.2. Classic assumption test

In connection with the existence of requirements that must be met before determining the analytical technique used, the normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test are carried out. The first classical assumption test is the normality test which in this study uses three methods, namely by looking at the histogram plot graph, the normal probability plot graph (p-plot), and the Kolmogorov-Smirnov *test*. From the plot of the histogram graph and the normal probability plot (p-plot) it can be seen that the residual data is

normally distributed, and the *Kolmogorov-Smirnov statistical test* shows an *Asymp value. Sig. (2-tailed)* 0.137 > 0.05. Therefore, the standardized residual value is stated to be normal, so that the regression model with the dependent variable on the use of accounting information fulfills the normality test.

**Table 3. Multicollinearity Test Results**

| Model | | Collinearity Statistics | |
|---|---|---|---|
| | | tolerance | VIF |
| 1 | Audit Committee | 0.793 | 1,261 |
| | Independent Commissioner | 0.721 | 1,387 |
| | Audit Quality | 0.673 | 1,486 |
| | Company Size | 0.539 | 1,857 |
| | Audit Committee*Company Size | 0.608 | 1,645 |
| | Independent Commissioner*Company Size | 0.639 | 1,564 |
| | Audit Quality*Company Size | 0.810 | 1.235 |

Table 3 describes the results of the multicollinearity test with a tolerance value of 0.539 to 0.810 and a VIF value of 1.235 to 1.857. Therefore, it can be concluded that these variables have a Tolerance value of > 0.1 and a VIF value of < 10, so that there are no symptoms of multicollinearity in the regression model of this study.

**Table 4. Results of the Heteroscedasticity Test with the Glejser Method**

| Model | | Q | Sig. |
|---|---|---|---|
| 1 | (Constant) | -0.952 | 0.344 |
| | Audit Committee | 0.729 | 0.468 |
| | Independent Commissioner | -0.778 | 0.439 |
| | Audit Quality | 1,688 | 0.095 |
| | Company Size | 1.052 | 0.296 |
| | Audit Committee*Company Size | -0.711 | 0.479 |
| | Independent Commissioner*Company Size | 0.653 | 0.515 |
| | Audit Quality*Company Size | -1,712 | 0.090 |

Table 4 shows the results of the Glejser method's heteroscedasticity test with a significance value between 0.090 and 0.515. This means that all variables have a significance value of > 0.05 so there are no symptoms of heteroscedasticity in the regression model.

The last classic assumption test is the autocorrelation test which in this study uses the Durbin-Watson method which produces a Durbin-Watson value of 1.819. As for the Durbin-Watson table with a significance level of 5%, the number of samples is 100, and the number of independent variables is 3, the dU value is 1.7364, the dL value is 1.6131, and the 4-dU value is 2.2636. Because the Durbin-Watson value is greater than dU and smaller than 4-dU, it is concluded that $dU < d < 4\text{-}dU = 1.7364 < 1.819 < 2.2636$ with the decision that the regression equation does not have positive or negative autocorrelation.

### 4.3. Multiple Linear Regression Analysis

**Table 5. Multiple Linear Regression Analysis Test Results**

| Model | | Unstandardized Coefficients | |
|---|---|---|---|
| | | B | std. Error |
| 1 | (Constant) | 0.199 | 0.052 |
| | Audit Committee | 0.020 | 0.018 |
| | Independent Commissioner | -0.066 | 0.030 |
| | Audit Quality | 0.025 | 0.007 |

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$
$$Y = 0.199 + 0.020X_1 - 0.066X_2 + 0.025X_3 + e$$

The equation above explains that a constant value of 0.199 indicates that if there is no audit committee, independent commissioners, and audit quality, then corporate tax avoidance is 0.180. The coefficient value $\beta_1$for the audit committee is 0.020 indicating that if the audit committee increases by 1 unit while other variables remain the same, it causes an increase in tax evasion of 0.020. The coefficient value $\beta_2$for the independent commissioner is -0.066 indicating that if the independent commissioner increases by 1 unit while the other variables remain the same, then it causes a decrease in tax evasion of 0.066. The coefficient value $\beta_3$for audit quality is 0.025 indicating that if audit quality increases by 1 unit while other variables are constant, it causes an increase in tax evasion of 0.025.

### 4.4. T-test

Seen from table 5 it shows that the audit committee variable ($X_1$) has a significance value of 0.253 with a t count of 1.149, it can be seen that the significance value is greater than 0.05 or 0.253> 0.05. So, the audit committee has no significant effect on tax avoidance. The independent commissioner variable ($X_2$) has a significance value of 0.030 and t count is -2.207, so it is known that the significance value is less than 0.05 or 0.030 <0.05. So, the independent commissioner has a negative effect on tax evasion. The audit quality variable ($X_3$) has a significance value of 0.000 and a t-value of 3.676, so it is known that the significance value is less than 0.05 or 0.000 <0.05. So, audit quality has a positive effect on tax avoidance.

### 4.5. Coefficient of Determination (*Adjusted $R^2$*)

From this research, the coefficient value is obtained determination (*Adjusted* $R^2$) of 0.118 which means that the independent variables of the audit committee, independent commissioners, and audit quality affect the dependent variable of tax avoidance with the moderating variable firm size of 11.8% while the remaining 88.2% is explained by other variables that are not included in this study.

**4.6. MRA (*Moderated Regression Analysis*) Test**

**Table 6. Moderation Regression Analysis Test Results**

| Model | | Unstandardized Coefficients B | Q | Sig. |
|---|---|---|---|---|
| 1 | (Constant) | -0.070 | -0.088 | 0.930 |
| | Audit Committee | 0.044 | 0.155 | 0.877 |
| | Independent Commissioner | 0.663 | 0.749 | 0.456 |
| | Audit Quality | -0.141 | -0.730 | 0.467 |
| | Company Size | 0.011 | 0.368 | 0.713 |
| | Audit Committee*Company Size | -0.001 | -0.138 | 0.890 |
| | Independent Commissioner*Company Size | -0.024 | -0.819 | 0.415 |
| | Audit Quality*Company Size | 0.006 | 0.853 | 0.396 |

$$Y = -0.070 + 0.044X_1 + 0.663X_2 - 0.141X_3 + 0.011Z - 0.001X_1Z - 0.024X_2Z + 0.006X_3Z + e$$

A constant value of -0.070 indicates that if the variables audit committee, independent commissioner, audit quality, company size, audit committee*company size, independent commissioner*company size, and audit quality*company size are zero, then the tax avoidance variable is proxied by ETR is -0.070. The coefficient value $\beta_1$of 0.044 indicates that if the value of the audit committee ($X_1$) increases by 1 unit, then the value of tax evasion (Y) will increase by 0.044 units assuming other variables are held constant. The coefficient value $\beta_2$of 0.663 indicates that if the value of the independent commissioner ($X_2$) increases by 1 unit, then the value of tax evasion (Y) will increase by 0.663 units assuming other variables are held constant. The coefficient value $\beta_3$of -0.141 indicates that if the value of audit quality ($X_3$) increases by 1 unit, then the value of the tax avoidance variable (Y) will decrease -0.141 units assuming other variables are held constant. The coefficient value $\beta_5$of -0.001 indicates the interaction value of the audit committee and company size ($X_1$Z) increases by 1 unit, so the value of tax avoidance (Y) will decrease -0.001 units assuming other variables are held constant. The coefficient value $\beta_6$of -0.025 indicates the interaction value of independent commissioners and company size ($X_2$Z) increases by 1 unit, then the value of tax avoidance (Y) will decrease -0.024 units assuming other variables are held constant. The coefficient value $\beta_7$of 0.006 indicates that if the interalso value of audit quality and company size ($X_3$Z) increases by 1 unit, then the value of tax avoidance (Y) will increase by 0.006 units assuming other variables are held constant.

## 5. Discussion

The level of existence of the audit committee has no effect on tax evasion. The audit committee, which has the duty to supervise and evaluate operational performance, is not going well, this is because the authority of the audit committee is still limited by the board of commissioners so that it cannot contribute optimally in supervising tax avoidance practices. It is proven in the t test with a significance value greater than 0.05 or 0.253 > 0.05.

The presence of the board of commissioners can improve oversight of the performance of the directors where with the increasing number of independent commissioners, the supervision from management will be tighter, so that tax evasion can be suppressed. Agency theory states

that the greater the number of independent commissioners on the board, the better they can fulfill their role in supervising and controlling the actions of executive directors. Proven in the t test with a significance value of less than 0.05 or 0.030 <0.05.

Companies audited by *the big four* KAPs will indeed be more likely to be trusted by the tax authorities, but if the company can provide better benefits and welfare to KAPs that have a good reputation, such as the Enron case in 2004. With the emergence of the Enron case, public trust fell towards the big four KAPs. *four* and restoring the public's trust is not easy to create opportunities for *non-big four KAPs* to compete to show their professionalism to the public by improving the quality and independence of their audits. Proven in the t test with a significance value of less than 0.05 or 0.000 <0.05.

The audit committee is tasked with supervising so as to minimize the occurrence of fraud as well as tax avoidance practices. The audit committee whose work is limited by the board of commissioners and the size of the company is not able to influence the audit committee in preventing tax evasion. It was proven in the MRA test with a significance value of 0.890 > 0.05.

Company size is not able to influence the oversight function performed by independent commissioners. Independent commissioners are still responsible for supervising management and preventing tax evasion practices by management, regardless of the size of the company. It was proven in the MRA test with a significance value of 0.415 > 0.05.

The size of the company does not affect the quality of the auditor in detecting tax evasion. Large companies usually use the services of KAP *The Big Four* because they are believed to have a higher level of independence and of course require large costs as well. However, even small companies that use KAP *non The Big Four* are believed to be able to minimize tax evasion. Because there has been an increase in audit quality at *non-Big Four KAPs* as an implication of the strict rules enforced to increase objectivity and independence. So that the size of the company does not affect the relationship between audit quality and tax avoidance. It was proven in the MRA test with a significance value of 0.396 > 0.05.

## 6. Conclusion

The existence of an effective audit committee and an active role can help reduce tax avoidance practices by companies. A strong audit committee can improve the company's transparency, accountability, and compliance with tax regulations. This study resulted in the audit committee having no significant effect on tax avoidance. Independent commissioners have an important role in supervising companies and ensuring fair and regulatory tax policies. The existence of an independent commissioner with integrity can help prevent unethical tax avoidance practices. The research found that independent commissioners have a significant effect on tax avoidance. Audit quality has a significant effect on tax avoidance. Company size can moderate the relationship between the above factors and tax avoidance. For example, a larger size company may have greater resources to practice complex tax avoidance. However, a larger company size can also attract the attention of more parties, including regulators and the media, which can reduce tax avoidance practices. The findings were that the size of the company was unable to moderate the influence of independent commissioners and audit quality on tax avoidance.

Theoretical implications for knowledge of tax avoidance practices will add insight into accounting in the field of taxation. The results of this research can be used as additional knowledge and literature sources. Meanwhile, practical implications can be used as input for the tax collection agency, namely the Directorate General of Taxes (DGT) in order to provide

supervision on tax avoidance practices in accordance with tax provisions. Thus, the level of tax avoidance practices that harm the state can be minimized.

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