



Gusau Journal of Accounting and Finance (GUJAF)

Vol. 4 Issue 2, October, 2023 ISSN: 2756-665X

A Publication of
Department of Accounting and Finance,
Faculty of Management and Social Sciences,
Federal University Gusau, Zamfara State -Nigeria

© Department of Accounting and Finance, 2023

Vol. 4 Issue 2
October, 2023
ISSN: 2756-665X

A Publication of
Department of Accounting and Finance,
Faculty of Management and Social Sciences,
Federal University Gusau, Zamfara State -Nigeria

All Rights reserved

Except for academic purposes no part or whole of this publication is allowed to be reproduced, stored in a retrieval system or transmitted in any form or by any means be it mechanical, electrical, photocopying, recording or otherwise, without prior permission of the Copyright owner.

Published and printed by:
Ahmadu Bello University Press Limited, Zaria
Kaduna State, Nigeria.
Tel: 08065949711, 069-879121
e-mail: abupress2013@gmail.com
abupress2020@yahoo.com
Website: www.abupress.com.ng

EDITORIAL BOARD

Editor-in-Chief:

Prof. Shehu Usman Hassan

Department of Accounting, Federal University of Kashere, Gombe State.

Associate Editor:

Dr. Muhammad Mustapha Bagudo

Department of Accounting, Ahmadu Bello University Zaria, Kaduna State.

Managing Editor:

Umar Farouk Abdulkarim

Department of Accounting and Finance, Federal University Gusau, Zamfara State.

Editorial Board

Prof. Ahmad Modu Kumshe

Department of Accounting, University of Maiduguri, Borno State.

Prof Ugochukwu C. Nzewi

Department of Accounting, Paul University Awka, Anambra State.

Prof Kabir Tahir Hamid

Department of Accounting, Bayero University, Kano, Kano State.

Prof. Ekoja B. Ekoja

Department of Accounting, University of Jos.

Prof. Clifford Ofurum

Department of Accounting, University of PortHarcourt, Rivers State.

Prof. Ahmad Bello Dogarawa

Department of Accounting, Ahmadu Bello University Zaria.

Prof. Yusuf. B. Rahman

Department of Accounting, Lagos State University, Lagos State.

Prof. Suleiman A. S. Aruwa

Department of Accounting, Nasarawa State University, Keffi, Nasarawa State.

Prof. Muhammad Junaidu Kurawa

Department of Accounting, Bayero University Kano, Kano State.

Prof. Muhammad Habibu Sabari

Department of Accounting, Ahmadu Bello University, Zaria.

Prof. Okpanachi Joshua

Department of Accounting and Management, Nigerian Defence Academy, Kaduna.

Prof. Hassan Ibrahim

Department of Accounting, IBB University, Lapai, Niger State.

Prof. Ifeoma Mary Okwo

Department of Accounting, Enugu State University of Science and Technology, Enugu State.

Prof. Aminu Isah

Department of Accounting, Bayero University, Kano, Kano State.

Prof. Ahmadu Bello

Department of Accounting, Ahmadu Bello University, Zaria.

Prof. Musa Yelwa Abubakar

Department of Accounting, Usmanu Danfodiyo University, Sokoto State.

Prof. Salisu Abubakar

Department of Accounting, Ahmadu Bello University Zaria, Kaduna State.

Prof. Isaq Alhaji Samaila

Department of Accounting, Bayero University, Kano State.

Dr. Fatima Alfa

Department of Accounting, University of Maiduguri, Borno State.

Dr. Sunusi Sa'ad Ahmad

Department of Accounting, Federal University Dutse, Jigawa State.

Dr. Nasiru A. Ka'oje

Department of Accounting, Usmanu Danfodiyo University Sokoto State.

Dr. Aminu Abdullahi

Department of Accounting, Usmanu Danfodiyo University Sokoto, State.

Dr. OnipeAdebenegge Yahaya

Department of Accounting, Nigerian Defence Academy, Kaduna State.

Dr. Saidu Adamu

Department of Accounting, Federal University of Kashere, Gombe State.

Dr. Nasiru Yunusa

Department of Accounting, Ahmadu Bello University Zaria.

Dr. Aisha Nuhu Muhammad

Department of Accounting, Ahmadu Bello University Zaria.

Dr. Lawal Muhammad

Department of Accounting, Ahmadu Bello University Zaria.

Dr. Farouk Adeza

School of Business and Entrepreneurship, American University of Nigeria, Yola.

Dr. Bashir Umar Farouk

Department of Economics, Federal University Gusau, Zamfara State.

Dr Emmanuel Omokhuale

Department of Mathematics, Federal University Gusau, Zamfara. State

ADVISORY BOARD MEMBERS

Prof. Kabiru Isah Dandago, Bayero University Kano, Kano State.

Prof A M Bashir, Usmanu Danfodiyo University Sokoto, Sokoto State.

Prof. Muhammad Tanko, Kaduna State University, Kaduna.

Prof. Bayero A M Sabir, Usmanu Danfodiyo University Sokoto, Sokoto State.

Prof. Aliyu Sulaiman Kantudu, Bayero University Kano, Kano State.

Editorial Secretary

Yazid Ibrahim Kabir

Department of Accounting and Finance, Federal University Gusau, Zamfara State.

CALL FOR PAPERS

The editorial board of Gusau Journal of Accounting and Finance (GUJAF) is hereby inviting authors to submit their unpublished manuscript for publication. The journal is published in two issues of April and October annually. GUJAF is a double-blind peer reviewed journal published by the Department of Accounting and Finance, Faculty of Management and Social Sciences, Federal University Gusau, Zamfara State Nigeria. The Journal accepts papers in all areas of Accounting and Finance for publication which include: Accounting Standards, Accounting Information System, Financial Reporting, Earnings Management, Auditing and Investigation, Auditing and Standards, Public Sector Accounting and Auditing, Taxation and Revenue Administration, Corporate Governance Issues, Corporate Social Responsibility, Sustainability and Environmental Reporting Issue, Information and Communication Technology Issues, Bankruptcy Prediction, Corporate Finance, Personal Finance, Merger and Acquisitions, Capital Structure, Working Capital Management, Enterprises Risk Management, Entrepreneurship, International Business Accounting and Finance, Banking Crises, Bank's Profitability, Risk and Insurance Issue, Islamic Finance, Conventional and Islamic Banks and so forth.

GUIDELINES FOR SUBMISSION AND MANUSCRIPT FORMAT

The submission language is English and must be a well-researched original manuscript that has not previously been submitted elsewhere for publication. The paper should not exceed more than 15 pages on A4 type paper in MS-word format, 1.5-line spacing, 12 Font size in Times new roman. Manuscript should be tested for plagiarism before submission, as the maximum similarity index acceptable by GUJAF is 25 percent. Furthermore, the length of a complete article should not exceed 5000 words including an abstract of not more than 250 words with a minimum of four key words immediately after the abstract. All references including in text citation and reference list, tables and figures should be in line with APA 7th Edition publication manual. Finally, manuscript should be sent to our email address elfarouk105@gmail.com and a copy to our website on journals.gujaf.com.ng

PUBLICATION PROCEDURE

After receiving a manuscript that is within the similarity index threshold, a confirmation email will be send together with a request to pay a review proceeding fee. At this point, the editorial board will take a decision on accepting, rejecting or making a resubmission of the manuscript based on the outcome of the double-blind peer review. Those authors whose manuscript were accepted for publication will be asked to pay a publication fee, after effecting all suggested corrections and changes made on the manuscript. All corrected papers returned within the specified time frame will be published in that issue.

PAYMENT DETAILS

Bank: FCMB

Account Number: 7278465011

Account Name: Gusau Journal of Accounting and Finance

FOR INQUIRY

The Head,

Department of Accounting and Finance,

Federal University Gusau, Zamfara State.

elfarouk105@gmail.com

+2348069393824

FOR MORE INFORMATION, CONTACT

The Editor-in-Chief on +2348067766435

The Associate Editor on +2348036057525

OR visit our website on www.gujaf.com.ng or journals.gujaf.com.ng

CONTENTS

Board Characteristics and Financial Performance: Evidence from Listed Deposit Money Banks in Nigeria Abdullahi Bala Ado, Norfadzilah Nik Mohd Rashid, Sa'adatu B. Adam, Binta Abubakar Nuhu, Hassanat Salawu Salihu and Tariro Masunda	1
Welfare, Inflation, and Pension Income Inequality Among the Bottom and Top Income Quintiles and Decile: An Implication of Kaduna State Pension Reform Prof. Salamatu I. Isah, Ibrahim Kekere Sule (PhD)	18
Political Connection, Audit Fees, Audit Quality, and Tax Avoidance Novita Dwi Damayanti, M KhoiruRusydi, WuryanAndayani	31
Firm Attributes and Shareholder's Wealth of Listed Deposit Money Banks in Nigeria A.A. Mustapha, Prof. M.S. Tijjani, S. Salami PhD	47
Financial Determinants of Entrepreneurship in Nigeria Precious Adukwu, Hyeladi Stanley Dibal	67
Work Environment, Remuneration and Accounting Lecturers' Performance in Polytechnics in North West, Nigeria Dr. Aliyu Abdullahi Ahmed, Rabiatu Ahmed	88
Relative Efficiency of the Capital Market Over the Money Market in a Growth-Financing Economy Adedeji Daniel Gbadebo	110
Board Education, Director's Age and Earnings Management of Listed Deposit Money Banks in Nigeria Idris IbrahimPhD, Prof. Luka Mailafia, Salami Suleiman PhD	131
Ownership Concentration's Moderating Effect on Dividend Payout And Tobin's Q in the Nigerian Consumer Goods Sector. Ovbe Simon Akpadaka	149

Foreign Direct Investment, Renewable Energy and Economic Growth: An Empirical Analysis from South Africa. Ahmed Oluwatobi Adekunle	167
Impact of Digital Financial Services on Savings Development in Nigeria Iro, Onyinyechi Adanna, Eke, Patrick Omoruyi, Yunisa, Simon Amodu, Shekoni, Nurudeen Adebayo	182
Account Receivable Management and Financial Performance of Listed Consumer Goods Firms in Nigeria Umar Suleiman Abubakar Dabai, Biyai Shepnaan, Hajara Abubakar Jimoh, Haruna Halimah Sani Sambo PhD	209
Stable Dividend Policy and Value of Listed Healthcare Firms in Nigeria Maimuna Adamu Salihu, Aminu Danladi Ahmad, Zaharaddeen Salisu Maigoshi, Naja'atu Bala Rabi	227
The Impact of Monetary Policy on Small and Medium Scale Enterprises (SMES) in the Period of Economic Crises. Ahmed Oluwatobi Adekunle.	240
CEO Age and Gender on Financial Distress Likelihood of Listed Deposit Money Banks in Nigeria: Moderated by Risk Committee Gender Idris Mohammed, Joshua Okpanachi, OnipeAdabenege Yahaya, Suleiman Tauhid	254

**POLITICAL CONNECTION, AUDIT FEES, AUDIT QUALITY AND TAX
AVOIDANCE OF LISTED COMPANIES IN INDONESIA STOCK
EXCHANGE**

Novita Dwi Damayanti

Accounting Department

Faculty of Economics and Business

University of Brawijaya, Malang, Indonesia.

novitadwidamayanti3@gmail.com

M KhoiruRusydi

Accounting Department

Faculty of Economics and Business

University of Brawijaya, Malang, Indonesia

WuryanAndayani

Accounting Department

Faculty of Economics and Business

University of Brawijaya, Malang, Indonesia

Abstract

The objectives of this research are to assess the effects of political connection and audit fees on tax avoidance and to assess the moderation of audit quality. The population of this quantitative research is mining companies listed on the Indonesia Stock Exchange (IDX) during the 2017-2021 period, from which 142 companies were selected as the sample using purposive judgmental sampling. The Moderated Regression Analysis (MRA) conducted in this research has led to findings that tax avoidance is not affected by political connection and audit fees, that politically connected companies with high audit quality have lower tax avoidance rate, and that higher audit fees paid by companies with high audit quality does not reduce the companies' motivation to commit tax avoidance.

Keywords: Political connection, audit fees, tax avoidance, audit quality

1. Introduction

Tax avoidance refers to a deliberate strategy or action taken by individuals or entities to minimize, reduce, or eliminate their tax liabilities legally (Butarbutar, 2017:361). Methods of engaging in tax avoidance are carried out by exploiting weaknesses or grey areas in tax laws or regulations. The purpose of these actions is to reduce the amount of tax payable (Anwar, 2013:23). In 2019, PT Adaro Energy Tbk (ADRO) was found to have engaged in transfer pricing practices. Transfer pricing itself is one of the tax avoidance schemes (Darussalam & Septriadi, 2017:642). This practice was identified in the financial reports of PT ADRO, which

revealed non-arm's length transactions conducted between PT ADRO and Coaltrade Services International Pte Ltd. These non-arm length transactions involved the setting of transfer prices that did not align with global coal prices (Dian & Narsa, 2022). Such practices undoubtedly reduce the level of tax revenue for the Indonesian government. Based on this, studies on the factors that can motivate and reduce tax avoidance practices within companies are necessary to maximize tax revenue.

Political connections are one of the factors that can influence the level of tax avoidance in companies (Kim & Zhang, 2016; Alifa et al., 2018; Fajri, 2019; Kim & Lee, 2021; Chen, 2018). Political connections can be established when business owners have close ties with government officials and political parties (Kim & Zhang, 2016). Such political connections can protect companies from the risk of detecting aggressive tax actions (Kim & Zhang, 2016). These findings are supported by (Alifa et al. 2018; Fajri 2019; Kim & Lee, 2021), who state that political connections increase the likelihood of corporate tax avoidance practices. However, these findings contradict the study conducted by (Chen, 2018), who found that political connections can weaken a company's motivation to engage in tax avoidance. Meanwhile, (Wicaksono, 2017; Lestari et al., 2019; Solikin & Slamet, 2022) suggest that political connections have no significant impact on tax avoidance.

In addition to political connections, audit fees can also influence tax avoidance actions (Hu, 2018; Salehi et al., 2020; Assidi & Hussainey, 2021; Ghifary et al., 2022); Suyadnya & Supadmi, 2017). Audit fees can be defined as the amount paid to external auditors by client companies for the services provided (Suwarno et al., 2020). (Salehi et al., 2020) found that audit fees have a positive impact on corporate tax avoidance. Therefore, higher audit fees can be an indication of tax avoidance practices conducted by companies. This finding is supported by (Assidi & Hussainey, 2021) and (Ghifary et al., 2022). However, (Suyadnya & Supadmi, 2017) found that audit fees can reduce tax avoidance practices. On the other hand, (Kraft & Lopatta, 2016) and (Supriyanto & Christina, 2021) state that audit fees have no significant impact on tax avoidance.

Researchers have discovered inconsistencies in the results of previous studies, as well as identified a research gap, which suggests that there may be other factors that can strengthen or weaken the relationship between political connections, audit fees, and tax avoidance practices. In this regard, researchers assume that the quality of audit can act as a moderating variable. (Langli & Willekens, 2017) stated that

audit quality can strengthen a company's motivation to engage in tax avoidance. This is because their research found that when companies employ high-quality auditors, management and majority shareholders are less likely to refrain from participating in tax avoidance aimed at maximizing value. This is because agency costs that may be a concern within the company can be reduced with the presence of an external auditor. The findings of this study are supported by (AL-Rashdan, 2022), who also found that audit quality can reinforce a company's motivation to engage in tax avoidance. However, (Gaaya et al., 2017) asserted that high audit quality can weaken corporate tax avoidance practices in family firms. Thus, the presence of high audit quality in a company can reduce the tendency for tax avoidance actions. This conclusion is supported by the studies of (Jihene& Moez, 2019) and (Hidayat, 2022), both of which also found that audit quality can weaken corporate motivation to avoid taxes.

This study differs from previous research conducted by (Salehi et al., 2020) and (Fajri, 2019) in the following ways: (i), unlike those studies, this research incorporates a novel measurement approach for tax avoidance known as DIFF (STR-ETR). This measurement method was developed by (Thomsen and Watrin, 2018) and offers a distinct perspective on evaluating tax avoidance. Additionally, it includes further analysis by conducting robustness tests.(ii) The previous research by (Salehi et al., 2020) focused on companies listed on the Tehran Stock Exchange in Iran, whereas this study is conducted in the context of the Indonesia Stock Exchange.(iii) There are inconsistencies in the results of previous studies regarding the impact of political connections and audit fees on tax avoidance practices in corporations. To address this aspect, the researchers in this study introduce a moderating variable, namely audit quality, with the aim of reinforcing the relationship between political connections, audit fees, and tax avoidance. By incorporating audit quality as a moderating factor, the researchers seek to examine how the quality of audits can potentially influence the effects of political connections and audit fees on tax avoidance.

2. Review of theoretical considerations and Hypotheses Development

Agency theory, as described in Jensen & Meckling's journal article, refers to a contract in which one or more individuals (the principals) engage another person (the agent) to manage the company or make decisions on their behalf. According to Jensen and Meckling, agents who are granted authority may not always act in the best interests of the principals. In the context of agency relationships, the binding employment contract between principals and agents can influence management to take or refrain from taking strategic actions that can benefit the

company and shareholders. One such strategic action may involve tax avoidance practices (Fajri, 2019; Suprapti et al., 2016).

Resource Dependence Theory, as outlined in the book authored by Pfeffer and Salancik (2003), proposes that a reciprocal dependence exists between an organization's external environment and its internal organizational structure. This interdependence is mediated through power dynamics. Specifically, companies must rely on external organizations to reduce the risk of environmental uncertainty. This theory suggests that companies should establish relationships with governments or political parties, as these relationships can influence the performance of the company (Hillman, 2005). (Faccio, 2006) reveals that politically connected companies receive various advantageous incentives, including lighter taxes, preferential treatment in government contract competitions, reduced scrutiny of applicable regulations, and closely monitored regulatory compliance for their competing firms. (Al-dhamari & Ismail, 2015) reaffirm in their study that a company seeking political connections does so primarily to gain various benefits from these relationships for corporate interests, such as tax-related advantages. These benefits may include the anticipation of subsidies, tax discounts, or various other forms of facilitation.

(Faccio, 2006) explained that companies can benefit from various tax incentives if they have political connections, such as lighter tax burdens or weak enforcement of applicable regulations. This is further supported by Fajri's study, which states that political connections with the government can facilitate and expedite corporate interests, including efforts to save on tax expenses. It is believed that companies will strive to establish communication with government officials or political parties to assist them in avoiding tax obligations (Fajri, 2019; Kim & Zhang, 2016; Alifa et al., 2018; Kim & Lee, 2021). Thus, it is pertinent to state here that:

H₁: Political connections have a positive effect on corporate tax avoidance.

Audit fees have been found to increase tax avoidance practices in companies. (Salehi et al, 2020) found that audit fees have a positive effect on tax avoidance. This is because auditors receive audit fees from their client companies, which may reduce their vigilance towards tax avoidance practices conducted by the companies. As a result, audit fees are likely to increase with the increasing prevalence of tax avoidance practices by corporations. This study suggests that audit fees can enhance the level of tax avoidance in companies, which is consistent with several other studies conducted by (Hu, 2018; Trikartiko & Dewayanto, 2021; Ghifary et al., 2022). This led the study to formulate the second hypothesis, thus:

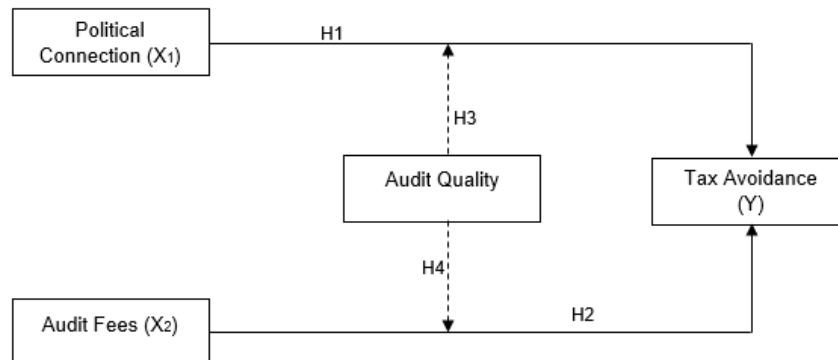
H2: Audit fees have a positive effect on tax avoidance.

The agency theory itself explains that auditors, as third parties, are tasked with creating audit reports as a means of providing information to users about the adherence of financial statements to accounting principles (El-Dyasty & Elamer, 2021). (Gaaya et al., 2017) state that high-quality audits can assist in reducing the motivation for tax avoidance by companies. Thus, audit quality is considered capable of diminishing the motivation of politically connected companies to engage in tax avoidance. This led the study to formulate the third hypothesis, thus:

H3: Companies with political connections and high-quality audits have lower levels of tax avoidance.

Based on agency theory, auditors are independent parties with the responsibility of providing assurance that a company's reporting is in accordance with applicable principles (El-Dyasty & Elamer, 2021). (Abdul-Rahman et al., 2017) state that higher audit fees lead to more reliable and high-quality audit work, ultimately suppressing corporate tax avoidance behavior. This is supported by the research of (Jihene& Moez, 2019), which found that audit quality can weaken managers' motivation to engage in aggressive tax avoidance because they are concerned that auditors will be able to detect such actions. Therefore, as audit fees and quality increase, corporate tax avoidance tends to decrease. This led the study to formulate the fourth hypothesis, thus:

H4: The higher the audit fees in companies with high audit quality, the lower their level of tax avoidance.



3. Methods and Models

This research is a hypothesis-testing study that employs a quantitative approach based on the positivist paradigm. The study utilizes a multiple linear regression model with Moderated Regression Analysis (MRA). The population of interest in

this study is mining companies listed on the Indonesia Stock Exchange (IDX) from 2017 to 2021. This study utilized mining companies listed on the Indonesia Stock Exchange (IDX) from 2017 to 2021 as the population, as instances of companies engaging in tax avoidance in this study were found in the mining sector. The process of selecting both objects or events as part of the entire population is defined as the sample, which was then chosen based on purposive judgmental sampling (Sekaran & Bougie, 2016:235). The purposive judgmental sampling method involves selecting research subjects that are most suitable based on the criteria for needed information. Consequently, the research sample can provide specific and targeted information (Sekaran & Bougie, 2016:248). This study also excludes companies that experienced losses during the period from 2017 to 2021. The exclusion of loss-making companies from the research sample is due to the fact that these companies are not obligated to pay taxes and, therefore, are less relevant to this study. Here are the comprehensive criteria for the sample selection:

Table 1. Total Research Sample

No	Criteria	Amount
1	Mining sector companies listed on the Indonesia Stock Exchange in 2017-2021	47
2	Companies that do not publish complete financial statements and annual reports during 2017-2021.	(9)
	Total	38
	38 x 5 Years	190
3	Companies that experienced losses during 2017-2021	(48)
	Total Research Sample in 2017-2021	142

In this study, tax avoidance is employed as the independent variable. The measurement of tax avoidance utilizes a recently developed model called DIFF (STR-ETR), which was introduced by (Thomsen and Watrin, 2018) and adopted by (Salehi et al., 2020). The DIFF (STR-ETR) measurement model offers a fresh approach to assessing tax avoidance and serves as the basis for analyzing its impact on the variables under investigation in this study. A positive measurement result of DIFF (STR-ETR) in a company indicates the presence of tax avoidance, and vice versa (Thomsen & Watrin, 2018).

$$\text{Different} = \text{Statuary Tax Rates (STR)} - \text{Effective Tax Rate (ETR)}$$

Robustness tests are also employed in this study. Furthermore, this study utilizes another measure to assess the tax avoidance variable, namely Effective Tax Rate (ETR) as proposed by (Fajri, 2019).

$$\text{Effective Tax Rate (ETR)} = \frac{\text{Total Tax Expense}}{\text{Pre - Tax Income}}$$

Political connection in this study is measured using a binary variable, also known as a dummy variable. A value of 0 is assigned to indicate the absence of a political connection, while a value of 1 is assigned to indicate the presence of a political connection. A company is considered to have political connections if the shareholders (with a minimum ownership of 10%), current and former board members, and commissioners are: (a) members of parliament, (b) a Minister or head of local government, (c) have affiliations with politicians or political parties. Subsequently, a code of 1 is assigned when the company is politically connected, and 0 otherwise. A code of 1 is also assigned for companies connected to the military, and 0 otherwise. Furthermore, political connections are also measured based on formal politics, meaning when the company has at least one board member holding shares issued by a government-owned enterprise (SOE/BUMN) (Faccio, 2006; Fu et al., 2017; Habib et al., 2017). The cost of audit in this study will be measured using the natural logarithm of the expenses incurred by the company for auditors (Nuryani, 2020). The moderating variable used in this study is audit quality. Audit quality is calculated using absolute discretionary accruals (ABS_DAC) based on Kaznik's model (1999) (Martani et al., 2021). Discretionary accruals are used as a proxy for audit quality because high audit quality should be capable of limiting the opportunity for corporate management to present financial information extremely. The discretionary accruals used in the analysis are in absolute terms, where a higher absolute value of discretionary accruals indicates lower audit quality (Nadia, 2015). The model is as follows.

$$\begin{aligned} \frac{\mathbf{TACC}_{it}}{\mathbf{TA}_{it-1}} = & \alpha_1 \left(\frac{\mathbf{1}}{\mathbf{TA}_{it-1}} \right) + \alpha_2 \left(\frac{\Delta \mathbf{REV}_{it} - \Delta \mathbf{REC}_{it}}{\mathbf{TA}_{it-1}} \right) + \alpha_3 \left(\frac{\mathbf{PPE}_{it}}{\mathbf{TA}_{it-1}} \right) \\ & + \alpha_3 \left(\frac{\Delta \mathbf{CFO}_{it}}{\mathbf{TA}_{it-1}} \right) + \boldsymbol{\varepsilon}_{it} \end{aligned}$$

4. Findings and Discussions

Table 3: Results of Regression Analysis

Mode 1	Variables	DIFF _(STR-ETR) ,		ETR		Test
		Coefficien t	Sig.	coefficien t	Sig.	
Mode 11	(Constant)	2,522	.095	-1,144	.049	
	POL	.106	.133	-.031	.361	Hypothesi s 1
	AUD_FEES	-.138	.615	-.001	.987	Hypothesi s 2
	LEV	.151	.342	.124	.009	
	SIZE	-.307	.258	.324	.005	
	ROA	-.280	.114	-.336	.000	
Mode 12	(Constant)	-6,697	.876	-.222	.654	
	POL	.447	** _{.029}	.025	.398	
	AUD_FEES	3,394	.857	-.017	.789	
	AUD_QUAL	.312	.090	Exclude	Exclud e	
	POL*AQ	-.312	*.090	-.020	**_{.001}	Hypothesi s 3
	AUD_FEES*A Q	-.385	.850	.000	.532	Hypothesi s 4
	LEV	.268	.054	.071	.081	
	SIZE	-.031	.298	.169	.083	
	ROA	-.410	.061	-.310	.000	

** Sig. at level 0.05 ($p < 0.05$), * Sig. at the 0.10 level ($p < 0.10$)

4.1 Political Connection and Tax Avoidance

The study's results indicate that the political connections variable has a positive coefficient, indicated by a value of 0.106, but it is not statistically significant at the 0.05 level (p -value = 0.133). Therefore, it can be concluded that political connections do not have a significant impact on tax avoidance, and **the first hypothesis is rejected**. This suggests that the political connections possessed by companies may not be utilized for tax avoidance practices. There are several reasons why the empirical results show no significant influence between political

connections and tax avoidance. Firstly, during the research period, mining companies in Indonesia did not utilize their political connections for tax avoidance practices. This result aligns with the Resource Dependence theory, which posits that political relationships within a company are beneficial for reducing the risk of environmental uncertainty (Pfeffer & Salancik, 2003). It indicates that the political connections held by the majority of sampled companies were used to mitigate the risks of the changing external business environment that could threaten their sustainability. This is evidenced by the significant changes brought about by the Covid-19 pandemic in Indonesia in 2020-2021, leading to considerable economic challenges, with many companies experiencing losses and the situation being deemed a worse economic disaster than the 2008-2009 economic crisis (Kamarudin et al., 2022).

However, in the research data, it was found that companies with political connections tended to survive and remain profitable. This implies that the political connections held by these companies were not used for tax avoidance practices but rather as a strategy to sustain their business amid uncertain external environmental changes. Secondly, there is concern about the company's image when engaging in tax avoidance practices. (Solikin & Slamet, 2022) mentioned that while political connections can be highly advantageous for companies, they may also have future implications. For instance, stakeholders may lose trust in companies with political connections, leading to a decline in the company's image. Distrust can result in reputational damage, causing losses for the company. This implies that merely having political connections can create a negative image for a company. Therefore, if political connections become the reason why companies engage in tax avoidance, it could threaten the sustainability of the corporation. In the robustness test, there are coefficient differences between the testing with DIFF (STR-ETR) and ETR. This indicates that when measured using different methods, the influence of political connections can either increase or decrease a company's motivation to engage in tax avoidance. However, based on the level of significance, both are consistent, as there is no significant influence between politically connected companies and tax avoidance.

4.2 Audit fees and Tax Avoidance

The research findings indicate that the coefficient of audit fees is negative, with a value of -0.138 and a significance level of 0.615, which is greater than 0.05. Therefore, the audit fees variable has no significant impact on tax avoidance, **and the second hypothesis is rejected.** This suggests that the amount of audit fees paid by companies to external auditors does not increase their motivation to engage in

tax avoidance practices. Agency theory explains that external auditors in a company act as independent parties intended to reduce agency problems that may arise from the misalignment of interests between principals and agents (Jensen & Meckling, 1976). The presence of external auditors in a company results in audit fees that need to be paid for the services provided. The amount of fees paid to auditors depends on the reputation of the Public Accounting Firm and the scope of audit procedures performed (Suwarno et al., 2020). In this context, it can be concluded that audit fees paid cannot be solely used as an indicator to identify tax avoidance in a company. This is because a large payment of audit fees to external auditors does not necessarily indicate tax avoidance practices.

According to (Suyadnya and Supadmi, 2017), the payment of audit fees is typically determined based on the level of competence and the scope of audit procedures conducted. In this context, the fees paid to auditors are not considered as an attempt by the client company to influence the auditor to reduce their level of diligence or scrutiny towards the client. Instead, the fees are structured to reflect the auditor's expertise and the comprehensive nature of the audit process. This suggests that audit fees are primarily determined by the professional standards and expectations associated with conducting a thorough and competent audit, rather than being influenced by the client company's desire to compromise the auditor's vigilance. Additionally, it is not certain that companies paying lower fees will be exempt from tax avoidance. This study aligns with the findings of (Kraft & Lopatta, 2016) and (Supriyanto & Christina, 2021), which found that the level of audit fees has no significant influence on tax avoidance. The results are also consistent with the robustness test, which shows a negative coefficient of -0.031 and a significance level above 0.05 (0.361), indicating no significant relationship between audit fees and tax avoidance.

4.3 Political Connection, Tax Avoidance, and Audit Quality

The research results presented in Table 1 show that the coefficient for the moderation variable of political connections with audit quality is negative, specifically -0.312, with a significance level below 0.10 (0.090). Therefore, it can be concluded that **the third hypothesis is accepted**. Based on agency theory, it is known that public accountants act as independent parties within a company to help mitigate agency problems that may arise (Jensen & Meckling, 1976). This is done through the creation of audit reports, which serve as information for principals regarding the company's financial statements, whether they comply with applicable principles or not. This creates confidence that agents are not acting outside the interests of principals by engaging in actions that could harm the company or the

principals themselves (El-Dyasty&Elamer, 2021). (Gaaya et al., 2017) explain that high-quality audits can also serve to reduce a company's motivation to engage in tax avoidance. When connected to this research, companies with political connections will seek to assure that, despite having political affiliations, they do not exploit them for personal gain. They guarantee transparency in their reporting through financial statements audited by external auditors, aiming to demonstrate their adherence to tax obligations and freedom from accrual issues. Thus, it can be concluded that good audit quality will help reduce the motivation for politically connected companies to engage in tax avoidance. This study aligns with the research findings of (Gaaya et al., 2017; Hidayat, 2022; Jihene& Moez, 2019), which state that audit quality can reduce a company's motivation to engage in tax avoidance. The results are also consistent with the robustness test, which shows a negative coefficient of -0.020 and a significance level of 0.001, indicating that politically connected companies with good audit quality will not be involved in tax avoidance practices.

4.4 Audit fees, Tax Avoidance, and Audit Quality

The study results indicate that the moderation variables represented by audit fees and audit quality have negative coefficients of -0.385, with a significance level greater than 0.05 (0.850). This implies that **the fourth hypothesis is rejected**. Agency theory explains that in agency relationships, external auditors act as third parties who aim to minimize agency problems that may arise between principals and agents. The audit activities are intended to provide information to financial statement users regarding the company's condition and whether the agent's reports comply with applicable principles (El-Dyasty&Elamer, 2021). The study results do not provide evidence that high audit fees, as an intervention by clients to exempt the company from engaging in tax avoidance, can be reduced by the implementation of high-quality audits. (Nurjanah& Aligarh, 2022) explain that audits conducted by Public Accounting Firms primarily focus on auditing financial statements and do not specifically measure the fraud involved in tax avoidance practices by companies. This implies that the quality of an audit for a company may not necessarily help reduce the company's motivation to engage in tax avoidance, especially for companies that pay higher audit fees. Thus, it can be concluded that even if a company's financial statements are free from earnings management, it does not necessarily mean that the financial statements are also free from tax avoidance practices. These study results are not consistent with the research conducted by (AL-Rashdan, 2022; Gaaya et al., 2017; Hidayat, 2022; Jihene& Moez, 2019; Langli & Willekens, 2017). In the robustness test, there are coefficient differences between testing with DIFF (STR-ETR) and ETR. This indicates that

when measured using different methods, audit quality can either help reduce or even increase the motivation of companies paying high audit fees to engage in tax avoidance. However, based on the level of significance, both results are consistent.

5. Conclusions

This study aims to examine the determinants of tax avoidance practices in mining companies listed on the Indonesia Stock Exchange (IDX) from 2017 to 2021. The study results indicate that political connections and audit costs are not determinants of tax avoidance. Additionally, audit quality can weaken politically connected companies in engaging in tax avoidance practices, while audit quality cannot moderate audit costs as determinants of a company's tax avoidance. This research still has several limitations, especially in terms of the model used, which continues to indicate there is potential existence of other indicators that may influence tax avoidance. Thus, subsequent research could consider adding several other factors, such as transfer pricing, corporate governance, corporate social responsibility, gender diversity, ownership structure, and CEO compensation.

References

- Abdul-Rahman, D. O. A., Benjamin, A. O., & Olayinka, O. H. (2017). Effect of Audit Fees on Audit Quality: Evidence from Cement Manufacturing Companies in Nigeria. *European Journal of Accounting, Auditing, and Finance Research*, 5(1), 6–18.
- AL-Rashdan, M. T. (2022). Verification Of Tax Avoidance By Audit Quality And Dimensions Of Ownership Structure In Jordanian Manufacturing Companies. *Journal of Positive School Psychology*, 6(6), 3374–3384. <https://journalppw.com/index.php/jpsp/article/view/7876%0Ahttps://journalppw.com/index.php/jpsp/article/download/7876/5133>
- Alifa, A. R., Sinulingga, N. F., Sibarani, R. O., Waryu, & Suropto. (2018). Pengaruh Corporate Social Responsibility , Intensitas Program Studi S1 Akuntansi , Fakultas Ekonomi , Universitas Pamulang. 104–117.
- Anwar, C. (2013). *Manajemen Perpajakan: Strategi Perencanaan Pajak dan Bisnis* (Edisi Revi). PT Gramedia Building.
- Armadiyanti, P., & Iswati, S. (2019). Corporate Political Connection and Audit Quality. *Jurnal Akuntansi Dan Keuangan Indonesia*, 16(2), 122–140. <https://doi.org/10.21002/jaki.2019.07>
- Assidi, S., & Hussainey, K. (2021). The effect of tax preparers on corporate tax aggressiveness: Evidence form the UK context. *International Journal of Finance and Economics*, 26(2), 2279–2288. <https://doi.org/10.1002/ijfe.1906>
- Barid, F. M., & Wulandari, S. (2021). Praktik Penghindaran Pajak Sebelum dan Setelah Pandemi Covid – 19 di Indonesia. *Jurnal Riset Akuntansi &*

- Perpajakan (JRAP), 8(02), 68–74.
<https://doi.org/10.35838/jrap.2021.008.02.17>
- Butarbutar, R. (2017). *Hukum Pajak Indonesia Dan Internasional*. Gramata Publishing.
- Chen, X. (2018). Corporate Social Responsibility Disclosure, Political Connection and Tax Aggressiveness: Evidence from China's Capital Markets. *Open Journal of Business and Management*, 06(01), 151–164.
<https://doi.org/10.4236/ojbm.2018.61010>
- Darussalam, & Septriadi, D. (2017). *Peranjian Penghindaran Pajak berganda: Panduan, Interpretasi, dan Aplikasi*. PT Dimensi Internasional Tax.
- Dian, N. P., & Narsa, R. H. (2022). Kecenderungan Perusahaan Melakukan Penghindaran Pajak: Berpengaruhkah Terhadap Keterbacaan Laporan Keuangan yang Rendah? *News.Unair.Ac.Id*.
<https://news.unair.ac.id/2022/01/28/kecenderungan-perusahaan-melakukan-penghindaran-pajak-berpengaruhkah-terhadap-keterbacaan-laporan-keuangan-yang-rendah-2/?lang=id>
- El-Dyasty, M. M., & Elamer, A. A. (2021). The effect of auditor type on audit quality in emerging markets: evidence from Egypt. *International Journal of Accounting and Information Management*, 29(1), 43–66.
<https://doi.org/10.1108/IJAIM-04-2020-0060>
- Faccio, M. (2006). Politically connected firms. *American Economic Review*, 96(1), 369–386. <https://doi.org/10.1257/000282806776157704>
- Fajri, A. (2019). Pengaruh Koneksi Politik Terhadap Penghindaran Pajak (studi kasus pada perusahaan yang terdaftar di Bursa Efek Indonesia 2016-2017). *Jurnal Ilmiah Mahasiswa FEB*, 1–18. <https://repository.maranatha.edu/26999/>
- Gaaya, S., Lakhali, N., & Lakhali, F. (2017). Does family ownership reduce corporate tax avoidance? The moderating effect of audit quality. *Managerial Auditing Journal*. <https://doi.org/10.1108/MAJ-02-2017-1530>
- Ghifary, R. A., Muchlish, M., Tjahjono, M. E. T., & Febrianto, F. C. (2022). Pengaruh Kualitas Audit, Audit Fee, Dan Intensitas Modal Terhadap Agresivitas Pajak Dengan Komisaris Independen Sebagai Variabel Moderasi. *Jurnal Syntax Transformation*, 3(7), 1–23.
- Hidayat, K. (2022). Effect of CEO Compensation on Corporate Tax Avoidance and Role of Audit Quality as Moderation Variable. 26(4), 779–790.
<https://doi.org/10.26905/jkdp.v26i4.8705>
- Hillman, A. J. (2005). Politicians on the board of directors: Do connections affect the bottom line? *Journal of Management*, 31(3), 464–481.
<https://doi.org/10.1177/0149206304272187>
- Hu, N. (2018). Tax Avoidance, Property Rights and Audit Fees. *American Journal*

- of Industrial and Business Management, 08(03), 461–472.
<https://doi.org/10.4236/ajibm.2018.83030>
- Jensen, M. C., & Meckling, W. H. (1976). Theory of The Firm: Managerial Behaviour, Agency Cost and Ownership Structure. *Journal of Financial Economics*, 3(4), 305–360. [https://doi.org/http://dx.doi.org/10.1016/0304-405X\(76\)90026-X](https://doi.org/http://dx.doi.org/10.1016/0304-405X(76)90026-X)
- Jihene, F., & Moez, D. (2019). The Moderating Effect of Audit Quality on CEO Compensation and Tax Avoidance: Evidence from Tunisian Context *International Journal of Economics and Financial Issues* The Moderating Effect of Audit Quality on CEO Compensation and Tax Avoidance: Evidence fro. *International Journal of Economics and Financial Issues*, 9(1), 131–139. <http://www.econjournals.comDOI:https://doi.org/10.32479/ijefi.7355>
- Kamarudin, S., Khalili, A. H. A., Aziz, Z. F. A., Kamarudin, K. A., & Wahab, A. N. A. (2022). Exploring of Potential of Cloud Computing for Small and Medium Enterprises. 4(2), 98–108.
- Kim, C., & Zhang, L. (2016). Corporate Political Connections and Tax Aggressiveness. *Contemporary Accounting Research*, 33(1), 78–114. <https://doi.org/10.1111/1911-3846.12150>
- Kim, J. H., & Lee, J. H. (2021). How ceo political connections induce corporate social irresponsibility: An empirical study of tax avoidance in south korea. *Sustainability (Switzerland)*, 13(14). <https://doi.org/10.3390/su13147739>
- Kraft, A., & Lopatta, K. (2016). Auditor fees, discretionary book-tax differences, and tax avoidance. *International Journal of Economics and Accounting*, 7(2), 127. <https://doi.org/10.1504/ijea.2016.078297>
- Langli, J. C., & Willekens, M. (2017). Tax Avoidance , Horizontal Agency Conflicts and High-Quality Auditing in Private Firms. *Scandinavian Accounting Research Conference*.
- Lestari, P. A. S., Pratomo, D., & Asalam, A. G. (2019). Pengaruh Koneksi Politik dan Capital Intensity Terhadap Agresivitas Pajak Poppy. *Jurnal Aset*, 11(1), 41–54.
- Martani, D., Rahmah, N. A., Fitriany, F., & Anggraita, V. (2021). Impact of audit tenure and audit rotation on the audit quality: Big 4 vs non big 4. *Cogent Economics and Finance*, 9(1). <https://doi.org/10.1080/23322039.2021.1901395>
- Nadia, N. F. (2015). *Jurnal Akuntansi Bisnis*, Vol. XIII No. 26 Maret 2015 Pengaruh Tenur KAP, Reputasi KAP Dan Rotasi KAP Terhadap Kualitas Audit Nurul Fitri Nadia 2. *Jurnal Akuntansi Bisnis*, Xiii(26), 113–130.
- Nurjanah, S., & Aligarh, F. (2022). Family Ownership, Independent Commissioners, Audit Quality, And Tax Avoidance In Indonesia. *JIFA*

- (Journal of Islamic Finance and Accounting), 4(2), 82–93.
<https://doi.org/10.22515/jifa.v4i2.4378>
- Nuryani, N. (2020). Pengaruh Biaya Audit Terhadap Kualitas Audit Dan Determinan Biaya Audit. *Jurnal Akuntansi*, 9(2).
<http://jurnal.kwikkiangie.ac.id/index.php/JA/article/view/760>
- Pfeffer, J., & Salancik, G. R. (2003). *The External Control of Organizations: A Resource Dependence Perspective*. Stanford University Press.
- Putri, T. M., & Cahyonowati, N. (2014). Pengaruh Auditor Tenure , Ukuran Kantor Akuntan Publik , Dan Ukuran Perusahaan Klien. *Diponegoro Journal of Accounting*, 3(2), 1–11.
- Salehi, M., Tarighi, H., & Shahri, T. A. (2020). The effect of auditor characteristics on tax avoidance of Iranian companies. *Journal of Asian Business and Economic Studies*, 27(2), 119–134. <https://doi.org/10.1108/jabes-11-2018-0100>
- Solikin, A., & Slamet, K. (2022). Pengaruh Koneksi Politik, Struktur Kepemilikan, Dan Kebijakan Dividen Terhadap Agresivitas Pajak. *Jurnal Pajak Dan Keuangan Negara (PKN)*, 3(2), 270–283.
<https://doi.org/10.31092/jpkn.v3i2.1521>
- Suprpti, E., Sudarma, M., Rosidi, & Baridwan, Z. (2016). Tax avoidance in the perspective of agency theory: A review of literatures. *International Journal of Applied Business and Economic Research*, 14(13), 9195–9208.
- Supriyanto, & Christina, N. (2021). Analisis pengaruh karakteristik audit dan karakteristik perusahaan terhadap praktik penghindaran pajak pada perusahaan BEI Analysis effect of audit characteristics and company characteristics on tax avoidance in IDX companies. *Inovasi : Jurnal Ekonomi, Keuangan Dan Manajemen*, 17(4), 733–747.
- Suwarno, A. E., Anggraini, Y. B., & Puspawati, D. (2020). Audit Fee, Audit Tenure, Auditor’s Reputation, and Audit Rotation on Audit Quality. *Riset Akuntansi Dan Keuangan Indonesia*, 5(1), 61–70.
<https://doi.org/10.23917/reaksi.v5i1.10678>
- Suyadnya, I. G., & Supadmi, N. L. (2017). Pengaruh Ukuran KAP, Audit Fee, dan Audit Tenure pada Agresivitas Pajak. *E-Jurnal Akuntansi*, 2017(1), 1131–1159.
- Thomsen, M., & Watrin, C. (2018). Tax avoidance over time: A comparison of European and US firms. *Journal of International Accounting, Auditing and ...*
<https://www.sciencedirect.com/science/article/pii/S1061951818302520>
- Trikartiko, A., & Dewayanto, T. (2021). Pengaruh Kualitas Kantor Akuntan Publik (KAP) Dan Karakteristik Komite Audit Terhadap Penghindaran Pajak. *Diponegoro Journal of Accounting*, 10(4), 1–15.

- Warsito, & Samputra, P. L. (2020). Potensial of Tax Declining and Tax Policy Strategy to Anticipate the Impact of the Covid-19 Pandemic: A National Resilience Perspective. *Jurnal Ekonomi Dan Kebijakan Publik*, 11(2), 93–108. <https://dx.doi.org/10.22212/jekp.v11i1.1933>
- Wicaksono, A. P. N. (2017). Koneksi Politik dan Aggresivitas Pajak: Fenomena di Indonesia. *Akuntabilitas*, 10(1), 167–180. <https://doi.org/10.15408/akt.v10i1.5833>