JASa (Jurnal Akuntansi, Audit dan Sistem Informasi Akuntansi)
Vol. 6 No.3/ December 2022
ISSN 2550-0732 print / ISSN 2655-8319 online
DOI;10.36555/ jasa.v6i3.1916

THE EFFECT OF AUDIT QUALITY AND ACCOUNTING CONSERVATISM ON TAX AVOIDANCE IN COMPANIES THAT ARE MEMBERS OF THE SRI KEHATI INDEX

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Abstract: The phenomenon that has occurred in tax avoidance by PT. Toyota Motor Manufacturing Indonesia by utilizing transfer pricing transactions to avoid paying taxes. This is done to avoid paying high taxes in Indonesia. This study aims to provide empirical evidence of the effect of audit quality and accounting conservatism on tax avoidance. This study uses a quantitative approach and the data used are secondary data in the form of annual reports and annual financial reports. The population in this study are companies that are members of the Sri Kehati index which are listed on the Indonesia Stock Exchange for the 2016-2020 period. Determination of observation data using purposive sampling in order to obtain observation data as many as 20 companies with a total research observation data is 100 observation data. The data analysis technique used in this study is panel data regression with several tests including descriptive statistical tests, panel data model tests, panel data model selection tests, classical assumption tests,panel data regression tests, coefficient of determination test (R2), F test (simultaneous test), and t test (partial test) with the help of statistical data processing software E-views version 9. The results showed that audit quality had an effect on tax avoidance. Accounting conservatism has no effect on tax avoidance. Audit quality and accounting conservatism have an effect on tax avoidance.
Keywords: Audit Quality, Accounting Conservatism, Tax Avoidance.

INTRODUCTION

Taxes are a source of income for the state which has an important role in financing state expenditures to improve the welfare and prosperity of the people, therefore the government pays special attention to taxes so that the country can develop more rapidly and provide welfare and prosperity for its people. Similar to Indonesia, all Indonesian people are expected to become taxpayers who comply with tax regulations and contribute in accordance with tax regulations, especially various corporate sectors which are expected to make large tax contributions to their country (Mira and Situmorang, 2021).

Taxes have a coercive nature so that a taxpayer is obliged to deposit taxes to the state. Tax revenues are also used to regulate the size of the budget to be issued by the state in financing development and the government's routine budget. Differences in views and objectives between the tax authorities and corporate taxpayers often give rise to new ideas about taxation in Indonesia. Fiskus must obtain optimal tax reporting and payment from taxpayers while companies must earn maximum profits to continue the company's survival (Wahyuni and Wahyudi, 2021).

However, some people think that taxes are a burden because they reduce their income and do not get direct *feedback* when paying them. This makes the company strive to reduce business costs, including the tax burden. The form consists of *tax evasion* and *tax avoidance. Tax evasion* is a form of violation committed by taxpayers by deliberately reducing the amount of tax payable and making their tax obligations illegal, while for the

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meaning of *tax avoidance* is a transaction scheme carried out by taxpayers to reduce or even eliminate the tax burden by exploiting *loopholes* in tax policies and regulations. (Nihayah and Oktaviani, 2022).

Tax avoidance is quite often done, by taking advantage of the void or loophole contained in the applicable law. In addition, by adjusting the amount of net profit received, tax expenditures can be minimized. This is due to the impact of the tax system in Indonesia, which adheres to a *self-assessment system*. The *self-assessment system* has an impact that is able to open up opportunities for tax avoidance and fraud. The trigger can be caused by various factors, for example, high tax rates that must be borne, taxpayers' ignorance of their tax rights and obligations due to minimal information from tax collectors, to government policies that are less strict, triggering tax avoidance and fraud practices (Alfarasi and Muid , 2022).

Tax *avoidance* is an attempt to reduce tax payments in a way that is permitted by law, namely by taking advantage of existing loopholes. Tax avoidance is often analogous to tax planning, which is the process of managing taxes in such a way that the tax payables, both income taxes and other taxes, are in the most minimal position, as long as this does not conflict with the provisions of the law. tax invitation (Marsella and Syafrizal, 2021).

The phenomenon that has occurred in *tax avoidance* by corporate taxpayers occurred in Indonesia in 2014 by PT. Toyota Motor Manufacturing Indonesia (TMIIN) is the parent company of Astra International Tbk (ASII) by utilizing transactions between domestic and foreign companies to avoid paying taxes using *transfer pricing*. This is done by the company to avoid paying high taxes in Indonesia, namely by deliberately selling the product to Toyota Motor Asia Pacific Ltd in Singapore before being sold to the Philippines and Thailand by utilizing the *tax heaven country* in Singapore (Kompasiana, 2017). Another case of *tax avoidance* by a tobacco company owned by British American Tobacco (BAT) through PT. Bentoel International Investama. The *Tax Justice Network* agency reported that PT. Bentoel Internasional Investama for the tax evasion case as a result of which the state could suffer losses. In its report, *Tax Justice* explained that BAT has diverted some of its revenue out of Indonesia to a country that has a low tax rate and 0% by utilizing subsidiaries (Kontan, 2019). With the phenomenon that occurs in the practice of *tax avoidance*, it is necessary to know several factors that can influence *tax avoidance*, including audit quality and accounting conservatism.

Audit quality is all the possibilities that can occur when the auditor audits the client's financial statements and finds violations or errors that occur and reports them in the audited financial statements (Nihayah and Oktaviani, 2022). Auditors with a good reputation will have an incentive to provide high quality audits on an ongoing basis to prevent things that can later damage their reputation. Audit quality is considered to have an effect on *tax avoidance because the big four* Public Accounting Firms (KAP) are still considered to have high integrity and independence when carrying out their professional duties.The next factor that influences *tax avoidance* is accounting conservatism. Accounting conservatism is a principle that if you get a profit, you will not immediately recognize it. This principle looks like a way to avoid taxes because it recognizes more losses than gains. Accounting conservatism is a practice to reduce profits with the aim of reducing the amount of tax payable, but in a legal way that is allowed by Indonesian tax laws. When a manager applies the principle of conservatism to a company, profits can be

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managed through the application of strict profits so that lower profits are produced which will later be able to reduce the amount of tax payable.

Agency theory (*Agency Theory*) is a model used to formulate problems that arise between shareholders and management in a company. Shareholders are the relationship between shareholders (shareholders*)* as *principals* and management as management agents are parties contracted by shareholders to work in the interests of shareholders. An agency relationship occurs when one party (*principal*) hires another) to perform a service and delegates the authority to make decisions to the agent (Nihayah and Oktaviani, 2022).

Agency problems where there are differences in interests for agents and *principals* trigger *aggressive tax avoidance behavior.* This is because on the one hand management wants to increase compensation through high profits, while on the other hand shareholders want to reduce tax costs through low profits. So in order to bridge this *agency problem, aggressive tax avoidance* behavior arises in order to optimize both interests (Indriaswari, 2021). *Tax avoidance* is a tax avoidance plan to minimize the tax burden by using *loopholes* in the tax requirements of a country. *Tax avoidance* or tax avoidance is an effort or activity to reduce, avoid, and alleviate the tax burden through methods permitted by tax legislation by observing whether or not there is an impact from the tax that will be shown (Effriyanti et al., 2021). However, this is different from *tax evasion*, which refers to illegal tax evasion, for example by reporting incorrect income or making high income reductions (Alvionita et al., 2021). If the company takes tax avoidance actions by passing the established limits which will then lead to tax evasion, the company will get a big risk such as paying fines and loss of company reputation (Indriaswari, 2021). The conclusion based on the description above is that tax avoidance is a legal action taken by taxpayers to reduce, minimize, and alleviate the tax burden in a manner permitted by law. Audit quality as one of the information that can weaken and strengthen the effect of the announcement of an unqualified audit report on stock prices. When the auditor gives a *going concern opinion* on a company, this will have an impact on the investment decisions of potential investors and investors who have previously invested in the company. Good audit quality is provided by the auditor by having good quality and ability in auditing. Audit quality can be measured based on the size of the Public Accounting Firm. If the company is audited by the *big four KAPs*, it is believed to have a small level of tax avoidance (Wahyuni and Wahyudi, 2021). There are several factors that affect audit quality, namely competence, independence and *moral reasoning of auditors*. The relationship between agency *theory* and audit quality is very close, because agency theory can help auditors as third parties understand conflicts of interest and solve the problem of information asymmetry between *principals* (shareholders) and *agents* (management). The agency relationship that exists between owners (shareholders) and company managers requires that the services of auditors who issue opinions on financial statements must be an impartial and impartial view of the company's other financial activities in order to be useful for users (Suripto, 2021).

Accounting conservatism is a practice to reduce profits with the aim of reducing the amount of tax payable, but in a legal way that is allowed by Indonesian tax laws. When a manager applies the principle of conservatism to a company, profits can be managed through the application of strict profits so that lower profits are generated which will later be able to reduce the amount of tax payable.Conservatism leads to distorted financial statements because they are less relevant and reduce the quality of profits earned, so it

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cannot be used to evaluate company risk. Companies that have a low amount of profit will produce a low tax burden too, but this does not necessarily reduce the level of tax evasion (Ellyanti and Suwarti, 2022). The relationship between agency *theory* and audit quality is very close, because agency theory can help auditors as third parties understand conflicts of interest and solve the problem of information asymmetry between *principals* (shareholders) and *agents* (management). The agency relationship that exists between owners (shareholders) and company managers requires that the services of auditors who issue opinions on financial statements must be an impartial and impartial view of the company's other financial activities in order to be of benefit to users.

According to Suripto (2021) convincing that there is a significant effect of audit quality on *tax avoidance*. This confidence is obtained if a company that is audited by a large public accounting firm or has a name like the *Big Four* will have reliable and good quality financial information. Therefore, the *Big Four KAPs* who maintain the quality of their audits will ensure that the audited company maintains the quality of its financial statements and can be detected if there are irregularities so as to avoid the possibility of *earning management* or even *tax avoidance.*

H1: It is suspected that audit quality has an effect on *Tax Avoidance*

Accounting conservatism is a precautionary principle when recognizing profits and expenses in financial reporting will still delay the recognition of losses or debts. In agency theory, company management as an agent will take advantage of choosing methods that are profitable for the company. The use of a conservative method will create the recognition of expenses at the beginning and income that is not recognized immediately so that it can reduce the amount of tax borne by the company. The more conservative a financial statement, the smaller the profit earned by the company so that the company can have a tendency to take tax avoidance actions. Research conducted by Dewi and Trisnawati (2021) shows that the use of accounting conservatism practices impact on the decrease in profit which will be used as the basis for calculating the company's taxable liability.

H2: It is suspected that Accounting Conservatism has an effect on *Tax Avoidance*

Accounting conservatism is a principle in accounting where if the company experiences a profit, it will not rush to recognize assets or income that is too large, but if it experiences a loss or has a burden, the company will take an alternative to immediately admit it (Susanti, 2018). In addition, the audit quality factor is also one of the most important things in influencing tax avoidance practices. This is because audit quality is the main indicator used in selecting auditors. With the intention that the main consideration in choosing an auditor is depending on the auditor's services provided to the client. Public Accounting Firms (KAPs) affiliated with the *Big Four* are considered to be of higher quality than *non-Big Four KAPs* because they are more experienced in conducting audit assignments, have large resources so that they are able to mitigate earnings management practices to create opportunities for tax avoidance, and it is hoped that the auditor will be able to improve the accuracy and accuracy of tax calculations carried out by the company's management (Putri, 2021).

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H3: It is suspected that audit quality and accounting conservatism affect *Tax Avoidance*

METHODS

This research is classified as associative quantitative research using secondary data as a source of research data. The population of this research is 25 companies that are members of the Sri Kehati Index listed on the IDX in 2016-2020. Determination of the sample using *purposive sampling technique*, obtained a sample of 20 companies with 100 observation data for 5 years.

Table 1. Sample Criteria

No.	Sample Criteria	Does Not Meet Criteria	Meet the criteria
1	All companies that are members of the Sri Kehati Index listed on the IDX during the period 2016-20 20	-	25
2	Companies that have complete financial statements and annual reports for the period 2016-2020	-	25
3	Sample companies that did not suffer losses during the period 2016-20 20	(5)	20
Observation year : 2016-2020		=	5 years
Total data : 20 x 5			**100 data**

Source : IDX secondary data processed

The data collection technique used in this research is the documentation technique on secondary data. The data used are in the form of *annual reports* and *financial reports* of IDX companies listed on the Sri Kehati Index during 2016-2020.

The data analysis technique used consisted of descriptive statistics, panel data regression model selection, classical assumption testing (normality, multicollinearity, heteroscedasticity, autocorrelation), panel data regression analysis, and hypothesis testing. This study uses three research variables consisting of one dependent variable and two independent variables.

Tax Avoidance is the process of controlling actions in order to avoid the consequences of imposing unwanted taxes but still within the framework of tax regulations. *Tax Avoidance* is an action that is completely legal. Although basically tax avoidance is an act that reduces tax debt and does not reduce the ability to pay taxes, companies should try not to get caught up in acts that are considered tax smuggling (Suripto, 2021).

Audit quality is all the possibilities that can occur when the auditor audits the client's financial statements and finds violations or errors that occur and reports them in the audited financial statements. Where in carrying out their duties the auditor is guided by auditing standards and the relevant code of ethics for public accountants. Audit

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quality is considered to have an effect on avoidance. tax *avoidance because the big four* Public Accounting Firms (KAP) are still considered to have high integrity and independence when carrying out their professional duties (Nihayah and Oktaviani, 2022).

Accounting conservatism is a selection of accounting policies that affect the minimization of reported cumulative earnings, by recognizing profits more slowly, recording income more quickly, valuing assets at lower numbers, and valuing liabilities at higher numbers. Thus, in practice accounting conservatism has the principle of keeping financial reporting as detailed and accurate as possible, so that conservatism aims to limit managers to opportunistic behavior, increase company value and reduce lawsuits (Alfarasi and Muid, 2022).

RESULTS AND DISCUSSION

Descriptive statistical analysis is explained by means of the *mean* , *maximum,* and *minimum values* . The results of descriptive statistical analysis in this study indicate that the average company performs *tax avoidance* by 21 %. The highest *tax avoidance value of* 49 % was obtained by PT. State Savings Bank (Persero) Tbk . in 20 19 , while the lowest *tax avoidance value of* 0.7 % was obtained by the company PT. Bumi Serpong Damai Tbk . year 2017 .

Table 2. Descriptive Statistics

	Y_TA	X1_KUA	X2_KOA
Mean	0.213784	0.860000	0.022392
Median	0.230833	1.0000000	0.020185
Maximum	0.490921	1.0000000	0.155749
Minimum	0.007526	0.000000	-0.074680
Std. Dev.	0.086194	0.348735	0.043297
Skewness	-0.579272	-2.075006	0.693787
Kurtosis	4.068238	5.305648	4.153816
Jarque-Bera	10.34732	93.91085	13.56939
Probability	0.005664	0.000000	0.001131
Sum	21.37842	86.00000	2.239231
Sum Sq. Dev.	0.735503	12.04000	0.185589
Observations	100	100	100

Source: data processed with *Eviews- 9*

There are three panel data regression models that can be used to perform panel data regression analysis, namely the *common effect model* (CEM), the *fixed effect model* (FEM), and the *random effect model* (REM). The best model selection method that can be used in panel data regression analysis is obtained by performing three tests, namely the Chow test, Hausman test, and the Lagrange *multiplier test*. The results of the panel data regression model selection in this study, namely the Chow test, showed the probability value of the F *cross section* of 0.0000 <0.05. The Hausman test shows the *chi-squares* probability value of 0.0 000 < 0.05. So it can be concluded that the *fixed effect* model is the right model to be used as a panel data regression model.

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Table 3. Conclusion of Panel Data Regression Model Testing

No.	Method	Test	Results
1.	*Test Chow-Test*	*Common effect vs fixed effect*	*Fixed effect*
2.	*Hausman-Test*	*Fixed effect vs random effect*	*Fixed effect*

Source: processed data

value of *Jarque-Bera* > the significance level (α = 0.05), then it does not reject H0 or the residual has a normal distribution. Based on normality testing with the help of *Eviews- 9* resulting in a Jarque-Bera value of 374.3638 and a probability value of 0.0 000 which is smaller than a significance level of 0.05. Because the *Jarque-Bera* probability value < significance level (α = 0.05), then H0 is rejected or the residual has an abnormal distribution . Therefore, to obtain research data that has a normal distribution, it is necessary to do *an outlier test* with the aim that the research data can be distributed so that it can be said that the normality requirements can be met. Based on the results of the normality test after the outliers, it can be seen that the data is still not normally distributed because the probability value of the *jarque-fall* (JB) is at 0.000000 which is smaller than significant 0.05 or 5%. According to Kuncoro (2014), if the *fixed effect model* (FEM) is selected, there is no need to test for normality.

Multicollinearity occurs if the correlation of each independent variable is > 0.90, while if the correlation value of each independent variable is < 0.90, the regression model does not have a multicollinearity problem (Ghozali, 2017). Based on multicollinearity testing with the help *of Eviews-9*, the value for each independent variable KUA (X_1) with KOA (X_2) and vice versa is -0.063816. These results indicate that each independent variable does not have a correlation value greater than 0.90 so that it can be said that there is no multicollinearity between independent variables.

If the value of *Obs*R-squared* has a probability value of *chi squares* > a significance level of 0.05, then there are no symptoms of heteroscedasticity or accept H0 and reject H1 (Ghozali, 2017) . Based on heteroscedasticity testing with the help of Eviews- 9, it shows the value of *Obs*R-squared* has a chi-squared probability value of 0, 1871 > 0.05, so it accepts H0 and rejecting H1 or the regression model, there are no symptoms of heteroscedasticity.

The autocorrelation test was conducted to determine whether in the regression model there was a correlation between the confounding errors in the previous period (t-1) or not. Autocorrelation can occur due to sequential observations over time and are related to each other so that residuals appear not independent from one observation to another (Ghozali, 2017). This study uses the *Cohcrane-Orcutt method* to detect the presence or absence of autocorrelation in the regression model. Based on the autocorrelation test with the help of Eviews- 9, the *Durbin-Watson stat* value is 1.947428. If it is based on the decision making of the *Durbin Watson Test*, the DW value is 1.947428 can be calculated with the criteria d_U d 4 - d_U . The number of observations (n) is 97 and the number of independent variables (k) is 2, has a *Durbin Watson Upper value* of 1.7116. The equation

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of the formula dU < d < (4-dU) is formed into 1.7116 < 1.947428 < 2.2884. When viewed from the results of the DW test, it shows that the value of 1.947428 is greater than the value of dU and less than the value of 4-dU, which means that this regression model does not experience autocorrelation problems.

Based on the selection of the regression model previously carried out, the *fixed effect* model is the most appropriate regression model to be used in this study.

Table 4. Analysis of Panel Data Regression *Fixed Effect Model s*

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.477701	0.037403	9.487344	0.0000
X1_KUA	0.312202	0.028663	2.073404	0.0074
X2_KOA	0.502489	0.157061	0.473168	0.2775

source : data processed with Eviews – *9*

The regression equation from table 4 with the dependent variable of *tax avoidance* is as follows: **Y = 0, 477701 + 0, 312202 (KUA) + 0, 502489 (KOA) + error 0, 037403**

Based on the panel data regression analysis test in table 4, it is obtained that df1 = k (the number of independent variables plus the dependent variable) - 1, namely 3 - 1 = 2 Meanwhile, df2 = n (amount of data) – k (amount of independent variables plus dependent variable) which is 97 - 2 = 95 with *alpha* (α) = 0.05 so that the F-table value is 3,092 . udit quality variables and accounting conservatism simultaneously are 10.0 2441 so that the F-count is greater than F-table (10.02441 > 3,092) or rejects H0 and accepts Ha1 While the probability value is smaller than the significance level of 0.05 (0.0000<0.05) or rejecting H0 and accepting Ha1. So it can be concluded that the variables of audit quality and accounting conservatism simultaneously has a positive and significant effect on *tax avoidance*

Based on the coefficient of determination test in table 4, it is known that the *adjusted R-squared value is* 0,823441. The *adjusted R-squared value* of 0.823441 shows the ability of the independent variables used in this study, namely audit quality and accounting conservatism in explaining the dependent variable, namely tax *avoidance* of 82.3 % the remaining 17.7 % is explained by other variables that are not used . in this research.

The t-test in this study was carried out with the help of *Eviews- 9* to analyze panel data regression using the *fixed effect model*. The t-test decision-making is done by looking at the t-table value, to obtain the t-table value, it is necessary to find df (degree of freedom) with the formula df = n (amount of observation data) - k (number of independent variables plus dependent variable). So in this study obtained df = 97 – 2 = 95 and a significance level of 0.05, so that the obtained t-table is 0.67708 (two-way test). Based on Table 4, it is known as follows Audit quality has a t-count of 2.073404 where the value of t-count > t-table is 2.073404 > 0.67708 and a significance value of 0.0074 < 0.05 so that H1 is accepted, which means that audit quality has a positive effect on *tax avoidance.* Accounting conservatism has a t-count of 0.473168 where the value of t-count < t-table is 0.473168 < 0.67708 and a significance value of 0.2775 > 0.05 so H2 is rejected, which means that accounting conservatism has no effect on *tax avoidance.*

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The results of the simultaneous test (F test) can be concluded that audit quality and accounting conservatism have a simultaneous effect on *tax avoidance.* This can be proven by the F-count 14.27036 > F-table 3.092 and systematically obtained a significance value of 0.000000 < 0.05 significance level so that H3 is accepted, which means that audit quality and accounting conservatism have a simultaneous effect on *tax avoidance*.

This research is in line with previous research conducted by Pujilestari and Winedar (2018), Ellyanti and Suwarti (2022), Dewi and Trisnawati (2021), Alvionita et al. (2021), Wahyuni and Wahyudi (2021) and Putri (2021). It can be concluded that audit quality and accounting conservatism have a simultaneous effect on *tax avoidance.*

Audit quality has a positive effect on *tax avoidance* because based on the analysis of companies audited by large KAPs or having names like the *Big Four*, they will have reliable and good-quality financial information. Therefore, the *Big Four KAPs* who maintain the quality of their audits will make the audited companies maintain the quality of their financial reports and can be detected if there are irregularities so as to avoid the possibility of *earning management* or even *tax avoidance.*

Accounting conservatism has no effect on *tax avoidance* because based on the analysis it can be explained that the use of conservative accounting methods will not increase the company's tendency to do tax avoidance. The use of accounting conservatism principle is used by the government in terms of taxation, accompanied by government policies in the field of taxation in accordance with article 9 of Law number 36 of 2008 where costs recognized under the accounting conservatism principle may not be recognized in the calculation of taxation such as the formation of reserves for doubtful accounts. - doubtful (except for certain companies) and the non-recognition of expenses that have not actually been incurred.

CONCLUSION

This study aims to determine the effect of audit quality and accounting conservatism against *tax avoidance* in companies that are members of the Sri Kehati Index listed on the Indonesia Stock Exchange from 2016 to 2020. Based on the results of the analysis and hypothesis testing that have been carried out, the following conclusions are obtained that Audit quality has an effect on *tax avoidance* because based on the analysis it can be explained that companies audited by large public accounting firms or have names like the *Big Four* will have reliable and good quality financial information. Therefore, the *Big Four KAPs* who maintain the quality of their audits will ensure that the audited company maintains the quality of its financial reports and can be detected if there are irregularities so as to avoid the possibility of *earning management* or even *tax avoidance* The size of the board of commissioners partially has no effect on *enterprise risk management disclosure.* in LQ45 companies in 2016-2018. The quantity of the board of commissioners in a company does not guarantee the implementation of an effective risk management system, the indicator of the success of the company's risk management is actually influenced by the quality of the board of commissioners. If the board of commissioners has the expertise, education, and experience in risk management, they will form a risk management committee that directly oversees the company's risk management system. Accounting conservatism has no effect on *tax avoidance* because based on the analysis it can be explained that the use of conservative accounting methods will not increase the company's tendency to do tax avoidance. The use of accounting conservatism principle is

Submitted: August 08, 2022; Accepted: August 16, 2022;
Published: December 29, 2022; Website: http://journalfeb.unla.ac.id/index.php/jasa

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used by the government in terms of taxation, accompanied by government policies in the field of taxation in accordance with article 9 of Law number 36 of 2008 where costs recognized under the accounting conservatism principle may not be recognized in the calculation of taxation such as the formation of reserves for doubtful accounts. - Doubtful (except for certain companies) and non-recognition of expenses that have not actually been incurred. Audit quality and accounting conservatism have an effect on *tax avoidance* because the results of the f (simultaneous) test, where the (f-statistic) value of 0.000000 means that the significance of the independent variable audit quality and accounting conservatism has a simultaneous effect on *tax avoidance*.

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