

The impact of audit committee and audit partner tenure on tax avoidance in banking

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ABSTRACT

The objective of our study is to examine the audit committees and audit partner tenure on tax avoidance. Additionally, our study investigates another variable that may influence subjective judgments of tax avoidance, such as return on assets, leverage, and firm size, on the relationship between audit committees and auditors as control variables. Using a quantitative approach, we focus on banking sector companies in Indonesia from 2018 to 2022. The results of this study show that audit partner tenure significantly affects tax avoidance, whereas audit quality does not have a notable influence. This study also shows that audit quality needs to be improved as a control mechanism to mitigate tax avoidance practices, particularly in the banking sector. Furthermore, audit partner tenure demonstrates a significant impact on tax avoidance. This study's theoretical and policy implications encourage company management to consider the potential long-term risks associated with extended audit partner tenure in the market.

Introduction

Tax revenue represents a fundamental obligation for companies, yet it often faces resistance due to corporate efforts to minimize tax burdens through tax avoidance practices (Stefhanie & Dewi, 2022). These practices exploit loopholes in tax regulations to reduce payable taxes, thereby granting companies financial advantages. However, if tax avoidance practices are detected, companies risk incurring additional tax payments and penalties imposed by tax authorities (Xie & Huang, 2023).

A Tax Justice Network (2023) report revealed that Indonesia lost an estimated annual tax revenue of USD 31,703.6 million due to tax avoidance, equivalent to 1.17% of the country's GDP. This figure underscores the significant challenges faced by the government in optimizing tax collection, especially considering that taxes are the primary source of state revenue (dpr.go.id, 2019). To address these challenges, both internal and external oversight of corporate financial reports has become crucial. One step taken by regulators is the enforcement of Indonesia Financial Services Authority Regulation No. 14 of 2022, which requires companies listed on the Indonesia Stock Exchange to submit periodic financial reports aimed at enhancing transparency and accountability (KPMG, 2021; OJK, 2022).

Audit tenure, or the duration of an auditor's engagement with a company, also affects the auditor's ability to detect tax avoidance. Long-standing auditors may have a deeper understanding of a company's operations, but extended tenures can also increase risks to auditor independence and objectivity (EY, 2019). Thus, a combination of an influential audit committee and well-managed audit partner tenure can enhance audit quality and reduce the likelihood of tax avoidance.

Studies on corporate tax avoidance in various countries have yielded diverse findings. For instance, Mnif and Tahri (2024), in their research on Australian banks, found that industry specialization among auditors and audit committee members negatively affects tax avoidance rates in the banking sector. Using data from domestic banks in Australia, the study concluded that industry expertise enhances corporate governance effectiveness, thereby curbing tax avoidance practices, especially in the banking sector, which exhibits higher complexity than non-financial sectors. Meanwhile, after examining the Iranian market, Salehi et al. (2020) discovered that auditor characteristics—such as tenure, industry specialization, audit opinions, and audit fees—exert varying impacts on tax avoidance. Their findings highlighted a significant relationship between audit opinions and fees with tax avoidance, reflecting unique economic challenges and price competition dynamics in Iran's market.

Even though numerous studies have examined the relationship between corporate governance mechanisms and tax avoidance, most of them focus on general industries in developed markets where regulatory

environments and enforcement systems differ significantly from those in emerging economies. In contrast, the banking sector—characterized by stringent regulatory frameworks, high compliance demands, and systemic importance—has received limited attention in this context. This is particularly relevant for Indonesia, where the banking industry plays a critical role in economic stability but faces unique institutional challenges. Thus, there remains a notable gap in understanding how audit-related governance mechanisms operate within this high-stakes sector in emerging markets.

However, the interplay between audit tenure and audit committee effectiveness, especially in influencing tax avoidance, has not been adequately explored. Most existing literature treats these governance elements in isolation, overlooking potential interaction effects that may vary across institutional settings. This study contributes to the literature by investigating not only the individual roles of audit tenure and audit committees but also how their interaction impacts tax avoidance practices in Indonesian banks. Moreover, by incorporating firm-specific control variables, the study provides nuanced insights into how internal characteristics may moderate these relationships. This integrated approach offers a novel contribution to the field and has practical implications for regulators seeking to strengthen audit oversight as a tool to combat aggressive tax behavior in regulated financial sectors.

Literature Review

Agency Theory

Agency Theory proposed by [Jensen \(1976\)](#), explains the contractual relationship between the owners of a company (principals) and the management (agents) ([Hendi & Shella, 2022](#)). The latter party is entrusted with the operation of the company on behalf of the owners. Agency theory also addresses the potential conflict of interest between company owners and management, particularly in the context of tax avoidance ([Putra et al., 2018](#)). Agency theory provides a framework for understanding the relationship between auditor characteristics, corporate governance, and tax avoidance. It suggests that conflicts of interest between managers and shareholders can lead to tax aggressive behaviour ([Zolotoy et al., 2021](#)).

Governance mechanisms such as audit committees and external auditors are used to mitigate such behaviour. An independent and competent audit committee may limit managerial opportunism ([Alqatan et al., 2025](#); [Widarjo, 2024](#)), while excessive auditor tenure may compromise auditor independence and increase the risk of tax avoidance ([Rizqia & Lastiati, 2021](#)). Therefore, the audit committee and auditor tenure variables are derived from the monitoring function emphasized in agency theory, which seeks to reduce conflicts between agents and principals. In this context, agency theory highlights the potential conflict of interest between owners and management, particularly in relation to opportunistic behaviors such as tax avoidance. This conflict may arise when managers prioritize their personal interests over those of shareholders, ultimately leading to aggressive tax behavior. Therefore, corporate governance mechanisms such as audit committees and external auditors play a crucial role in mitigating such conflicts. An independent and competent audit committee can help limit managerial opportunism, while excessive auditor tenure may compromise auditor independence and increase the risk of tax avoidance. As such, the existence of audit committees and the regulation of auditor tenure represent key monitoring functions emphasized in agency theory, aimed at aligning the interests of agents and principals and reducing the likelihood of harmful tax avoidance practices.

Signalling Theory

This study adopts Signalling Theory ([Michael Spence, 1973](#)) as a theoretical foundation to explain how corporate actions particularly related to tax compliance can serve as credible signals to external stakeholders. In environments characterized by information asymmetry, such as between companies and tax authorities or investors, organizations often rely on observable indicators to communicate their internal qualities and intentions. In the context of taxation, compliance behaviour can signal transparency, accountability, and ethical standards, which are crucial in maintaining stakeholder trust and legitimacy ([Andersson, 1996](#); [Barigozzi & Villeneuve, 2004](#)). Within the highly regulated and publicly monitored banking sector, tax compliance acts as a "tax signal" ([Satterthwaite, 2020](#)) that reflects a company's quality and governance strength.

In this context, internal governance mechanisms such as audit committee characteristics and auditor tenure can serve as observable indicators to convey a company's internal quality and intentions. In the highly regulated and publicly monitored banking sector, tax compliance can be seen as a tax signal that reflects the strength of corporate governance and the integrity of the firm. Therefore, strong corporate governance reflected through an independent and professional audit committee and auditors with optimal tenure can enhance perceptions of transparency and accountability, while reducing stakeholder concerns about managerial opportunism. Conversely, aggressive tax avoidance practices may signal weak governance and raise concerns among stakeholders. Thus, signaling theory provides a strong theoretical foundation for assessing how internal governance mechanisms can act as credible signals in influencing tax behavior and preserving corporate reputation.

Tax Avoidance

Tax is a primary national revenue source and a crucial element in maintaining economic stability. Tax represents an unavoidable obligation for corporations, often perceived as a burden that affects profitability (Khelil & Khelif, 2023). In Indonesia, tax avoidance practices have become a significant issue due to their impact on corporate transparency and accountability in complying with regulations. Companies often employ tax avoidance strategies to reduce their liabilities, exploiting legal loopholes to alleviate their tax burden. This approach is part of broader corporate efforts to maximize revenue by minimizing expenses, ultimately affecting financial stability and corporate reputation. Shaffira and Humairoh (2022) highlight various expert perspectives on tax avoidance. Crouter and Balter (1963) define tax avoidance as the effort by taxpayers to reduce or eliminate their tax obligations without violating the law. Similarly, Hidayat (2018) describes tax avoidance as a legal strategy undertaken by taxpayers within the bounds of tax regulations. Although legally permissible, tax avoidance has significant implications for national revenue. Consequently, tax avoidance not only garners governments' attention but also challenges corporations in balancing tax compliance with profit optimization.

The Influence of the Audit Committee on Tax Avoidance

The audit committee is an independent body established by the board of commissioners to enhance oversight of a company's operations. This committee plays a strategic role in ensuring the company's internal control systems function effectively and efficiently. Its primary responsibilities include regularly reviewing company policies and procedures to identify and mitigate risks that could threaten operational stability. Furthermore, the audit committee monitors the company's compliance with applicable legal regulations and industry standards, ensuring that the company operates within the established framework (Al-Baidhani, 2014). In financial reporting, the audit committee is responsible for ensuring that financial statements prepared by management are accurate, reliable, and transparently reflect the company's financial condition. The committee also serves as a liaison between internal auditors, external auditors, and the board of commissioners to guarantee that the audit process is conducted objectively and free from conflicts of interest. Through these roles, the audit committee reinforces corporate accountability and operational transparency, fostering high levels of stakeholder trust in the integrity of the company's financial reports (Kayleen & Harindahyani, 2020; Nguyen & Dang, 2020). According to agency theory, managers may engage in opportunistic behaviors such as tax avoidance, misaligned with shareholders' interests (Hanlon & Heitzman, 2010; Jensen, 1976). Problems arise when managers exploit loopholes to reduce corporate tax burdens in ways that are not aligned with long-term firm value. Thus, an effective audit board is an important internal governance mechanism that aims to oversee management actions and reduce agency costs (Dang & Nguyen, 2022). In addition, a complementary perspective suggests that strong audit committee characteristics—such as independence, expertise, and diligence—send positive signals to external stakeholders about corporate commitment to transparency and good governance (Alqatan et al., 2025). This is particularly important in highly regulated industries such as banking, where perceived tax aggressiveness could negatively impact investor confidence and regulatory scrutiny. Therefore, an effective audit committee not only monitors internally (agency theory), but also signals governance externally (signaling theory).

The audit committee strategically supports the board of commissioners in performing control and oversight functions, particularly regarding financial reporting and compliance. As emphasized by Prihatono et al. (2019), the audit committee's main responsibility is to ensure that financial statements are prepared fairly and in accordance with applicable accounting standards. Studies by Sharhan and Bora (2020) further support this role, indicating that audit committees significantly improve the quality of financial reporting by monitoring potentially manipulative managerial behavior and reinforcing the audit process.

However, empirical findings regarding the audit committee's effectiveness in reducing tax avoidance are mixed. While some studies, such as Armstrong et al. (2015) and Alqatan et al. (2025) confirm a negative relationship between audit committee effectiveness and tax aggressiveness, these characteristics enhance the committee's ability to monitor and influence tax-related managerial decisions. The frequency of audit committee meetings does not have an insignificant relationship with tax avoidance, suggesting that formal activity alone is insufficient. Conversely, several studies have reported limitations in the audit committee's role. Mnif and Tahri (2024) identify constraints such as restricted authority, over-reliance on external auditors, and insufficient resources as major barriers to audit committee effectiveness. Additionally, the study found that audit committee size (ACS) does not exhibit a significant association with tax avoidance, which may point to structural or contextual weaknesses. Setia and Sudaryono (2023) also report that the audit committee's negative influence on the Effective Tax Rate (ETR) is statistically insignificant. It is indicated that the committee's role in mitigating tax avoidance remains limited without further institutional support or governance reforms. Therefore, the following hypothesis is proposed:

H1: Audit committee effectiveness is negatively associated with corporate tax avoidance.

The Influence of Audit Partner Tenure on Tax Avoidance

This study employs agency theory and signal theory to explain the relationship between audit partner tenure and tax avoidance in the banking sector. Agency theory posits that longer audit partner tenure can strengthen the

auditor's monitoring capabilities, thereby limiting managerial opportunism such as tax avoidance (Jensen, 1976). As the audit partner becomes more familiar with the client's operations over time, it is better able to detect unusual tax behavior, question aggressive tax planning strategies, and provide more effective oversight. This improved oversight helps reduce agency costs by aligning management behavior more closely with shareholder interests.

Based on Government Regulation No. 20 of 2015, Article 11, public accountants are only permitted to provide audit services on the historical financial information of an entity for a maximum of five consecutive fiscal years (Pemerintah, 2015). This provision aims to maintain auditor independence and mitigate the risk of conflicts of interest resulting from prolonged engagement with clients. Auditors with an in-depth understanding of a company's operations can more effectively identify tax avoidance risks. Such insights enable auditors to adopt a cautious approach in evaluating taxation strategies, reducing the likelihood of aggressive tax planning strategies (Duhoon and Singh, 2023). From the perspective of Signalling Theory, a long audit partner tenure may act as a positive signal to external stakeholders. It indicates audit quality, stability, and trust in the auditor-client relationship (Mukhlisin, 2018). In regulated industries like banking, where stakeholders are highly sensitive to reputational and compliance risks, the continuity of a long-term audit partner can signal lower tax-related risks and higher corporate transparency. Consequently, firms may avoid aggressive tax practices to maintain the positive perception associated with a long-standing audit relationship.

However, the relationship is complex. While prolonged tenure can improve monitoring (as per Agency Theory), it may also raise concerns over auditor independence, potentially weakening audit quality if familiarity leads to complacency. This duality explains the mixed findings in the literature. For instance, Salehi et al. (2020) found no significant association between tenure and tax avoidance in Iranian firms, highlighting context-specific outcomes. In contrast, Hakim and Omri (2015), Hendi and Sherly (2024), and Lungu et al (2023), as well as Mnif dan Tahri (2024), report a negative relationship between audit partner tenure and tax avoidance, supporting the idea that familiarity enhances the auditor's capacity to enforce tax compliance. Based on this evidence, the following hypothesis is proposed:

H2: Audit partner tenure is negatively associated with corporate tax avoidance.

Research Method

Population, Sample, and Data Collection Techniques

This study adopts a quantitative approach using secondary data analysis. The sample for this study consists of banking companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2022 that have complete annual financial statements. The banking sector was chosen because of its complicated financial nature and strict regulation (Mnif & Tahri, 2024; Shubita, 2024). Despite oversight, there's potential for tax avoidance, so examining audit committee characteristics and audit tenure to see how they influence tax compliance is relevant given the importance of the banking sector to financial stability and public interest. Out of 110 identified companies, only 50 met the inclusion criteria: active private banking companies, avoiding losses for five consecutive years, and remaining publicly listed as of 2022. The purposive sampling criteria employed in this study were meticulously designed to ensure the relevance and quality of the data analysed. Only banking companies on the Indonesia Stock Exchange (IDX) with complete 2018–2022 annual financial statements were selected. The chosen companies had to demonstrate stable performance and avoid losses for five consecutive years. This study uses purposive sampling criteria, which was chosen to ensure relevant and high-quality data. Purposive sampling is used to select banking companies listed on the Indonesia stock exchange (IDX) with complete annual financial statements from 2018 to 2022. The selection criteria include companies that have shown stable performance without losses for five consecutive years and that remained listed on the IDX as of 2022. This is done to ensure that the data collected is a good representation of companies with sufficient financial stability, which is crucial for analysing the impact of audit committee characteristics and audit tenure on tax compliance.

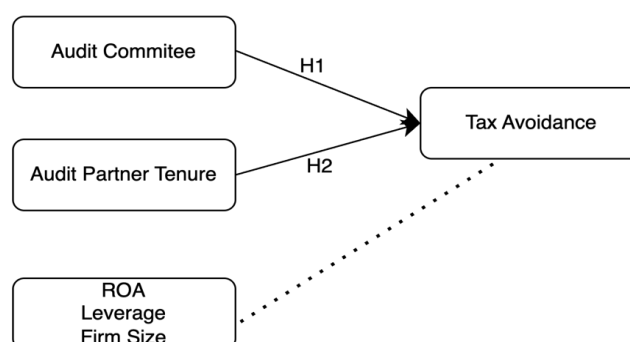


Figure 1. Research Framework

Table 1. Variable Measurement

Variable	Measurement	Acronym	Reference
Independent Variables			
Audit Committee:	Diligence of the Audit Committee = Σ Meetings held by the audit committee	RKA	Mnif and Tahri (2024)
	Number of audit committee members in the company	KA	
Audit Partner Tenure:	Dummy: 1 if there is cooperation with the Public Accounting Firm (KAP) for more than 3 years between 2018-2022 0 if there is no cooperation with the Public Accounting Firm (KAP) for more than 3 years between 2018-2022	AP	Kyriakou and Dimitras (2018)
Dependent Variable			
Tax Avoidance	ETR: (Income Tax Paid) / (Earnings Before Tax) x 100%	ETR	Mnif and Tahri (2024)
Control Variables			
Firm Size	LN (Total Assets)	FS	Salehi et al. (2019)
Return on Asset	(Net Income) / (Total Assets) x 100%	ROA	
Leverage	(Total Liabilities) / (Total Assets) x 100%	LEV	

The data analysis in this study was conducted through several stages of statistical testing, beginning with descriptive statistics to provide a general overview of the data. This was followed by Pearson correlation analysis to examine the relationships between variables. To determine the most appropriate regression model, the Chow test and Hausman test were employed, followed by the Lagrange Multiplier test. Once the appropriate model was selected, regression analysis was performed using the F-test, t-test, and the Adjusted R² to evaluate the significance and explanatory power of the model. The regression model used to test the hypothesis:

$$ETR = \alpha + \beta_1 \cdot KA + \beta_2 \cdot RKA + \beta_3 \cdot AP + \beta_4 \cdot LEV + \beta_5 \cdot FS + \beta_6 \cdot ROA + \varepsilon$$

Description:

ETR	= Effective Tax Rate
α	= Constant
$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6$	= Coefficient of Regression
KA	= Audit Committee
RKA	= Diligence of the Audit Committee
AP	= Audit Partner Tenure
LEV	= Leverage
FS	= Firm Size
ROA	= Return on Asset
ε	= Standard Error

Results and Discussion

Table 2. Sample Selection

No.	Description	Quantity
1	The number of banking companies listed on the Indonesia Stock Exchange from 2018 to 2022	110
2	Companies that did not publish their annual reports consistently and had incomplete data	(6)
3	State-Owned Banks or Regional Development Banks	(27)
4	Banks that incurred losses between 2018 to 2022	(27)
	Number of companies studied from 2018 to 2022	50

Table 2 shows the sample selection process used in this study, including property and real estate companies listed on the Indonesia Stock Exchange during 2018-2022. Out of the 110 companies identified, six did not meet the criteria because they did not consistently publish annual reports, or the reports provided needed to be completed. Additionally, 27 other companies were state-owned enterprises (BUMN) or regional development banks, which were excluded from the sample as they were not relevant to the focus of this research. Furthermore, 27 companies that incurred losses during 2018-2022 were also excluded from the analysis. Finally, the remaining sample for analysis consisted of 50 companies that met all the inclusion criteria for the study.

Table 3. Results of Descriptive Analysis Tests

	ETR	KA	RKA	AP	LEV	FS	ROA
Mean	0.404546	3.348000	9.568000	0.612000	0.837242	31.23073	0.012773
Median	0.257957	3.000000	8.000000	1.000000	0.829242	31.03245	0.009803
Maximum	11.73834	10.00000	41.00000	1.000000	9.175926	36.72307	0.127427
Minimum	0.000000	0.000000	0.000000	0.000000	0.000160	22.62448	-0.009618
Std. Dev.	0.864561	1.268595	7.148270	0.488272	0.878338	2.153276	0.014644
Observations	250	250	250	250	250	250	250

Source: Secondary Data Process, (2024)

Based on the results of the descriptive statistical tests for each variable, they examined ETR (Effective Tax Rate), KA (Audit Committee), RKA (Audit Committee Meetings), and AP (Audit Partner Tenure). The descriptive statistics reveal the characteristics of each variable analyzed in this study: The ETR (Effective Tax Rate) variable has a mean value of 0.40 and a median of 0.26, indicating that the average effective tax rate of the companies in the sample is 40%, while half of the companies have an ETR below 26%. The ETR ranges from 0 (minimum) to 11.73 (maximum), with a standard deviation of 0.86, suggesting significant variability in effective tax rates across companies and the presence of notable outliers.

The KA (Audit Committee) variable, which measures the number of audit committee members, has a mean of 3.35 and a median of 3, indicating that, on average, companies have 3 to 4 audit committee members. The KA data ranges from 0 to 10 members, with a standard deviation of 1.27, suggesting that the number of audit committee members varies moderately across companies. The RKA (Audit Committee Meetings) variable has a mean of 9.57 and a median of 8, indicating that companies typically hold approximately 9 to 10 audit committee meetings annually, with half of the companies holding up to 8 meetings. The minimum RKA value is 0, while the maximum is 41, with a standard deviation of 7.15, reflecting substantial variability in the frequency of audit committee meetings across companies. The AP (Audit Partner Tenure) variable has a mean of 0.61 and a median of 1, indicating that most companies have an audit partner. This binary variable has a minimum value of 0 and a maximum of 1. The standard deviation of 0.48 suggests moderate variability in audit partners' presence among the sample companies.

Table 4. Results of Correlation Analysis Between ETR and Variables

Correlation	ETR	RKA	KA	AP	FS	LEV	ROA
Probability							
ETR	1.000000						

RKA	0.078548	1.000000					
	0.2158	-----					
KA	-0.010431	0.320454	1.000000				
	0.8696	0.0000	-----				
AP	-0.139556	-0.157527	-0.163672	1.000000			
	0.0274	0.0126	0.0095	-----			
FS	-0.116442	0.276097	0.039317	-0.085742	1.000000		
	0.0660	0.0000	0.5361	0.1766	-----		
LEV	-0.026382	0.024766	-0.053546	0.012519	0.063450	1.000000	
	0.6781	0.6968	0.3992	0.8439	0.3177	-----	
ROA	-0.109098	-0.001846	-0.026787	-0.044456	0.186874	-0.072885	1.000000
	0.0852	0.9768	0.6734	0.4841	0.0030	0.2509	-----

Source: Secondary Data Process, (2024)

Table 4 presents the correlation coefficients among the variables employed in this study, including Effective Tax Rate (ETR), Audit Committee meeting frequency (RKA), Audit Committee (KA), Audit Partner Tenure (AP), firm size (FS), leverage (LEV), and Return on Assets (ROA). In addition to the magnitude and direction of the correlations, the table includes p-values, which indicate the statistical significance of the relationships.

The analysis reveals several statistically significant correlations. First, ETR exhibits a significant negative correlation with AP ($r = -0.1396$, $p = 0.0274$), suggesting that longer audit partner tenure may be associated with lower effective tax rates. This finding may imply that experienced or long-tenured audit partners develop familiarity with client operations, which could facilitate more effective tax planning or influence tax-related decision-making.

A marginally significant negative correlation is observed between ETR and FS ($r = -0.1164$, $p = 0.0660$), indicating that larger firms tend to have lower effective tax rates. This relationship supports prior empirical evidence

that larger firms may possess greater resources or more sophisticated tax management strategies that enable them to reduce tax obligations more effectively.

A strong and statistically significant positive correlation is identified between Audit Committee Meeting Frequency (RKA) and Audit Committee (KA) ($r = 0.3205$, $p = 0.0000$). This implies that more frequent meetings of the audit committee are associated with stronger or more active audit committee structures. This relationship may reflect enhanced governance practices where an active committee structure facilitates greater oversight. Audit Committee Meeting Frequency (RKA) is also positively and significantly correlated with Firm Size (FS) ($r = 0.2761$, $p = 0.0000$), suggesting that larger firms are more likely to have frequent audit committee meetings. This could be due to the increased complexity of larger firms, which necessitates more frequent oversight and governance activities. Similarly, a significant negative correlation is observed between Audit Committee Meeting Frequency (RKA) and Audit Partner Tenure (AP) ($r = -0.1575$, $p = 0.0126$). This further underscores the potential role of active governance in promoting auditor independence through shorter audit partner assignments.

Lastly, Firm Size (FS) is positively and significantly correlated with Return on Assets (ROA) ($r = 0.1869$, $p = 0.0030$), indicating that larger firms tend to be more profitable. This finding aligns with the notion that firm size contributes to operational efficiency, competitive advantage, and better resource utilization, which enhance overall performance.

Other correlations in the matrix, including those involving Leverage (LEV) and ROA with the remaining variables, are not statistically significant at conventional levels ($p > 0.10$), suggesting no strong linear associations in those instances. Overall, the correlation results demonstrate meaningful interactions among governance-related and financial variables while indicating no serious multicollinearity concerns, supporting the validity of their inclusion in subsequent regression analyses.

Table 5. Results of Chow Test Analysis

Effects Test	Probability	Conclusion
Cross-section Chi-square	0.0351	Fixed Effect Model

Source: Secondary Data Process, (2024)

The Chow test is used to determine whether a panel data model is better suited to a Fixed Effect Model (FEM) or a Common Effect Model (CEM). This test assesses whether there are significant differences among individuals in the model. According to the results in Table 5, the probability value for the Chow test is 0.0351, which is lower than the 0.05 significance level. This indicates that there are significant differences between individuals in the data, making the Fixed Effect Model more appropriate than the Common Effect Model. Consequently, the results of the Chow test suggest that the Fixed Effect Model is the most suitable choice for this data analysis.

Table 6. Results of Hausman Test Analysis

Test Summary	Probability	Conclusion
Cross-section random	0.7974	Random Effect Model

Source: Secondary Data Process, (2024)

The Hausman test is used to determine whether the Fixed Effect Model (FEM) or the Random Effect Model (REM) is more appropriate for the panel data model. This test examines the assumption that individual effects in the data are not correlated with the independent variables. Based on Table 6, the probability value for the Hausman test is 0.7974, which is greater than 0.05. This result indicates that individual effects are random rather than correlated with the independent variables, making REM more suitable than FEM for this data model. Therefore, the Hausman test results recommend using the Random Effect Model for this data analysis.

Table 7. Results of the Lagrange Multiplier Test Analysis

Test Hypothesis	Probability	Conclusion
Breusch-Pagan	0.3807	Common Effect Model

Source: Secondary Data Process, (2024)

The Lagrange Multiplier (LM) test, also known as the Breusch-Pagan test, is used to determine whether the most appropriate panel data model is the Random Effect Model (REM) or the Common Effect Model (CEM). This test checks if significant variability in the data would require a model with random effects. Based on Table 7, the probability value resulting from the Breusch-Pagan test is 0.3807, which is greater than the 0.05 significance level. This result indicates no significant difference in the data's variability, so the Common Effect Model (CEM) is the more appropriate model.

Based on a comprehensive analysis of the Chow Test, Hausman Test, and Lagrange Multiplier (LM) Test, the Common Effect Model (CEM) is chosen as the most suitable model for this study. Although the Chow Test indicates that the Fixed Effect Model (FEM) is more appropriate than CEM, the Hausman Test does not support the use of FEM because its results are not significant compared to the Random Effect Model (REM). Furthermore, the LM test result with a probability value of 0.3807 (greater than 0.05) confirms that REM is unnecessary, given the absence of significant random effects in the data. Considering the overall test results, the Common Effect Model (CEM) is considered the optimal model for this study, as it provides effective estimates without assuming unverified specific effects.

Table 8. Regression Result Summary

Variable	Coefficient	Std. Error	t-Statistic	p-Value	Significance
C (Constant)	2.433393	0.832028	2.924654	0.0038	Significant
KA	-0.048228	0.045310	-1.064393	0.2882	Not Significant
RKA	0.014134	0.008328	1.697162	0.0909	Marginally Significant
AP	-0.262883	0.112718	-2.332228	0.0205	Significant
ROA	-5.518054	3.765912	-1.465263	0.1441	Not Significant
LEV	-0.028720	0.061773	-0.464931	0.6424	Not Significant
FS	-0.055495	0.026647	-2.099464	0.0368	Significant
Adjusted R-squared				0.034564	
F-statistic				2.485781	
Prob(F-statistic)				0.023669	

Source: Eviews 12 (2024)

The F-test results in Table 8 show that the probability value 0.0236 for the dependent variable Effective Tax Rate (ETR) is below the 0.05 significance level, indicating that the regression model is statistically significant. Overall, the independent variables in the model have a significant impact on ETR, and this significant result suggests that the model used is suitable for further analysis.

Audit Committee on Tax Avoidance

The test results indicate variations in the influence of independent variables on the dependent variable. The Audit Committee (KA) variable has a probability value of 0.2882, indicating insignificance. This result suggests that the presence and functions of the audit committee do not directly guarantee an impact on corporate performance. It implies that more than the mere existence of an audit committee is required to enhance oversight that significantly affects corporate performance, mainly if it is not supported by adequate expertise and independence. These findings are consistent with [Bédard and Gendron \(2010\)](#), who argued that the effectiveness of an audit committee depends on its expertise and independence rather than its mere presence within the organizational structure. Additionally, audit committees often lack specific expertise in taxation, limiting their ability to evaluate complex tax planning strategies critically. Meanwhile, [Setia and Sudaryono \(2023\)](#) found that the negative influence of the audit committee on the Effective Tax Rate (ETR) was not proven to be significant. In contrast, research by [Sharhan and Bora \(2020\)](#), demonstrated that an audit committee significantly improves the quality of financial reporting, including monitoring managerial practices with potential manipulative tendencies and strengthening the audit process. [Mnif and Tahri \(2024\)](#) highlighted that limitations in authority, dependence on audit firms, and resource constraints are the primary challenges audit committees face. On the other hand, the Audit Committee Meeting (RKA) variable shows a positive coefficient but remains insignificant at the 5% significance level, with a probability value of 0.0909. According to [Vafeas \(1999\)](#), the frequency of audit committee meetings can enhance oversight; however, this outcome depends on the focus and effectiveness of the meetings rather than merely the number of meetings held. This emphasizes that the quality of meetings is more critical than frequency in achieving significant outcomes.

Audit Partner Tenure on Tax Avoidance

On the other hand, the audit partner tenure (AP) demonstrates a significant influence, with a probability value of 0.0205, suggesting that an experienced audit partner can enhance audit quality and curb opportunistic practices. This finding aligns with [Chen et al. \(2011\)](#), who asserted that reputable audit partners are more likely to enhance the credibility of financial statements. Similarly, [Salehi et al. \(2020\)](#), highlighted that the relationship between audit tenure and tax avoidance is complex, influenced by various factors, including company characteristics, tax regulations, and the audit approach employed. [Hakim and Omri \(2015\)](#) and [Hendi and Sherly \(2024\)](#) argued that a longer audit-client relationship allows auditors to gain a deeper understanding of the client's tax behavior. This

understanding facilitates the implementation of more rigorous audit procedures, thereby reducing opportunities for tax avoidance. Other studies, such as those by [Lungu et al \(2023\)](#) and [Mnif and Tahri \(2024\)](#), observed that extended audit partner tenure is associated with lower levels of tax avoidance.

Regarding other variables, Return on Assets (ROA) exhibits a negative coefficient (-5.518054) with a probability of 0.1441, indicating insignificance. This outcome may be influenced by external factors such as market conditions. Similarly, leverage (LEV) presents a negative coefficient (-0.028720) with a probability of 0.6424, suggesting that the company's capital structure and liquidity do not significantly influence corporate performance. Conversely, firm size (FS) demonstrates a significantly negative coefficient (-0.055945) with a probability of 0.0368, indicating that larger firms face heightened challenges in risk management and internal control, which can negatively impact corporate performance. [Eddy et al. \(2020\)](#) proposed that the variability in ROA's impact might be attributable to external factors such as market dynamics and regulatory frameworks. Likewise, the insignificance of leverage could be explained by robust capital structures and sufficient liquidity, as noted in the study by [Rajan and Zingales \(1995\)](#). [Al-Najjar et al. \(2017\)](#) observed that larger firms encounter more complex challenges in managing risk and internal control, consistent with the findings that firm size significantly affects financial performance.

Discussion

This study shows that audits are meant to reduce tax avoidance, especially in banking. However, they're not as effective as expected due to the complexity of the banking industry's complicated financial systems and tax strategies. These can be difficult for skilled, high-standard auditors to fully understand or detect. So, companies may still be able to avoid taxes despite being audited. The study also finds that internal company factors, such as the complexity of the business and the tax planning strategies it uses, have a stronger influence on tax avoidance than audit quality alone. This finding indicates that the efficacy of audits is contingent upon the company's commitment to employing sophisticated tax minimization strategies.

Another important finding is that an auditor's tenure can affect tax avoidance. When auditors work with clients too long, they may become overly familiar. This dynamic has the potential to compromise their objectivity and inclination to scrutinize aggressive tax practices, thereby diminishing their capacity for autonomous action. In light of these findings, it is imperative for companies to prioritize not only the enhancement of audit quality but also the fortification of their internal oversight mechanisms. In particular, audit committees within the company must assume a more active role in reviewing and managing tax issues. This collaborative endeavour is poised to enhance the efficacy of tax avoidance measures.

Conclusion

The study's findings indicate that, while audit quality is anticipated to function as a primary mechanism for curbing tax avoidance, its efficacy in the banking sector appears to be constrained. However, the duration of the auditor-client relationship has been demonstrated to have a substantial impact, indicating that protracted audit engagements may compromise auditor independence and contribute to the facilitation of tax avoidance strategies. The impact of internal factors, such as the complexity of the sector and the employed tax strategies, has been found to exceed that of audit quality alone.

These findings suggest that reducing the duration of an auditor's tenure and enhancing the effectiveness of audit committee oversight are imperative for the enhancement of corporate tax governance. Theoretically, the study lends support to agency theory by demonstrating how the absence of effective monitoring can foster opportunistic behaviour. However, the research is constrained to the banking sector and relies on proxies for audit quality that may not capture all relevant aspects. It is recommended that subsequent studies extend their scope to encompass a wider range of industries, incorporate more nuanced audit quality indicators, and undertake cross-country comparisons to enhance our comprehension of the role of governance in tax avoidance.

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