Jurnal Akuntansi

Vol. 15 No. 2 Juni 2025

ISSN 2303-0356

Diterbitkan Oleh :
Program Studi Akuntansi
Fakultas Ekonomi Dan Bisnis
Universitas Bengkulu

9 772303 035003

Jurnal Akuntansi

Volume 15, Nomor 2, Juni 2025

Terbit 3 kali dalam setahun pada bulan Februari, Juni, dan Oktober. Berisi tulisan yang diangkat dari hasil penelitian atau pemikiran akuntansi akademisi, praktisi, mahasiswa dan sumber lain yang relevan bagi pengembangan profesi dan praktek akuntansi di Indonesia.

EDITORIAL OFFICE

Jurusan Akuntansi FEB-Universitas Bengkulu
Gedung K, Jalan Raya Kandang Limun Bengkulu
Telp. 0811-7307-203
OJS Link : http://ejournal.unib.ac.id/index.php/JurnalAkuntansi
E-mail : ja.feb@unib.ac.id

Redaksi menerima sumbangan tulisan hasil penelitian yang belum pernah diterbitkan dalam media lain. Naskah diketik di atas kertas HVS A4 spasi 1 dengan jumlah maksimum 25 halaman dan sesuai dengan format yang tercantum pada Kebijakan Editorial

Jurnal Akuntansi

Volume 15, Nomor 2 Juni 2025

Jurnal Akuntansi ISSN 2303-0356
Vol. 15, No.2, June 2025 Hal. 71-80

Analysis of the Implementation of PSAK 109 in Enhancing Transparency and Accountability of Zakat Institutions

Ulil Ikhsan S[1)], Yuliana[2)], M Riski Akbar[3)], Azmy Audian Dirgandari[4)], Asri Sundari[5)]
Islamic Economics Study Program, STAI Pelita Nusa Bandung Barat[1,2,3,4,5]

ARTICLE INFO

Article history:
Received: June, 9th 2025
Revised: June 29th , 2025
Accepted: June 29th , 2025

Keywords:
Islamic Accounting
Transparency
Accountability
PSAK 109
Zakat Institution

Correspondence:
Ulil Ikhsan S
Ulilikhsansembiring15@gmail.com

ABSTRACT

Zakat is a key instrument in Islamic economics for wealth redistribution, aiming to reduce social inequality and enhance community welfare. Transparent and accountable zakat management is essential for building and maintaining public trust in zakat institutions. Sharia accounting plays a crucial role in systematically recording, measuring, and reporting zakat finances in accordance with Islamic principles, thereby reinforcing transparency and accountability. This study analyzes the role of Sharia accounting in improving transparency and accountability in zakat management, with a focus on the implementation and challenges of PSAK 109. A qualitative descriptive method is employed, using a literature review of scholarly articles on the application of PSAK 109 in BAZNAS and LAZ. Findings reveal that BAZNAS has effectively implemented PSAK 109, supported by strong regulations, strict oversight, and integrated Sharia accounting systems. In contrast, many LAZ face obstacles, including limited human resources, inadequate technological infrastructure, and weak supervision. To address these issues, efforts should focus on regulatory harmonization, capacity building, digitization of accounting systems, and enhanced oversight by the Sharia Supervisory Board (DPS). Strengthening these areas will enable accounting to contribute more significantly to the professionalization of zakat management, ensuring its distribution is more effective and transparent.

How to cite :
Ikhsan,Ulil S, dkk. (2025). Analysis of the Implementation of PSAK 109 in Enhancing Transparency and Accountability of Zakat Institutions. *Jurnal Akuntansi Vol 15 No 2 June 2025 page*,71-80. https://doi.org/10.33369/jakuntansi.15.2.71-80

INTRODUCTION

Zakat serves as a fundamental pillar in the Islamic economic system, functioning as a mechanism for wealth redistribution to reduce social inequality and improve overall community welfare. As the entities responsible for the collection and distribution of zakat funds, Zakat Management Organizations (Lembaga Amil Zakat or LAZ) are expected to uphold high standards of transparency and accountability in their financial practices. However, in reality, several issues persist, including limited financial disclosure and non-compliance with Sharia accounting principles (Pramesti, 2024).

Sharia accounting has emerged as an effective solution to enhance transparency and accountability in zakat management. Its core principles honesty, justice, and trustworthiness ensure that financial records are prepared and presented in accordance with trustworthy and ethical standards. A central reference in this context is PSAK 109, which provides accounting guidelines for zakat, infaq, and sadaqah. Research has shown that the implementation of PSAK 109 not only improves financial transparency but also strengthens accountability in fund distribution (Mutmainnah, 2024).

In the digital era, technology plays an increasingly vital role in supporting transparency and accountability across zakat institutions. The adoption of Sharia-based accounting information systems enables more accurate and efficient data processing, reducing the potential for data manipulation while enhancing institutional accountability. Several studies highlight that technologies such as blockchain can facilitate immutable and auditable records, further boosting public trust in zakat institutions (Amalia, 2024). Additionally, Islamic financial institutions such as Islamic banks play a key role in zakat management by acting as both collection centers and intermediaries between muzakki (zakat donors) and mustahik (beneficiaries), all in accordance with Sharia principles (Wijaya et al., 2023).

A crucial aspect of effective Sharia accounting is robust oversight from qualified entities, such as the Sharia Supervisory Board (DPS). Without sufficient supervision, the quality of financial reporting may decline, potentially eroding public trust (Rahmadieni, 2019). Moreover, there is a growing need to strengthen the capacity of zakat managers through training and education to ensure proper application of Sharia accounting principles and the production of transparent and accountable financial reports (Oktaviana, 2022).

Public trust remains a critical determinant of successful zakat management. A lack of transparency in financial reporting can undermine donor confidence, thereby reducing zakat collection potential. Increasing accountability through financial reporting that complies with Sharia accounting standards can help restore and maintain that trust, ultimately contributing to greater zakat mobilization (Ramadan et al., 2024).

To address these challenges, collaboration between the government, academic institutions, and zakat organizations is essential. The government can issue stronger regulations mandating the full adoption of PSAK 109, while academics can offer training programs to improve financial literacy and reporting skills among zakat practitioners. Through such collaborative efforts, the implementation of Sharia accounting in zakat management can become more effective and widespread (Merlin, 2024).

This study aims to explore the implementation of Sharia accounting in zakat institutions, with a particular focus on optimizing transparency and accountability in financial reporting. It also examines the application and challenges of PSAK 109, the role of technology in Sharia-based accounting systems, and common barriers faced by zakat institutions in establishing transparent and responsible reporting mechanisms. Accordingly, this study contributes to a deeper understanding of how Sharia accounting can strengthen zakat governance and improve institutional performance.

RESEARCH METHODS

This study employs a descriptive qualitative method using a literature review approach to analyze the role of sharia accounting in enhancing the transparency and accountability of zakat financial management, particularly in the context of the implementation and challenges of PSAK 109. Data were obtained from various national and international scholarly journals relevant to zakat management and sharia accounting. The selection of literature was based on several criteria, including the recency of publication (within the last five years), source credibility (published in accredited or peer-reviewed journals), and the relevance of the topic to the research focus, such as PSAK 109, Islamic accounting information systems, and zakat governance. The study also explores the role of technology and regulations in strengthening transparency and accountability in zakat institutions through content analysis of the reviewed literature. The findings are expected to provide practical recommendations for zakat institutions, academics, and policymakers to support the effective implementation of sharia accounting and enhance public trust in zakat fund management.

RESULTS AND DISCUSSION

Sharia Accounting

Sharia accounting is a financial recording method based on Islamic legal principles, overseeing various economic activities and transactions with the aim of obedience to Allah and maintaining moral and ethical values in social and economic life. In its application, sharia accounting plays a role in managing transactions and funds in accordance with Islamic law, including transactions within Islamic financial institutions as well as the management of social funds such as zakat, infaq, and sadaqah. More than just a process of recording and reporting, this form of accounting aims to ensure that economic activities carried out by individuals, organizations, or companies comply with the core principles of Islam (Wahid Wachyu Adi Winarto, 2020). The main principles that must be prioritized in its practice include the prohibition of *riba* (interest), *gharar* (uncertainty), and *maysir* (gambling). Additionally, sharia accounting emphasizes the importance of transparency, accountability, and justice in every transaction.

The implementation of sharia accounting in zakat institutions is one method to achieve financial transparency and accountability. This aligns with the word of Allah:

خُذْ مِنْ اَمْوَالِهِمْ صَدَقَةً تُطَهِّرُهُمْ وَتُزَكِّيْهِمْ بِهَا وَصَلِّ عَلَيْهِمْۗ اِنَّ صَلٰوتَكَ سَكَنٌ لَّهُمْۗ وَاللّٰهُ سَمِيْعٌ عَلِيْمٌ

"Take alms from their wealth to purify and cleanse them, and pray for them. Verily, your prayer is a source of peace for them. And Allah is All-Hearing, All-Knowing." (QS At-Taubah [9]:103)

This verse shows that zakat is not only a financial obligation but also a means to purify wealth and the soul. To achieve this goal, zakat management must be carried out with full trust, transparency, and responsibility, so that the collected funds can be distributed appropriately and in accordance with sharia principles.

Transparency in zakat budget management also plays an important role in building the trust of *muzakki* (zakat donors) toward the institutions managing the funds. This is supported by the findings of Zubaidah and Nugraeni, who state that accountability and transparency have a positive effect on the quality of financial reporting, which in turn enhances public trust in zakat institutions (Zubaidah & Nugraeni, 2023). Moreover, good internal control mechanisms can improve transparency and accountability in financial management (Sari et al., 2020).

Sharia accounting also plays a significant role in determining the rights and obligations of all involved parties, including those arising from unsettled transactions or other economic events, while still referring to the principles of Islamic sharia. The core of sharia accounting is rooted in values such as justice, charity (goodness), and adherence to Islamic business ethics, which form its philosophical foundation. Through these principles, it is hoped that the implementation of accounting and social interaction in society will foster a sense of honesty, fairness, and tolerance. Differences between the two accounting systems can be found in various aspects, namely:

Table 1. Differences Between Sharia Accounting and Conventional Accounting

Aspect	Sharia Accounting	Conventional Accounting
Nature	Based on Islamic teachings and principles	Refers to principles of secularism and capitalism
Operations	Activities are conducted within the framework of sharia	Emphasizes the achievement of maximum profit
Orientation	Prioritizes the interests of society and the community	Primarily focuses on the interests of the company or individual
Foundation	Responsible to Allah	Based on the principle of economic rationality
Entity Concept	Does not distinguish between business entity and owner’s financial responsibility	Business entity and owner are considered separate with distinct obligations
Measurement Unit	Uses both monetary and non-monetary value measurements	Uses only monetary (financial) value measurements
Period	Uses the Hijri calendar for zakat obligation calculation	Financial reports are prepared periodically according to a specific time frame
Ownership	Assets are owned relatively in accordance with sharia	Assets and businesses are fully and absolutely owned
Consistency	Follows sharia guidelines in its practices	Based on international accounting standards such as IFRS
Going Concern	Business continuity depends on agreements between parties in a contract	Assumes the business will continue indefinitely into the future

Source: Kamarrudin, 2022

Sharia accounting and conventional accounting have fundamental philosophical differences, which reflect distinctions in the underlying economic systems and institutions. Conventional accounting is considered to be rooted in the philosophy of economic rationalism, emphasizing individualism, personal interest, and profit maximization. This view aligns with the accounting theory developed by (Watts and Zimmerman,1986), as explained by (Velayutham, 2014).

Implementation of PSAK 109 in Zakat Institution Financial Reporting

The professional, accountable, and sharia-compliant management of zakat is an urgent necessity amidst the growing awareness among Muslims regarding the importance of zakat as an instrument for economic empowerment. Along with the development of zakat management institutions such as the *National Amil Zakat Agency (BAZNAS)* and *Amil Zakat Institutions (LAZ)*, there is a need for accounting standards that can ensure transparency and public trust in the financial reporting of zakat, infaq, and sadaqah (ZIS).

Institutionally, BAZNAS is an official and the only institution established by the government under Law Number 23 of 2011 to manage zakat at the national level. In contrast, LAZ is a non-governmental organization granted permission by the Ministry of Religious Affairs and recommended by BAZNAS to also collect and distribute zakat (Septiandani et al., 2024). BAZNAS holds a stronger legal position, whereas LAZ offers greater flexibility in operational strategies and programmatic approaches.

In terms of transparency and accountability, studies by (Wulaningrum, 2020) show that both institutions have implemented accountable financial reporting principles. However, LAZ institutions such as *Dompet Dhuafa* and *Rumah Zakat* are more prominent in utilizing digital media and online platforms as a form of public transparency. On the other hand, BAZNAS emphasizes formal reporting to state institutions as part of its vertical accountability mechanism.

From the perspective of financial performance, comparative studies by (Rizqi, 2022) show that BAZNAS has advantages in terms of stability and distribution coverage, being supported by government funds and institutional networks. Meanwhile, LAZ demonstrates stronger efficiency in financial management due to its greater autonomy and more adaptive approach to local needs.

Regarding zakat utilization, BAZNAS tends to allocate more funds to national-scale programs such as poverty alleviation and disaster response (Muamar & Prayuda, 2022). Conversely, LAZ develops productive zakat programs focused on community empowerment through MSMEs, scholarship schemes, and free health services (Famulia, 2020), reflecting a more micro and participatory strategy.

Interestingly, in terms of digital reporting, a study by (Maryati & Fauzi, 2022) shows that several provincial-level LAZs are more innovative and proactive in implementing *Internet Financial Reporting (IFR)* compared to BAZNAS. This demonstrates the greater adaptability of LAZs to technological advancements and growing public demands for transparency.

In terms of regulation, the harmonization of roles between BAZNAS and LAZ still needs strengthening. (Septiandani et al., 2024) note that the duality of authority can lead to overlapping duties, which in turn hampers the effectiveness of zakat management nationwide. Therefore, more detailed derivative regulations are necessary to ensure optimal synergy between both entities.

Additionally, the implementation of *PSAK 109* serves as a fundamental basis for both institutions in maintaining the quality of financial reporting. PSAK 109 is an accounting standard issued by the *Sharia Accounting Standards Board (DSAS-IAI)* to ensure that the processes of recording, receiving, and distributing zakat, infaq, and sadaqah are conducted in an accountable and sharia-compliant manner. The application of PSAK 109 by both BAZNAS and LAZ aims to establish a financial reporting system that is transparent, credible, and aligned with Islamic values, as mandated in the Qur'an, Surah Al-Baqarah [2]: 282:

يٰٓاَيُّهَا الَّذِيْنَ اٰمَنُوْٓا اِذَا تَدَايَنْتُمْ بِدَيْنٍ اِلٰٓى اَجَلٍ مُّسَمًّى فَاكْتُبُوْهُۗ

Jurnal Akuntansi
Vol. 15, No.2, June 2025

ISSN 2303-0356
Hal. 71-80

"O you who have believed, when you contract a debt for a specified term, write it down..." (QS. Al-Baqarah [2]: 282)

This principle is fundamental in the application of PSAK 109, which regulates the procedures for financial recording and reporting within zakat institutions to enhance transparency and accountability. A study by (Andrini, 2023) states that the implementation of PSAK 109 positively affects the accountability of financial reporting in zakat institutions, thereby providing more accurate information to the muzakki (zakat payers). This finding aligns with other research indicating that the quality of accounting information impacts zakat revenue, suggesting that transparency in reporting contributes positively to zakat collection (Agihidayantari & Kurniawan, 2020). Therefore, the application of PSAK 109 not only supports accountability but also plays a role in increasing zakat fund collection.

The implementation of PSAK 109 at BAZNAS has proceeded well due to strong regulatory support, strict supervision, and competent human resources in sharia accounting. As an official government institution, BAZNAS is obligated to implement transparent and accountable accounting standards, and its financial reports have been aligned with PSAK 109. In addition, BAZNAS uses a sharia-based accounting information system to facilitate transaction recording and build public trust. Regular financial audits by the Sharia Supervisory Board (DPS) and independent institutions are also key factors ensuring BAZNAS's compliance with applicable accounting standards (Wisandani & Murhasanah, 2021).

Although PSAK 109 has been implemented in various zakat institutions, in practice, there are still many challenges. A study by (Inryani & Hasbi, 2025) found that most large zakat institutions, particularly those affiliated with the government such as BAZNAS, have adopted PSAK 109 as a reference for preparing financial reports. It serves as a guideline for zakat institutions to record financial data systematically and in accordance with sharia principles. PSAK 109 outlines various categories and methods of financial recording that must be applied by zakat management institutions to ensure clarity, orderliness, and accountability in financial reporting.

Conversely, many small-scale Amil Zakat Institutions (LAZ), particularly in regional areas, continue to face difficulties in optimally implementing PSAK 109. For example, a study by (Ohoirenan, 2020) found that the financial reports of zakat, infaq, and sadaqah at BAZNAS Kota Tual had not yet fully implemented PSAK 109. A similar issue was observed in a study by (Arief, Manossoh, and Alexander, 2017), which concluded that BAZNAS Manado had also not yet effectively implemented PSAK No. 109 in their financial reporting. This delay in implementation is largely due to the low literacy levels of staff regarding PSAK 109. (Furthermore, Hadijah, 2019) discovered that the financial management at BAZNAS Majene Regency also had not fully adhered to PSAK 109, citing factors such as limited human resources, a lack of government outreach regarding PSAK 109, and insufficient operational funding needed to support the implementation of the standard.

The main challenges faced by LAZs include the lack of sharia accounting experts, limited regulatory oversight, and inadequate technological infrastructure for financial recording systems (Suarni & Sahrullah, 2024). Some LAZs still use manual recording systems, which are prone to errors and ineffective for audit processes. Moreover, the lack of outreach and education regarding the importance of PSAK 109 has resulted in many LAZs not fully understanding the benefits of the standard, particularly in efforts to improve the transparency and accountability of financial reports (Meilina, 2023).

According to (Ridho, 2023), one of the main obstacles zakat institutions face in implementing PSAK 109 is the low level of literacy in sharia finance. Additionally, the quality of human resources who are both skilled and trustworthy in the field remains inadequate.To address these challenges, several strategic steps can be taken, including:

1. Enhancing Islamic Financial Literacy

Training and certification in sharia accounting should be provided to zakat managers to deepen their understanding of PSAK 109. Sharia accounting materials also need to be integrated into the curricula of Islamic higher education institutions. With increased literacy, zakat institutions can prepare financial reports more professionally. The Financial Services Authority (OJK) revealed that the Islamic financial literacy index increased by 30% in 75 reaching 39%. However, the level of sharia financial inclusion remained stagnant at 12% with no significant change. Between 2019 and 2022, Indonesia’s Islamic financial literacy index remained consistently at 9%, even though financial inclusion rose from 9% to 12%.

2. Strengthening Human Resource (HR) Competence
Recruitment of professionals with expertise in sharia accounting is essential to improve the quality of zakat financial reporting. In addition, regular training and mandatory certification for zakat managers are necessary to enhance competence. Providing incentives for certified HR can serve as motivation to implement PSAK 109 more effectively.
3. Utilizing Accounting Technology
The implementation of sharia-based accounting information systems can optimize efficiency in financial recording within zakat institutions. Technologies such as blockchain can be employed to enhance transparency and ease the auditing process. Additionally, the use of big data can support more accurate and effective analysis in zakat fund management.
4. Strengthening Regulation and Supervision
The government must tighten regulations by mandating all zakat institutions to implement PSAK 109 in their financial reporting. The Sharia Supervisory Board (DPS) should be reinforced to conduct periodic audits. With strict oversight, compliance with sharia accounting standards among zakat institutions can be better ensured.
5. Improving Public Trust
Financial report transparency needs to be enhanced by publishing reports that have been audited in accordance with PSAK 109. Educating zakat payers (muzakki) on the importance of applying sharia accounting standards will further strengthen their trust. As public trust increases, the potential for zakat fund collection will also grow.

To support these efforts, strengthening regulation and supervision in the implementation of sharia accounting at zakat institutions is crucial. The government has issued several regulations governing sharia accounting, including Law No. 23 of 2011 on Zakat Management, Government Regulation No. 14 of 2014, as well as PSAK 109 which regulates the recording and reporting of zakat, infaq, and sadaqah (ZIS). However, the implementation of these regulations still faces challenges, especially in small-scale LAZs that often lack an optimal financial recording system.

Therefore, concrete measures are needed, such as requiring all LAZs to implement PSAK 109 with strict supervision by the Financial Services Authority (OJK) and the Ministry of Religious Affairs, along with regular audits by the Sharia Supervisory Board (DPS). Furthermore, financial report transparency can be improved by mandating all zakat institutions to publicly disclose their financial statements. The government should also provide incentives for zakat institutions that optimally apply sharia accounting standards, in the form of certifications or tax reliefs. Accelerating the digitalization of sharia-based accounting systems is also necessary to ensure financial recording is more efficient, accurate, and compliant with standards. With these measures, it is expected that all zakat institutions will be able to implement sharia accounting optimally, improve transparency, and strengthen public trust in zakat management in Indonesia.

The Role of Technology in Enhancing Transparency and Accountability

Digitalization is a socio-technical transformation in which individuals, organizations, and communities shift toward the use of digital technologies. This process also includes the conversion of analog signals into digital formats. In the modern era, people increasingly utilize digital systems in various activities and transactions. In the context of zakat management, digitalization plays a significant role in increasing public trust, enhancing social contributions, and expanding the social impact of zakat distribution programs (Dina, 2024).

Blockchain is an innovation designed to securely record data and financial activities. This technology enables records to be accessed transparently by relevant parties (Hidayat et al., 2023). The expanded use of sharia-compliant accounting technologies, such as blockchain and digital information systems, helps improve financial recording efficiency within LAZ (Zakat Management Organizations) and ensures compliance with applicable standards. Through this approach, LAZs are expected to achieve accounting standards on par with BAZNAS (National Zakat Agency), thereby boosting public confidence in zakat management (Rizkiansyah & Tanjung, 2021).

Several international zakat organizations have begun adopting blockchain's advantages. Numerous fintech companies, both emerging and established, are implementing and investing in this technology within their financial management systems. For example, Desto Fintech, which began operating in the United States, has launched a blockchain-based zakat service called i-zakat, which emphasizes transparency and efficiency (Ahmed & Zakaria, 2021).

The use of technology in sharia accounting systems is also a vital indicator that cannot be overlooked. Research by Pratiwi indicates that the use of information technology in accounting information systems has a positive impact on financial management performance. The implementation of IT increases both efficiency and effectiveness in zakat institutions, enabling them to provide better and more transparent financial reports (Pratiwi & Dharmadiaksa, 2018).

Nonetheless, challenges remain in implementing transparent reporting systems, including limitations in human resources and technical expertise to operate the required modern accounting systems (Hariani & Junaedi, 2023). In this context, management support becomes a key factor in overcoming the challenges associated with adopting improved accounting systems (Kurniawati & Mustoffa, 2024). These findings reinforce public accountability theory in the context of Islamic philanthropy and demonstrate that digital information systems can serve as strategic instruments in ensuring transparent and trustworthy zakat management.

Challenges in the Implementation of Sharia Accounting in Zakat Institutions

The effectiveness of implementing sharia accounting in zakat institutions must be accompanied by efforts to address the various challenges encountered. Nugraha's research emphasizes the importance of accountability and transparency not only for internal institutional needs but also for strengthening public trust (Nugraha, 2019). These findings are consistent with a study by Wiyana, which revealed that accounting practices in the public sector and the openness of financial reporting play a significant role in optimizing accountability in government performance (Wiyana et al., 2023).

The application of sharia accounting in managing social funds aims to maximize the allocation of resources to mustahik (zakat recipients) and ensure that budgeting adheres to Islamic principles. The study also identified several challenges in implementing sharia accounting, including limited knowledge among zakat administrators and the need for well-defined and structured accounting standards (Anggraini, 2024).

To address these challenges, it is essential to improve the capacity of human resources (HR) so that zakat administrators can better understand sharia accounting standards. Training and certification in sharia accounting for zakat institution personnel must be prioritized to ensure accurate financial reporting in compliance with PSAK 109. Additionally, more detailed and stringent regulations are needed to mandate the application of sharia accounting standards, including the obligation for routine audits by the Sharia Supervisory Board (DPS). With stricter regulations and effective oversight, zakat institutions can optimize transparency and accountability in managing social funds, thereby enhancing public trust in zakat organizations.

Beyond HR development and regulatory improvements, the integration of technology into sharia accounting systems is also a crucial solution to improve the effectiveness of zakat management. The use of sharia-based accounting information systems, the integration of blockchain technology, and the utilization of big data can facilitate financial transaction recording and improve transparency in zakat fund distribution. With modern accounting systems, zakat institutions can reduce the risk of financial reporting errors and ease the audit process. If these measures are comprehensively implemented, the effectiveness of sharia accounting in zakat institutions can be significantly improved, ensuring that zakat funds are managed according to Islamic principles and delivering greater benefits to both mustahik and the wider community.

CONCLUSIONS AND SUGGESTION

The implementation of PSAK 109 within zakat institutions is crucial in ensuring financial accountability and adherence to Islamic principles. By providing clear standards for the recognition, measurement, presentation, and disclosure of zakat, infaq, and sadaqah, PSAK 109 enhances transparency and builds public trust in zakat management practices. However, the practical application of this standard, especially among small and medium-scale Amil Zakat Institutions (LAZ), continues to face significant challenges. These include limited availability of skilled human resources in sharia accounting, weak institutional oversight, and inadequate adoption of digital financial systems. Consequently, these constraints undermine the efficiency and credibility of zakat fund governance.

To address these limitations, this article proposes a strategic shift toward strengthening Islamic financial literacy, developing professional competencies, and adopting digital innovations such as sharia-compliant financial systems and blockchain technologies. These tools can enhance the efficiency, traceability, and trustworthiness of financial reporting in zakat institutions. Additionally, strong regulatory support and institutional enforcement are needed to ensure full compliance with PSAK 109. This article contributes to zakat management literature by offering a digitally oriented strategic approach an area that remains insufficiently explored in the Indonesian context. Furthermore, by emphasizing the relationship between digital transparency and *muzakki* trust, the study extends the accountability discourse in Islamic philanthropic governance, offering a foundation for more robust and sustainable zakat institutions in the future.

REFERENCES

Agihidayantari, E., & Kurniawan, P. (2020). Pengaruh kualitas informasi akuntansi, akuntabilitas dan transparansi pelaporan keuangan terhadap tingkat penerimaan dana zakat. *Vokasi Jurnal Riset Akuntansi*, *9*(2), 81. https://doi.org/10.23887/vjra.v9i2.26453

Ahmed, T. A. I., & Zakaria, M. S. (2021). Using blockchain for managing zakat distribution: A juristic analytical study. *Al-Hikmah International Journal for Islamic Studies & Human Sciences*, *1*(2). https://doi.org/10.46722/hkmh.4.2.21b

Amalia, A. (2024). *Tata kelola akuntabilitas keuangan Lembaga Amil Zakat, Infaq dan Shadaqah Muhammadiyah Kalimantan Barat*.

Andrini, R. (2023). Analisis transparansi dan akuntabilitas laporan keuangan zakat infak shadaqah (zis) pada BAZNAS Kabupaten Kampar berdasarkan PSAK No. 109. *Jurnal Akuntansi Kompetif*, *6*(1), 115–126. https://doi.org/10.35446/akuntansikompetif.v6i1.1269

Anggraini, M., & Sisdianto, E. (2024). Analisis penerapan akuntansi lingkungan syariah dan peranannya dalam pengelolaan dana zakat, infaq, dan sedekah dalam perspektif Islam. *Jurnal Ilmiah Ekonomi dan Manajemen, 2*(12), 491–505.

Arief, S. W. H., Manossoh, H., & Alexander, S. W. (2017). Analisis penerapan PSAK No. 109 tentang akuntansi zakat, infaq/sedekah pada Badan Amil Zakat Nasional Kota Manado. *Going Concern: Jurnal Riset Akuntansi*, *12*(1), 98–107. https://doi.org/10.32400/gc.12.01.17142.2017

ISSN 2303-0356
Hal. 71-80

Famulia, L. (2020). Analisis hubungan zakat dan pajak di Indonesia, Malaysia dan Brunei Darussalam. *Jurnal Asy-Syir'ah*.

Fitria, V. R., et al. (2024). Efektivitas zakat dan pajak dalam mengurangi ketimpangan ekonomi di Indonesia. *Journal of Economics and Islamic Studies*.

Hadijah, S. (2019). Analisis penerapan PSAK 109 tentang akuntansi zakat, infaq, dan sedekah p Badan Amil Zakat Nasional Kabupaten Majene. *Journal of Economic, Public, and Accounting (JEPA), 1*(2), 58–67. https://doi.org/10.31605/jepa.v1i2.297

Hariani, A., & Junaedi, W. (2023). Pengaruh kualitas informasi akuntansi, akuntabilitas, transparansi pelaporan keuangan dan aksesibilitas terhadap tingkat penerimaan dana zakat, infak dan sedekah (ZIS) di Lembaga Amil Zakat Nurul Hayat Balikpapan. *Jurnal Geoekonomi*, *14*(1), 17–29. https://doi.org/10.36277/geoekonomi.v14i1.240

Kamaruddin, K., & Siregar, S. (2022). Akuntansi syariah dan akuntansi konvensional: Komparasi nyata dari tinjauan literatur. *Jurnal Ilmiah Ekonomi Islam*, *8*(2), 1365–1372.

Kurniawati, E., & Mustoffa, A. (2024). Akuntabilitas penyusunan laporan pertanggungjawaban keuangan Badan Adhoc KPU Kabupaten Ponorogo dalam pemilihan umum tahun. *Jurnal Ilmiah Manajemen Ekonomi & Akuntansi (MEA), 8*(2), 2124–2145. https://doi.org/10.31955/mea.v8i2.4298

Manjaleni, R., & Irawan, S. R. (2024). Penerapan PSAK 101 tentang penyajian laporan keuangan syariah pada Lembaga Amil Zakat Infaq dan Shadaqah Muhammadiyah (Lazismu) Jawa Barat. *Prosiding FRIMA*.

Maryati, U., & Fauzi, N. (2022). Studi komparasi internet financial reporting pada BAZNAS Provinsi dan LAZ Provinsi. *Jurnal Akuntansi, Bisnis dan Ekonomi Islam*.

Meilina, P. H., Dewi, F. K., & Arisanti, N. (2023). Implementasi PSAK 109 dalam menciptakan transparansi dan akuntabilitas laporan keuangan organisasi pengelola zakat (OPZ) di Indonesia. *Jurnal FEBI IAIN Kediri*.

Merlin, D. (2024). Dampak implementasi akuntansi masjid berdasarkan PSAK 45 pada tata kelola keuangan Masjid Ad Du’a Bandar Lampung.

Muamar, A., & Prayuda, W. R. (2022). Implementasi zakat profesi di BAZNAS Kabupaten Cirebon. *Jurnal Al-Mustashfa*.

Mutmainnah, M. (2024). *Penerapan PSAK 109 dalam pengelolaan dana zakat pada BAZNAS Kabupaten Sidrap*. Repository IAIN Parepare.

Nugraha, E. (2019). Pengaruh akuntabilitas, transparansi dan kualitas pelayanan lembaga pengelola zakat terhadap komitmen muzakki: Kepercayaan muzakki sebagai variabel intervening. *Akuntabilitas Jurnal Penelitian dan Pengembangan Akuntansi, 13*(2), 167–186. https://doi.org/10.29259/ja.v13i2.9592

Ohoirenan, M. H., Fithria, A., & Fithria, A. (2020). Analisis penerapan PSAK 109 pada Badan Amil Zakat Nasional Kota Tual. *AKTSAR: Jurnal Akuntansi Syariah*, *3*(2), 135.

Oktaviana, H. (2022). Implementasi akuntansi syariah sebagai upaya meningkatkan pengelolaan keuangan mikro kecil menengah. *Jurnal Perbankan Syariah Indonesia (JPSI), 1*(1), 31–42. https://doi.org/10.57171/jpsi.v1i1.4

Pramesti, P. S. (2024). *Analisis akuntabilitas dan transparansi dalam pengelolaan keuangan berdasarkan ISAK 35 pada LAZISMU Kabupaten Cirebon*. Repository Syekh Nurjati.

Pratiwi, L., & Dharmadiaksa, I. (2018). Pengaruh pemanfaatan dan relevansi teknologi informasi serta efektivitas sistem informasi akuntansi pada kinerja karyawan. *E-Jurnal Akuntansi, 23*(1), 351. https://doi.org/10.24843/eja.2018.v23.i01.p14

Rahmadieni, R. (2019). Faktor-faktor yang mempengaruhi kualitas penyajian laporan keuangan syariah Baitul Maal wa Tamwil di Kabupaten Wonogiri. *Al-Mashrafiyah: Jurnal Ekonomi Keuangan dan Perbankan Syariah, 3*(2), 128. https://doi.org/10.24252/al-mashrafiyah.v3i2.10038

Ramadan, A., Martika, Y., & Devi, Y. (2024). Pengaruh transparansi laporan keuangan, akuntabilitas dan kualitas pelayanan terhadap keputusan muzakki membayar zakat. *Jurnal Akuntansi dan Keuangan Islam*.

Ridho, M., Palah, N. N., & Nurhasanah, E. (2023). Analisis faktor kendala lembaga zakat yang belum menerapkan PSAK 109 di Indonesia. *Al-Istimrar: Jurnal Ekonomi Syariah, 2*(1 79 23.

Rizqi, A. (2022). *Analisis perbandingan kinerja pengelolaan zakat BAZNAS Buleleng dan LAZ Dompet Sosial Madani Buleleng menggunakan allocation to collection ratio* (Doctoral dissertation, Universitas Pendidikan Ganesha).

Sari, R., Mulyani, C., & Budiarto, D. (2020). Pentingnya pengendalian internal untuk meningkatkan transparansi dan akuntabilitas pengelolaan keuangan daerah. *Jurnal Riset Akuntansi Mercu Buana, 6*(1), 1. https://doi.org/10.26486/jramb.v6i1.697

Septiandani, D., Fathia, R. A., Handayani, D., Herlindah, H., Shomad, A., & Tilman, A. M. (2024). Harmonisasi peran Badan Amil Zakat Nasional dan Lembaga Amil Zakat di Indonesia: Kajian Undang-Undang Zakat lama dan baru. *JURNAL USM Law Review, 7*(3), 2027–2041.

Suarni, A., & Sahrullah, S. (2024). Penerapan PSAK 109 pada akuntansi zakat, infaq, dan sedekah di LAZISMU dan BAZNAS Sul-Sel. *Jurnal PPMI*.

Velayutham, S. (2014). “Conventional” accounting vs “Islamic” accounting: The debate revisited. *Journal of Islamic Accounting and Business Research, 5*(2), 126–141. https://doi.org/10.1108/JIABR-05-2012-0026

Wijaya, I., Amarjupi, D., Shahirah, R., Rahayu, N., Pratama, A., Wardaningtri, Y., ... & Hadi, N. (2023). Peran bank syariah dalam penghimpunan dan distribusi zakat kepada mustahik. *MJPM, 1*(3), 607–613. https://doi.org/10.60126/maras.v1i3.118

Wisandani, I., & Murhasanah, E. (2021). Analisis penerapan PSAK 109 dalam menyusun laporan keuangan di BAZNAS Kabupaten Tasikmalaya. *Jurnal Taraadin*.

Wiyana, A., Sufiati, S., Sambo, E., & Nurasratunnisa, Y. (2023). Penerapan akuntansi sektor publik dan transparansi laporan keuangan terhadap akuntabilitas kinerja instansi pemerintah. *Jurnal Akuntansi STIE Muhammadiyah Palopo, 9*(2), 240. https://doi.org/10.35906/jurakun.v9i2.1588

Wulaningrum, P. D., & Pinanto, A. (2020). Akuntabilitas dan transparansi laporan keuangan pada organisasi pengelola zakat: Studi komparatif di BAZ dan LAZ Yogyakarta. *JATI: Jurnal Akuntansi Terapan Indonesia, 3*(1), 15–24.

Yulianti, L. (2021). Analisis penerapan PSAK 109 tentang akuntansi zakat dan infak/sedekah pada BAZNAS Kota Bandung. *Jurnal Ilmu Akuntansi dan Bisnis Syariah (AKSY)*.

Zubaidah, A., & Nugraeni, N. (2023). Pengaruh akuntabilitas dan transparansi terhadap kualitas laporan keuangan pada pemerintah Kabupaten Sleman. *Jurnal Ilmiah Manajemen Ekonomi & Akuntansi (MEA), 7*(3), 978–988. https://doi.org/10.31955/mea.v7i3.3475

Jurnal Akuntansi ISSN 2303-0356
Vol. 15, No.2, June 2025 Hal. 81-94

Profitability, Capital Intensity, Leverage, And Tax Avoidance: Firm Size As A Moderating Variable

Adirianto[1), Randy Kuswanto[2)]
Accounting Study Program, STIE Wiyatamandala[1,2)]

ARTICLE INFO

Article history:
Received: June, 24th 2025
Revised: June 29th , 2025
Accepted: June 29th , 2025

Keywords:
Profitability
Capital Intensity
Leverage
Firm Size
Tax Avoidance
Consumer Goods

Correspondence:
Adirianto
adi.rianto1203@gmail.com

ABSTRACT

This research investigates how profitability, capital intensity, and leverage influence tax avoidance practices, while also assessing whether firm size moderates these relationships. The research focuses on consumer goods companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2023 period. This research adopts a quantitative approach with a causal-comparative research design. A purposive sampling method was used to select 120 panel data observations from 30 companies out of 63 consumer goods firms. With the help of SPSS version 22, the data were analyzed using multiple linear regression analysis and moderated regression analysis, preceded by descriptive statistical tests and classical assumption tests. The results revealed that profitability, capital intensity, and leverage together significantly influence tax avoidance, as indicated by a significance level of 0.046. Partially, only leverage shows a significant positive impact on tax avoidance, with a coefficient of 0.045 and a significance level of 0.027, whereas profitability and capital intensity do not demonstrate a meaningful effect. These findings confirm that companies with high levels of debt use interest expense as a tax shield to reduce tax liabilities. In addition, the results also show that firm size cannot moderate the effect of profitability, capital intensity, and leverage on tax avoidance..

How to cite :
Adirianto & Kuswanto, Randy. (2025). Profitability, Capital Intensity, Leverage, And Tax Avoidance: Firm Size As A Moderating Variable. *Jurnal Akuntansi, 15(2)*, 81-94. https://doi.org/10.33369/jakuntansi.15.2.81-94

INTRODUCTION

Tax avoidance has become one of the central issues in the world of taxation and global business that continues to experience complex developments in line with the dynamics of the modern economy. The practice of tax avoidance is a strategy carried out by companies to reduce the tax burden that must be met, by utilizing loopholes in applicable tax regulations and laws, without violating the formal provisions stipulated. This issue becomes very important because of its great impact on state revenue. As a developing country, Indonesia relies heavily on tax revenue as one of the main sources in financing various development programs and public services. Empirical reality shows that tax avoidance practices in Indonesia have experienced a worrying trend, especially in the consumer goods industry, which significantly contributes to the national economy. The consumer goods sector was chosen as the focus of the study due to its unique characteristics, namely having a broad consumer base, a relatively stable level of profitability, and a diverse capital structure that allows for variations in tax avoidance strategies (Rani et al., 2021). Companies in this sector generally have a large scale of operations with high transaction complexity, thus providing higher potential for tax avoidance through various complex tax planning schemes.

The phenomenon of tax avoidance in Indonesia has surfaced to the public through various cases involving multinational and domestic companies. One of the cases that attracted public attention was related to the tobacco company British American Tobacco (BAT) through its subsidiary, PT Bentoel Internasional Investama. BAT is suspected of engaging in tax avoidance practices by utilizing income transfer schemes outside of Indonesia. The allegations centered on the use of intercompany loans from Rothmans Far East BV in the period 2013 to 2015, which were used to repay bank loans and procure equipment and machinery. The interest payments on the bank loans potentially lowered taxable income, thereby reducing the amount of tax payable (Kontan.co.id, 2019). Tax avoidance practices often fall in the gray area between legal tax avoidance and unlawful tax evasion, posing a major challenge for tax authorities in conducting supervision and enforcement.

Various previous studies have identified fundamental factors that influence the company's decision to implement tax avoidance, with three factors receiving significant attention being profitability, capital intensity, and leverage. Profitability as an indicator of the company's financial performance has a complex relationship with tax avoidance, where companies that show a high level of profitability usually have a stronger incentive to reduce their tax obligations, so that the profits earned can be maximized for the benefit of shareholders (Nabila & Kartika, 2023). However, the results of studies on the link between profitability and tax avoidance have proven to be inconsistent. The results of a study belonging to (Mahdiana & Amin, 2020) state that profitability has a significant positive effect on tax avoidance. In contrast, the results of the studies (Gultom, 2021) and (Budianti & Curry, 2018) show that profitability has a negative impact on tax avoidance.

Capital intensity, which describes the ratio of fixed assets to total company assets, is one of the important elements that have an impact on the level of tax avoidance. Companies with high capital intensity usually bear a large enough depreciation expense, which can be used as a deduction for taxable income so that in theory it can reduce the company's effective tax rate (Prabowo & Sahlan, 2021). However, the results of research related to the influence of this factor still show inconsistencies. Research belonging to (Zahrani et al., 2023) proves that capital intensity has a positive impact on tax avoidance. In contrast to that, the study results from (Pravitasari et al., 2022) and (Zoebar & Miftah, 2020) prove that there is no impact or influence of capital intensity on tax avoidance.

Meanwhile, the level of debt (leverage) has dual implications for tax avoidance practices. On the one hand, companies with high levels of debt have large loan interest expenses that can be used to reduce tax liabilities. But on the other hand, the amount of leverage can also indicate the company's unhealthy financial condition, thus reducing the company's ability to carry out complex tax planning (Amiah, 2022). The dynamics of the relationship between leverage and tax avoidance is becoming increasingly interesting to review because the results of the study show that there are still inconsistencies. The results presented by (Agustina et al., 2023) and (Sulaeman, 2021) prove that leverage has a significant negative impact on tax avoidance. Meanwhile, research by (Pasaribu & Mulyani, 2019) along with (Handayani, 2018) resulted in leverage having no significant effect on tax avoidance practices.

The complexity of the relationship between these three factors and tax avoidance increases when considering the role of company size as a moderating factor. Company size can affect the company's ability to carry out sophisticated tax planning, access to professional tax consultants, and the level of supervision from tax authorities. Large companies tend to have more complete resources to carry out complex tax planning, but on the other hand companies are also under tighter supervision from tax authorities compared to smaller companies.

The research period chosen, 2020-2023, is a very relevant period to study given the various economic and regulatory dynamics that occurred during this time. This period includes the corona virus disease pandemic in 2019 (COVID-19) which had a substantial effect on the company's financial performance, the implementation of various government stimulus policies, and changes in tax regulations aimed at increasing state revenue amid global economic pressures (Yehezkiel & Gultom, 2024). These conditions certainly affect the company's business and tax strategies, making it an interesting period to analyze tax avoidance behavior. The importance of this study is further strengthened by the inconsistency of previous research results regarding the factors that influence tax avoidance, especially in the context of the consumer goods sector in Indonesia. Some studies found that profitability has a positive effect on tax avoidance, while other studies found a negative or even insignificant effect. Similarly, the capital intensity and leverage factors show mixed results between studies. The inconsistency of these results indicates the need for a more in-depth study by considering moderating factors that can explain the differences in these results (Pertiwi & Purwasih, 2023).

This study aims to analyze the impact of profitability, capital intensity, and leverage variables on tax avoidance, with company size as a moderating variable. This study focuses on consumer goods companies listed on the Indonesia Stock Exchange during the period 2020-2023. Specifically, this study aims to identify and analyze the direct effect of each independent variable on tax avoidance, as well as to analyze the moderating role of company size variables in strengthening or weakening this relationship. The examination of company size variables as moderating variables is still very rare. Therefore, this study will contribute to research outcomes with a more complex research model that includes moderating variables.

One of the main theoretical contributions of this study is to examine company size as a moderating variable. This study tests whether and how company size strengthens or weakens the influence of profitability, capital intensity, and leverage on tax avoidance. The addition of this moderating variable deepens the theoretical understanding of the complexity of the relationship between variables and introduces a new perspective in the development of theoretical models related to corporate tax strategies. With a data background from a developing country (Indonesia), this study also contributes to filling the gap in the literature, which has been dominated by studies from developed countries. The results of this study can provide more relevant theoretical insights for different economic environments, where regulations, market structures, and tax compliance can vary greatly. Meanwhile, the practical contribution of this study is expected to provide insight for tax authorities in designing more effective policies and supervision strategies to reduce tax avoidance practices, as well as for company management in understanding the implications of financial decisions on corporate taxation strategies (Ulinuha & Nurdin, 2024).

LITERATURE REVIEW AND HYPOTHESES

Agency Theory

Agency theory, pioneered by Michael C. Jensen and William H. Meckling in 1976, became the fundamental basis for understanding the phenomenon of corporate tax avoidance, where there is a conflict of interest between management as agents and shareholders as principals. In the context of taxation, management is incentivized to minimize tax burdens in order to maximize net profits, which ultimately benefits shareholders through increased investment returns. This theory explains that tax avoidance practices are a manifestation of management's efforts to fulfill its role as an agent acting in the best interests of the principal by optimizing the company's financial structure to achieve maximum tax efficiency. (Asianingrum & Nursyirwan, 2024).

Signal Theory

The signal theory proposed by Michael Spence in 1973 also has significant relevance in explaining companies motivation for tax avoidance. According to this theory, management uses financial information as a signal to external parties regarding the quality and future prospects of the company. Tax avoidance practices can be viewed as a positive signal that indicates management's ability to manage the company's resources efficiently, including in terms of tax burden management. Companies with optimal levels of tax avoidance can signal to investors that management is competent in creating added value for shareholders through sophisticated taxation strategies (Ramdhania & Kinasih, 2021).

Tax Avoidance

Tax avoidance efforts are common in companies, both in Indonesia and around the world. Currently, tax avoidance needs to be taken seriously by tax authorities. Although tax avoidance can be considered legal, in reality it is very detrimental to the government, which is trying to increase state revenue from taxes paid by companies.

Tax avoidance refers to efforts made legally and safely by taxpayers without violating applicable tax regulations. The methods and techniques applied generally take advantage of loopholes in tax laws and regulations to reduce the amount of tax payable (Pohan, 2016).

Hypothesis Development

Profitability on Tax Avoidance

Profitability is a company's ability to generate profits from sales, total assets, or capital owned (Gultom, 2021). The high profitability generated by the company means that the taxes payable will also be higher. In agency theory, management that is authorized by stakeholders to manage company profits will certainly engage in tax avoidance through tax planning aimed at increasing company profits. Thus, better financial performance will result in greater incentives from the principal to management as the agent. Research conducted by (Mahdiana & Amin, 2020) and (Martinus et al., 2021) shows that profitability has a positive effect on tax avoidance. The results of this study indicate that companies with high profitability tend to have greater motivation to engage in tax avoidance in order to maintain optimal profits for shareholders. From the description and results of the previous study, the first hypothesis that can be proposed is:

H1: Profitability has a positive influence on tax avoidance.

Capital Intensity on Tax Avoidance

Research on the impact or influence of capital intensity on tax avoidance also shows attractive results for further study. A study by (Wijaya et al., 2025) on companies in the basic and chemical industries found that capital intensity has a positive impact on tax avoidance. This finding is explained through the mechanism of fixed asset depreciation, which can be used as a deduction from taxable income, thereby enabling companies with a high proportion of fixed assets to legally reduce their tax burden. This research finding is supported by the findings of (M. R. Sari & Indrawan, 2022), which demonstrate a similar pattern. Therefore, based on the explanation and previous findings, the second hypothesis is:

H2: Capital intensity has a positive influence on tax avoidance.

Leverage on Tax Avoidance

The relationship between the amount of leverage and tax avoidance is the most controversial topic in the corporate taxation literature. Studies conducted (P. I. P. Sari & Ramli, 2023) and (Nathania et al., 2021) state that leverage has a positive influence on tax avoidance. This finding explains that companies with high levels of debt have large interest expenses that can be utilized as a tax shield to reduce the Effective Tax Rate (ETR). Thus, companies can reduce tax obligations without violating applicable tax provisions. Based on the description and results of previous studies, the third hypothesis is:

H3: Leverage has a positive influence on tax avoidance.

Profitability on Tax Avoidance Moderated by Firm Size

Firm size can be measured through total assets and sales to understand the situation and condition of the company (Fauziah, 2021). High profitability will result in large profits and be directly proportional to the increase in tax liabilities payable by the company, which can lead to tax avoidance (Yuni & Setiawan, 2019). In the context of tax avoidance, more profitable companies theoretically have greater incentives to minimize their tax burden in order to maintain high net profits. This is in line with agency theory, which states that managers may be motivated to engage in tax management to increase shareholder welfare. In addition, large companies certainly have greater capabilities in accessing professional tax consulting services and implementing complex tax planning strategies. Based on the description that has been presented, the fourth hypothesis is:

H4: Firm size can strengthen the effect of profitability on tax avoidance.

Capital Intensity on Tax Avoidance Moderated by Firm Size

Capital intensity is a ratio that shows how much wealth a company has in terms of investment in the form of fixed assets to increase profitability (Rahmadani et al., 2022). Capital intensity refers to the extent to which a company invests its resources in fixed assets (such as machinery, buildings, and equipment). Fixed assets owned by a company will certainly have an impact on high productivity in producing products for sale. This can lead to increased profits or revenues for the company, which is directly proportional to the increase in tax liabilities that the company must pay. According to agency theory, increased profits may compel management to use depreciation expenses from fixed assets to reduce taxable income, which ultimately results in lower tax expenses. Large companies tend to have greater resources and can be more effective in managing their tax expenses through complex tax planning strategies, including maximizing the benefits of capital intensity. Therefore, the fifth hypothesis proposed is:

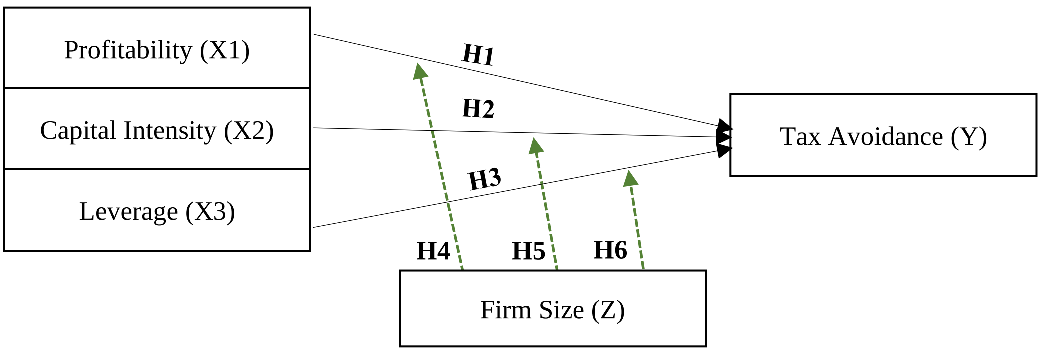
H5: Firm size can strengthen the influence of capital intensity on tax avoidance.

Leverage on Tax Avoidance Moderated by Firm Size

The level of leverage is a ratio to estimate how much the company uses its debt to finance the company's assets (Khairunnisa et al., 2023). In theory, leverage affects tax avoidance because interest expenses on debt can be deducted from taxable income (tax shield), so companies with high leverage tend to have greater incentives to take advantage of the tax benefits of debt. Large companies generally have broader access to financing sources and professional tax services, enabling them to design financing structures that are optimal from a taxation perspective. On the other hand, large companies also face stricter scrutiny from regulators and the public, so they may be more cautious in using aggressive tax avoidance strategies. However, from an agency theory perspective, companies with high debt levels can provide options for management acting as agents to use interest expenses as part of tax avoidance practices through corporate tax planning. Based on the explanations provided, the sixth hypothesis is:

H6: Firm size can strengthen the influence of leverage on tax avoidance.

Figure 1
Research Framework



RESEARCH METHODS

A quantitative approach was used in this study with a comparative causal design, aiming to test the causal relationship between independent and dependent variables (Santoso & Madiistriyatno, 2021). The quantitative method was chosen because this study seeks to test previously formulated hypotheses and analyze the influence of profitability, capital intensity, and leverage on tax avoidance with company size as a moderating variable (Agustianti et al., 2022). The data used in this study is secondary data sourced from the Indonesia Stock Exchange (IDX). The data analyzed in this study were obtained from the annual financial reports of companies operating in the consumer goods sector from 2020 to 2023, which were obtained from the IDX website http://www.idx.co.id. The analysis in this study was conducted using SPSS (Statistical Product and Service Solutions) version 22 as a tool to test the data obtained.

Population and Sample

The population in this study includes all companies engaged in the consumer goods sector and listed on the Indonesia Stock Exchange (IDX) during the period 2020 to 2023. The selection of the consumer goods sector was based on industry characteristics that exhibit relative stability in the face of economic fluctuations, a diverse capital structure, and consistent profitability levels. The sampling method employed was purposive sampling, where samples were selected based on specific criteria. The criteria used are outlined in table 1 below:

Table 1
Research Population and Sample

No.	Description	Total
1	Total consumer goods companies listed on the IDX for the 2020-2023 period	63
2	Companies that were delisted during the 2020-2023 period	(6)
3	Companies that incurred losses in the 2020-2023 period	(20)
4	Companies with incomplete data for research variables	(7)
	Total companies included in the sample	30
	Total years of research from 2020 to 2023	4
	Total Research Sample (30x4)	120

From Table 1, it can be seen that the sampling technique began with identifying all consumer goods companies listed on the Indonesia Stock Exchange for the period 2020-2023, totaling 63 companies. From this number, 6 companies that were delisted during the study period were eliminated to ensure data continuity and consistency in the analysis. Furthermore, 20 companies that incurred losses during the 2020-2023 period were excluded from the sample because loss conditions could affect a company's motivation and ability to engage in tax avoidance, potentially introducing bias in the research results.

The next elimination criterion was to exclude companies with incomplete data for the research variables (total fixed assets, total assets, total liabilities, total equity, profit before income tax, current tax, and profit after income tax), resulting in a reduction of 7 companies. After undergoing this selection process, the final sample consisted of 30 companies that met all the established criteria. With a research period of 4 years (2020–2023), the total observations used in this study were 120 panel data.

Operational Variables

This study involves one dependent variable, namely tax avoidance, and three independent variables consisting of profitability, capital intensity, and leverage. In addition, company size is used as a moderating variable in this research model. The following table presents the operationalization of the variables used to support the analysis and obtain the research results:

Table 2
Variable Operationalization

Variable	Indicator / Formula	Scale
Tax Avoidance (ETR)	ETR = Income Tax Expense / Income Before Tax	Ratio
Profitability (ROE)	ROE = Net Income / Total Equity	Ratio
Capital Intensity (CAPIN)	CAPIN = Fixed Assets / Total Assets	Ratio
Leverage (DAR)	DAR = Total Liabilities / Total Assets	Ratio
Firm Size (SIZE)	SIZE = Ln (Total Assets)	Ratio

Data Analysis Techniques

The data analysis techniques used are multiple linear regression analysis and Moderated Regression Analysis (MRA). Multiple linear regression analysis is used as an analytical technique to test the extent to which two or more independent variables influence a dependent variable (Ghozali, 2016). These two data analysis techniques are used to test the hypothesis that has been formulated previously, to determine whether the hypothesis can be accepted or rejected, after first going through classical assumption testing.

RESULTS AND DISCUSSION

Descriptive Statistical Test Results

Table 3
Descriptive Statistical Test Results

Descriptive Statistics

	N	Minimum	Maximum	Average	Standard Deviation
ETR	120	0.17	0.29	0.2223	0.02529
ROE	120	0.02	1.45	0.2115	0.24726
CAPIN	120	0.04	0.80	0.3115	0.17213
DAR	120	0.10	0.80	0.3572	0.17008
SIZE	120	27.00	33.00	29.3417	1.56911
Valid N	120				

Source: Processed Secondary Data, 2025

Table 3 presents summary statistics for all 120 observations in this study. ETR (Effective Tax Rate) shows an average result of 0.2223 with values ranging from 0.17 to 0.29 and a standard deviation of 0.02529, which indicates low variation in tax avoidance.

ROE (Return on Equity) variable obtained an average statistical result of 0.2115 with values ranging from 0.02 to 1.45 with a standard deviation of 0.24726. This shows the large variation in ROE between companies, ranging from low ROE to exceeding the total capital or equity itself.

CAPIN (Capital Intensity) variable shows a minimum value of 0.04, a maximum of 0.80, with an average of 0.3115 and a standard deviation of 0.17213. These results indicate moderate variation, which means that there are companies that invest little in their fixed assets, but there are also those that invest their assets in the form of fixed assets quite a lot.

DAR (Debt to Asset Ratio) variable obtained a minimum result of 0.10 to a maximum of 0.80 with an average of 0.3572 and a standard deviation of 0.17008. This variable has a moderate level of data diversity. This means that there are variations in the level of Debt to Asset Ratio (DAR) between companies, where some companies have low ratios, while others show relatively high numbers.

The last variable is SIZE (Company Size) as a moderating variable, which obtained a minimum result of 27.00 to a maximum of 33.00 with an average of 29.3417 and a standard deviation of 1.56911. These results show that there is some variability in SIZE, but it is relatively small compared to the range.

Classical Assumption Test Results

Normality Test

Table 4
Normality Test Results After Transformation

One-Sample Kolmogorov-Smirnov Test

	Result	**Description**
Asymp. Sig. (2-tailed)	0.200	Data are normally distributed

Source: Processed Secondary Data, 2025

Based on testing of data transformed using the natural logarithm (LN), the results are presented in Table 4. The significance value is 0.200, which is less than 0.05. Therefore, it can be concluded that the data is normally distributed.

Multicollinearity Test

Table 5
Multicollinearity Test Results After Transformation

Variable	Tolerance	VIF
ROE	0.962	1.039
CAPIN	0.998	1.002
DAR	0.964	1.038

Source: Processed Secondary Data, 2025

Multicollinearity is tested through the tolerance value and Variance Inflation Factor (VIF). From the multicollinearity test results after the transformation presented in table 5, it can be seen that the independent variables all have tolerance values greater than 0.10 and VIF smaller than 10. Therefore, it can be concluded that there are no multicollinearity symptoms in the data.

Heteroscedasticity Test

Figure 2
Scatterplot Graph After Transformation

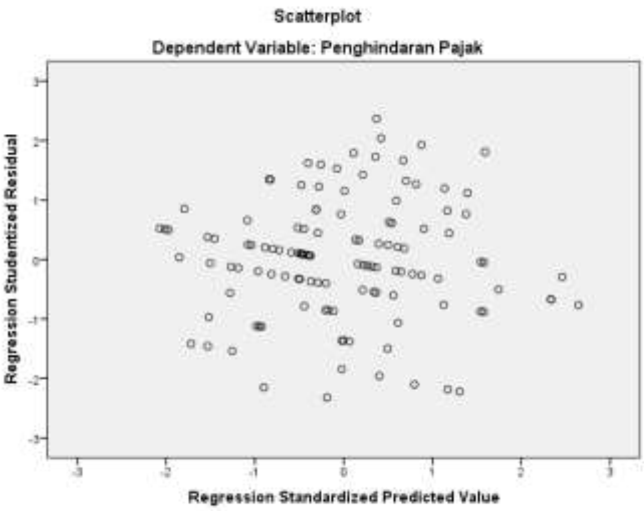


Table 6
Glejser Test Results After Data Transformation

Variable	Coefficients (B)	Std. Error	Beta	T Calculate	Sig.
Constant	0.96	0.024	—	3.989	0.000
ROE	-0.018	0.009	-0.179	-1.952	0.053
CAPIN	0.015	0.010	0.137	1.522	0.131
DAR	0.021	0.012	0.160	1.745	0.084

Source: Processed Secondary Data, 2025

Based on Figure 2, it can be seen that the points are scattered randomly above and below the number 0 on the Y-axis and there is no specific pattern. Apart from Figure 2, the results in Table 6 show that ROE, CAPIN, and DAR have significance values greater than 0.05. Therefore, these two results indicate that there are no issues with heteroscedasticity and that they can be used in the research model.

Autocorrelation Test

The way to find out whether there is autocorrelation or not in the study, it can use the Durbin-Watson test. The results obtained from the Durbin-Watson test will then be compared with the value contained in the d-table at $\alpha = 5\%$, the comparison results will produce the following conclusions:

1) If the Durbin-Watson (DW) value is below -2, this indicates positive autocorrelation.
2) If the Durbin-Watson (DW) value is between -2 and +2, it can be concluded that there is no autocorrelation.
3) If the Durbin-Watson (DW) value is above +2, this indicates negative autocorrelation.

Table 7
Autocorrelation Test Results After Transformation

Model Summary

R	R Square	Adjusted R Square	Std. Error	Durbin-Watson
0.258	0.066	0.042	0.11105	1.173

Source: Processed Secondary Data, 2025

From Table 7, the Durbin-Watson results show a value of 1.173. The Durbin-Watson value in these results indicates that there is no autocorrelation in the regression model, because -2 < 1.173 < +2. Therefore, this regression model is still suitable for use in this study.

Hypothesis Test Results

Determination Coefficient Test (R^2)

Table 8
Determination Coefficient Test Results (R^2) After Transformation

Model Summary

R	R Square	Adjusted R Square	Std. Error
0.258	0.066	0.042	0.11105

Source: Processed Secondary Data, 2025

In Table 8, the Adjusted R Square value of 0.042 indicates that the independent variables in the study explain 4.2% of the tax avoidance variable, with the remainder explained by other variables. This indicates that the model has relatively low predictive power but still suitable for use in a socioeconomic research context.

F-test (Simultaneous)

Table 9
F-test Results (Simultaneous) After Transformation

ANOVA

Sources of Variation	Sum of Square	df	Mean Square	F Calculate	Sig.
Regression	0.102	3	0.034	2.748	0.046
Residual	1.431	116	0.012		
Total	1.532	119			

Source: Processed Secondary Data, 2025

Table 9 shows that the F-test results indicate an F value of 2.748 with a significance level of 0.046 (< 0.05), which means that ROE, CAPIN, and DAR have a significant simultaneous effect on ETR practices. These F-test results confirm that companies with good profitability, a significant amount of fixed assets, and high debt levels are more likely to engage in ETR.

T-test (Partial)

Table 10
T-test Results (Partial) After Transformation

Variable	Coefficients (B)	Std. Error	Beta	T Calculate	Sig.
Constant	-1.524	0.040	—	-38.541	0.000
ROE	-0.017	0.015	-0.101	-1.102	0.273
CAPIN	-0.026	0.016	-0.149	-1.654	0.101
DAR	0.045	0.020	0.204	2.234	0.027

Source: Processed Secondary Data, 2025

Based on the results of the T-test presented in Table 10, this shows that ROE does not have a significant effect on ETR, as indicated by Sig. = 0.273 (>0.05). This finding indicates that the level of profit earned by consumer goods companies is not a major determinant in the decision to engage in tax avoidance practices. The negative ROE regression coefficient (-0.017) shows a relationship that is contrary to the research hypothesis, where an increase in ROE tends to decrease the ETR rate, although not statistically significant. The insignificant effect of ROE on ETR can be explained through the signaling theory perspective presented in the theoretical framework of this study. Companies that achieve high ROE often maintain their reputation and credibility among stakeholders by avoiding aggressive tax avoidance strategies. This aligns with the argument that profitable companies prefer to demonstrate tax compliance as a positive signal to investors and regulators regarding the quality of management and the sustainability of long-term business operations (Leonardi et al., 2024). The results of this study are supported by research conducted by (Hartono, 2024) which states that profitability has no significant effect on tax avoidance efforts.

Based on Table 10, statistical analysis shows that CAPIN has no effect on ETR with a significance level of 0.101, which exceeds the critical alpha limit of 0.05. Although the regression coefficient shows a negative direction (-0.026), the effect does not reach the level of significance required to support the research hypothesis. This finding indicates that the proportion of fixed assets to total assets owned by a company is not a factor in the decision to engage in tax avoidance for consumer goods companies listed on the IDX. The insignificant effect of CAPIN can be attributed to the complexity of Indonesia's tax regulations related to fixed asset depreciation, which have been harmonized with international accounting standards. Although theoretically companies with high CAPIN have the potential for a tax shield through depreciation expenses, its practical implementation in the context of consumer goods companies does not provide sufficient incentives to engage in ETR. This can be caused by regulatory restrictions that reduce the flexibility of companies in optimizing the tax benefits of fixed assets (Wuriti & Noviari, 2023). This finding confirms the results of (Monika & Noviari, 2021) which states that capital intensity does not have a significant impact on tax avoidance.

In Table 10, it is found that DAR has a positive and significant effect on ETR, with a regression coefficient value of 0.045 and a significance level of 0.027, which is smaller than the alpha limit of 0.05. This finding confirms the research hypothesis which states that the company's DAR level has a positive relationship with ETR. The positive regression coefficient means that every one unit increase in DAR will increase the company's tendency to add ETR by 0.045 units. The significance of the effect of DAR on ETR can be explained through the tax shield mechanism resulting from debt interest expense. Companies with a high enough DAR have a large loan interest expense that can be used to reduce taxable income, thus effectively reducing the company's ETR. This finding is in line with the results of the analysis of (Nathania et al., 2021) which found a positive effect of leverage on tax avoidance in the mining sector. The consistency of results across industry sectors indicates that the tax shield mechanism from interest expense is a universal phenomenon that is not limited to specific industry characteristics.

MRA Test

Table 11
MRA Test Results After Transformation

Variable	Coefficients (B)	Std. Error	T Calculate	Sig.
Constant	-1.526	0.042	-36.053	0.000
ROE	-0.164	0.264	-0.624	0.534
CAPIN	0.068	0.299	0.226	0.821
DAR	0.083	0.462	0.181	0.857
ROE*SIZE	0.005	0.009	0.560	0.576
CAPIN*SIZE	-0.003	0.010	-0.319	0.750
DAR*SIZE	-0.001	0.016	-0.078	0.938

Source: Processed Secondary Data, 2025

In table 11, the MRA test results show that there is no effect of SIZE as a moderating variable in the relationship between ROE and ETR, because the value of Sig. = 0.576 which means greater than 0.05. Therefore, the fourth hypothesis cannot be accepted. Large companies usually find it easier to generate profits, so companies that earn high profits tend to be more compliant with company's tax obligations. Based on agency theory, large companies should have stronger oversight, both from the board of commissioners, shareholders, and regulators. The size of a company is often associated with high external oversight and reputational pressure, which in turn can limit managers from taking aggressive actions, including ETR. However, the empirical results of this study do not support this assumption. SIZE does not play a significant role in moderating the influence of ROE on ETR. This suggests that, in practice, the influence of ROE on ETR does not depend on the size of the company. Both large and small companies, when profitable, still have relatively the same potential and incentives to engage in ETR. These findings are in line with research (Faizah, 2022) which concluded that company size is unable to strengthen the effect of profitability on tax avoidance.

Based on the results of the MRA test contained in table 11, SIZE proved unable to strengthen the influence of CAPIN on ETR because the results of Sig. = 0.750 (CAPIN*SIZE), these results are greater than 0.05. Thus, the fifth hypotheses of the study were rejected. According to agency theory, in large companies, there should be a stricter monitoring system—from top management, the board of commissioners, and regulators—that can limit managerial behavior that conflicts with the interests of owners, including the use of aggressive tax avoidance strategies. Thus, theoretically, SIZE should moderate the relationship between CAPIN and ETR. For example, companies can use professional consultants to design complex but not overly aggressive tax planning strategies.

However, the results of this study show that in practice, SIZE does not play a significant role in strengthening or weakening this relationship. This implies that large and small companies, when they have high CAPIN, behave relatively similarly in terms of ETR. In this context, CAPIN still provides opportunities for ETR, and large companies do not always reduce or avoid these opportunities, even under strict supervision. SIZE is not a benchmark for company management to avoid taxes by utilizing depreciation costs from existing fixed assets. This finding is in line with the thesis results of (Ramadani, 2023) which concluded that company size is not able to moderate the respective effects of capital intensity on tax avoidance.

Based on the results of the moderation regression test in Table 11, the significance value of the interaction between DAR and SIZE on ETR is 0.938 (DAR*SIZE), which is well above the significance threshold of 0.05. Therefore, the sixth hypothesis is rejected. These results indicate that SIZE does not play a significant role as a moderating variable in strengthening or weakening the effect of DAR on ETR. When linked to signaling theory, SIZE can serve as a signal of compliance and credibility in the eyes of investors, the public, and tax authorities. Larger companies are typically subject to stricter oversight and tend to be more cautious in making strategic decisions, including those related to ETR. They may avoid overly aggressive ETR strategies to maintain their reputation, investor confidence, and stable relationships with regulators. Theoretically, it can be assumed that large companies with high DAR will be more cautious in exploiting ETR opportunities compared to small companies. Thus, SIZE should be able to moderate the influence of DAR on ETR.

Nevertheless, the findings of this study do not align with the proposed assumption. The moderating role of SIZE on the relationship between DAR and ETR is not statistically significant. This indicates that, in practice, both large and small firms demonstrate a comparable tendency to utilize debt as a means of reducing tax obligations, reflecting a shared strategic approach regardless of organizational scale. This result is consistent with the findings of (Ramadani, 2023), whose thesis concluded that firm size does not significantly moderate the influence of DAR on ETR.

CONCLUSIONS AND SUGGESTION

Based on the results of data analysis and discussion that has been carried out, it can be concluded that of the three independent variables studied, only DAR is proven to have a positive and significant influence on ETR in consumer goods sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2020-2023 with a regression coefficient of 0.045 and a significance level of 0.027. This finding confirms that companies with considerable DAR tend to use interest expense as an instrument of tax savings through the tax shield mechanism allowed in tax regulations. In contrast, ROE and CAPIN do not show a significant effect on ETR, indicating that the level of corporate profits and the proportion of fixed assets are not the main determinants in making decisions to avoid taxes on companies engaged in the consumer goods sector. In addition, the results of the study also show that SIZE has no effect in moderating the relationship between ROE, CAPIN, or DAR on ETR. Therefore, this study can also be a practical contribution for tax authorities in understanding corporate ETR behavior in the consumer goods sector, which has a relatively high DAR level, so that tax authorities can create better regulations than before. On the other hand, the results of this study can also contribute as a reference for other researchers, especially in studies that use SIZE as a moderating variable.

Based on the results of this study, tax authorities should be able to increase observations of companies with high DAR levels and review regulations related to deductible interest expense to prevent abuse of the tax shield mechanism. For company management, it is recommended to consider the trade-off between the tax benefits of high DAR and the risk of increased financial distress, and develop a tax strategy that is balanced between tax efficiency and long-term business sustainability. Future researchers are advised to replace the moderating variable of SIZE with other variables, as well as expand the scope of the research sample to different industrial sectors in order to obtain a more thorough understanding of the determinants that influence ETR in Indonesia.

REFERENCES

Agustianti, R., Nussifera, L., Angelianawati, L., Meliana, I., Sidik, E. A., Nurlaila, Q., Simarmata, N., Himawan, I. S., Pawan, E., Ikhram, F., Andriani, A. D., & Hardika, I. R. (2022). *Metode penelitian kuantitatif dan kualitatif*. Tohar Media.

Agustina, I., Eprianto, I., & Pramukty, R. (2023). Pengaruh leverage dan ukuran perusahaan terhadap tax avoidance pada perusahaan property dan real estate yang terdaftar di Bursa Efek Indonesia (BEI) periode tahun 2017–2021. *Jurnal Economina*, *2*(2), 464–475. https://doi.org/10.55681/economina.v2i2.322

Amiah, N. (2022). Profitabilitas, intensitas modal dan penghindaran pajak: Ukuran perusahaan sebagai variabel pemoderasi. *Jurnal Literasi Akuntansi*, *2*(1), 63–73. https://doi.org/10.55587/jla.v2i1.13

Asianingrum, D. F., & Nursyirwan, V. I. (2024). Pengaruh capital intensity terhadap agresivitas pajak dengan ukuran perusahaan sebagai variabel moderasi. *Jurnal Akuntansi, Manajemen, Dan Perencanaan Kebijakan*, *2*(1), 13. https://doi.org/10.47134/jampk.v2i1.425

Budianti, S., & Curry, K. (2018). Pengaruh profitabilitas, likuiditas dan capital intensity terhadap penghindaran pajak (tax avoidance). *Prosiding Seminar Nasional Cendekiawan*, *4*, 1205–1209. https://doi.org/10.25105/semnas.v0i0.3567

Faizah, K. (2022). Corporate governance, profitabilitas, leverage dan penghindaran pajak: Ukuran perusahaan sebagai variabel moderasi. *Jurnal Sosial Ekonomi Bisnis*, *2*(1), 15–26. https://doi.org/10.55587/jseb.v2i1.31

Fauziah, F. (2021). Pengaruh profitabilitas, ukuran perusahaan dan leverage terhadap penghindaran pajak perusahaan sektor industri barang konsumsi. *Jurnal Ilmu Dan Riset Akuntansi*, *10*(4).

Ghozali, I. (2016). *Aplikasi analisis multivariete dengan program IBM SPSS 23* (Edisi kedelapan). Badan Penerbit Universitas Diponegoro.

Gultom, J. (2021). Pengaruh profitabilitas, leverage dan likuiditas terhadap tax avoidance. *Jurnal Akuntansi Berkelanjutan Indonesia*, *4*(2).

Handayani, R. (2018). Pengaruh return on assets (ROA), leverage dan ukuran perusahaan terhadap tax avoidance pada perusahaan perbankan yang listing di BEI periode tahun 2012–2015. *Jurnal Akuntansi Maranatha*, *10*(1). https://doi.org/10.28932/jam.v10i1.930

Hartono. (2024). Pengaruh profitabilitas terhadap penghindaran pajak. *EKOMA: Jurnal Ekonomi, Manajemen, Akuntansi*, *3*(4), 1788–1794. https://doi.org/10.56799/ekoma.v3i4.3659

Khairunnisa, N. R., Simbolon, A. Y., & Eprianto, I. (2023). Pengaruh leverage, profitabilitas, good governance terhadap penghindaran pajak (tax avoidance). *Jurnal Economina*, *2*(8), 2164–2177. https://doi.org/10.55681/economina.v2i8.726

Leonardi, W., Antolin, A., Christy, F., & Delvin, D. (2024). Pengaruh ukuran perusahaan, leverage, profitabilitas terhadap penghindaran pajak dengan komite audit sebagai variabel moderasi. *Jurnal Ekonomi Manajemen Dan Bisnis (JEMB)*, *1*(6), 288–297. https://doi.org/10.62017/jemb.v1i6.1773

Mahdiana, M. Q., & Amin, M. N. (2020). Pengaruh profitabilitas, leverage, ukuran perusahaan, dan sales growth terhadap tax avoidance. *Jurnal Akuntansi Trisakti*, *7*(1), 127–138. https://doi.org/10.25105/jat.v7i1.6289

Martinus, J., Jiwandaningtyas, M. E., Firmansyah, A., & Andriani, A. F. (2021). Penghindaran pajak pada industri barang konsumsi di Indonesia sebelum era pandemi COVID-19: Ukuran perusahaan dan profitabilitas. *Educoretax*, *1*(4). https://doi.org/10.54957/educoretax.v1i4.118

Monika, C. M., & Noviari, N. (2021). The effects of financial distress, capital intensity and audit quality on tax avoidance. *American Journal of Humanities and Social Sciences Research (AJHSSR)*, *5*(6), 282–287.

Nabila, K., & Kartika, A. (2023). Pengaruh capital intensity dan komisaris independen terhadap penghindaran pajak dengan ukuran perusahaan sebagai variabel moderasi. *Ekonomis: Journal of Economics and Business*, *7*(1), 591. https://doi.org/10.33087/ekonomis.v7i1.746

Nathania, C., Wijaya, S., Hutagalung, G., & Simorangkir, E. N. (2021). The influence of company size and leverage on tax avoidance with profitability as intervening variable at mining company listed in Indonesia Stock Exchange period 2016–2018. *International Journal of Business, Economics and Law*, *24*(2).

Pasaribu, M. D., & Mulyani, D. S. (2019). Pengaruh leverage dan liquidity terhadap tax avoidance dengan inventory intensity sebagai variabel moderasi. *Jurnal Akuntansi Maranatha*, *11*(2), 211–217. https://doi.org/10.28932/jam.v11i2.1996

Pertiwi, S. D., & Purwasih, D. (2023). Pengaruh ukuran perusahaan, intensitas aset tetap terhadap penghindaran pajak dengan pertumbuhan penjualan sebagai variabel moderasi (studi empiris pada perusahaan manufaktur sub sektor makanan dan minuman yang terdaftar di Bursa Efek Indonesia periode 2016–2021). *Jurnal Revenue: Jurnal Akuntansi*, *3(2)*, 477–487.

Pohan, C. A. (2016). *Manajemen perpajakan (strategi perencanaan pajak dan bisnis)* (Edisi revisi). PT Gramedia Pustaka Utama.

Prabowo, A., & Sahlan, R. (2021). Pengaruh profitabilitas, leverage, dan capital intensity terhadap penghindaran pajak dengan ukuran perusahaan sebagai variabel (moderating) (studi empiris pada perusahaan manufaktur yang terdaftar di BEI tahun 2015–2019). *Media Akuntansi Perpajakan*, *6*(2), 55–74. https://doi.org/10.52447/map.v6i2.5126

Pravitasari, H. A., Khoiriawati, N., Sayyid, U., & Tulungagung, A. R. (2022). Pengaruh ukuran perusahaan, capital intensity, dan sales growth terhadap penghindaran pajak. *Fair Value: Jurnal Ilmiah Akuntansi Dan Keuangan*, *4*(10), 4498–4509. https://doi.org/10.32670/fairvalue.v4i10.1711

Ramadani, S. (2023). *Pengaruh profitabilitas, leverage dan capital intensity terhadap penghindaran pajak dengan ukuran perusahaan sebagai variabel moderasi (Studi pada perusahaan pertambangan sub sektor batu bara yang terdaftar di BEI tahun 2017–2021)* [Tesis, Universitas Andalas].

Ramdhania, D. Z., & Kinasih, H. W. (2021). Pengaruh likuiditas, leverage, dan intensitas modal terhadap agresivitas pajak dengan ukuran perusahaan sebagai variabel moderasi. *Dinamika Akuntansi Keuangan Dan Perbankan*, *10*(2), 93–106. https://doi.org/10.35315/dakp.v10i2.8876

Rani, A. M., Mulyadi, & Darminto, D. P. (2021). Determinan penghindaran pajak dengan komisaris independen sebagai moderasi pada perusahaan manufaktur sektor industri barang konsumsi. *Jurnal Riset Akuntansi & Perpajakan (JRAP)*, *8*(02), 112–126. https://doi.org/10.35838/jrap.2021.008.02.21

Santoso, I., & Madiistriyatno, H. (2021). *Metodologi penelitian kuantitatif*. Indigo Media.

Sari, M. R., & Indrawan, I. G. A. (2022). Pengaruh kepemilikan instutional, capital intensity dan inventory intensity terhadap tax avoidance. *Owner*, *6*(4), 4037–4049. https://doi.org/10.33395/owner.v6i4.1092

Sulaeman, R. (2021). Pengaruh profitabilitas, leverage, dan ukuran perusahaan terhadap penghindaran pajak (tax avoidance). *Syntax Idea*, *3*(2), 354–367. https://doi.org/10.46799/syntax-idea.v3i2.1050

Ulinuha, U., & Nurdin, F. (2024). Ukuran perusahaan memoderasi profitabilitas, leverage, capital intensity, dan CSR terhadap penghindaran pajak. *Jurnal E-Bis*, *8*(2), 520–538. https://doi.org/10.37339/e-bis.v8i2.1753

Wijaya, C., Pratama, A., & Lubis, Y. M. (2025). Pengaruh ukuran perusahaan, pertumbuhan penjualan, return on assets, dan leverage terhadap penghindaran pajak pada perusahaan sektor barang konsumsi periode 2019–2023. *Jurnal Syntax Admiration*, *6*(2), 1145–1157. https://doi.org/10.46799/jsa.v6i2.2112

Wuriti, N. M., & Noviari, N. (2023). Profitabilitas, leverage, dan penghindaran pajak. *E-Jurnal Akuntansi*, *33*(8). https://doi.org/10.24843/EJA.2023.v33.i08.p08

Yehezkiel, R., & Gultom, J. B. (2024). Pengaruh intensitas modal, pertumbuhan penjualan, leverage, dan ukuran perusahaan terhadap tax avoidance dengan profitabilitas sebagai variabel intervening (studi empiris pada perusahaan manufaktur sektor barang konsumen primer yang terdaftar di Bursa Efek Indonesia tahun 2018–2022). *Prosiding: Ekonomi Dan Bisnis*, *4*(1), 1–12. https://jurnal.ubd.ac.id/index.php/pros

Yuni, N. P. A. I., & Setiawan, P. E. (2019). Pengaruh corporate governance dan profitabilitas terhadap penghindaran pajak dengan ukuran perusahaan sebagai variabel pemoderasi. *E-Jurnal Akuntansi*, *29*(1), 128. https://doi.org/10.24843/EJA.2019.v29.i01.p09

Zahrani, C. S., Marundha, A., & Khasanah, U. (2023). Konservatisme akuntansi, capital intensity, profitabilitas, dan tax avoidance. *Jurnal Economina*, *2*(10), 3020–3040. https://doi.org/10.55681/economina.v2i10.931

Zoebar, M. K. Y., & Miftah, D. (2020). Pengaruh corporate social responsibility, capital intensity, dan kualitas audit terhadap penghindaran pajak. *Jurnal Magister Akuntansi Trisakti*, *7*(1), 25–40. https://doi.org/10.25105/jmat.v7i1.6315

Jurnal Akuntansi
Vol. 15, No.2, June 2025

ISSN 2303-0356
Hal. 95-106

The Influence of Asset Management, Solvency, and Liquidity on Financial Performance in Food and Beverage Sub-Sector Companies Listed on the Indonesia Stock Exchange in 2021-2023

Yanita Paulina Br Sebayang[1],Retnawati Siregar[2],Hasbiana Dalimunthe[3],Shabrina Tri Asti Nasution[4]
Accounting Study Program, Faculty of Economics and Business, Medan Area University, Indonesia[1,2,3,4]

ARTICLE INFO

Article history:
Received: June, 9th 2025
Revised: June 29th , 2025
Accepted: June 29th , 2025

Keywords:
Asset Management
Solvency
Liquidity
Financial Performance

Correspondence:
Yanita Paulina Br Sebayang
yanitapaulinasebayang5@gmail.com

ABSTRACT

This study aims to determine and analyze the effect of asset management, solvency, and liquidity on financial performance in food and beverage sub-sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2021 to 2023. The main problem in this study stems from the phenomenon of fluctuations in Return on Assets (ROA) which shows the inconsistency of the financial performance of companies in the sub-sector, so it is necessary to further explore the financial factors that influence it. The approach used in this study is a quantitative approach with an associative research type. The population in the study was 26 companies, with a purposive sampling technique obtained 20 companies as samples, which were multiplied by 3 years of observation period, resulting in 60 observation data. The data used is secondary data in the form of annual financial reports obtained through the official IDX website (www.idx.co.id). Data analysis techniques were carried out through classical assumption tests, multiple linear regression tests, partial tests (t-tests), simultaneous tests (F-tests), and determination coefficient tests using SPSS software version 25. The results of the study showed that partially, asset management, solvency, and liquidity each had a positive and significant effect on financial performance. Simultaneously, the three independent variables also had a positive and significant effect on the company's financial performance. These findings indicate that efficient asset management, a healthy capital structure, and the company's ability to meet short-term obligations are important factors in improving financial performance. Therefore, companies are advised to pay attention to these three aspects in managerial decision making to achieve long-term financial goals.

How to cite :
Sebayang, Yanita Paulina Br, dkk (2025). The Influence of Asset Management, Solvency, and Liquidity on Financial Performance in Food and Beverage Sub-Sector Companies Listed on the Indonesia Stock Exchange in 2021-2023. *Jurnal Akuntansi Vol 15 No 2 June 2025 page*,95-106 https://doi.org/10.33369/jakuntansi.15.2.95-106

INTRODUCTION

Financial performance is the company's ability to meet financial obligations, generate net profit, and optimize the use of owned assets (Rasyidin et al., 2023). Good or bad company performance is greatly influenced by the company's effectiveness in managing existing finances and resources. According to Evieana (2024:68), performance is a measure of the effectiveness of an organization, group, or company in achieving its stated goals. If a company's financial performance worsens, consumer and investor confidence may decline, which will ultimately have an impact on the overall value of the company. Therefore, companies are required to have a good financial management system in order to maintain operational sustainability and attract investors. In general, Return on Assets (ROA) is used as the main measuring tool in assessing financial performance because ROA shows how much net profit the company is able to generate from all its assets. The higher the ROA value, the higher the company's ability to manage its assets productively.

The phenomenon of ROA fluctuations can be clearly seen in food and beverage sub-sector companies listed on the Indonesia Stock Exchange (IDX). For example, the ROA of MYOR company in 2021 of 0.061 experienced a drastic decrease to 0.008 in 2022, then increased again to 0.136 in 2023. The GOOD company had an ROA of 0.073 in 2021, then decreased slightly to 0.071 in 2022 and increased again to 0.081 in 2023. Furthermore, the ROA of INDF company also decreased from 0.063 in 2021 to 0.051 in 2022, then increased again to 0.062 in 2023. DMND showed a stable ROA at 0.056 in 2021 and 2022, but decreased to 0.045 in 2023. Meanwhile, the CLEO company experienced a decrease in ROA from 0.134 in 2021 to 0.115 in 2022, and increased again to 0.133 in 2023. The data shows that there is a significant fluctuation in financial performance in food and beverage sub-sector companies, indicating the influence of various internal and external factors that have not been studied in depth. This ROA instability can reflect that the company's financial management still faces various challenges in maintaining sustainable profitability.

Some internal factors that are believed to be related to financial performance are asset management, solvency, and liquidity.

1. Asset management includes the process of managing a company's assets, from planning needs, legal audits, inventory, operations, valuations, to efficient asset transfers. In the context of this study, asset management is measured using the Total Asset Turnover (TATO) ratio. The higher the TATO ratio, the better the efficiency of the company's asset utilization in generating sales.
2. The second factor is solvency, which is the company's ability to meet its long-term obligations. Solvency in this study is measured using the Debt to Equity Ratio (DER), where the lower the DER indicates the smaller the company's dependence on debt, which means the company has a healthier capital structure. Solvency also plays an important role in maintaining the level of financial risk faced by the company, especially in the face of unstable market conditions.
3. The third factor is liquidity, which is the company's ability to meet its short-term obligations in a timely manner. Liquidity is measured using the Current Ratio (CR), which indicates the adequacy of current assets to cover current liabilities. The higher the liquidity ratio, the greater the company's ability to meet short-term debts and maintain smooth daily operations.

Previous research results show differences in findings regarding the influence of the three variables on financial performance. Several studies show that asset management, solvency, and liquidity have a positive and significant influence on ROA, while several other studies found that the influence was insignificant or even negative. For example, Puspitasari & Purwanti (2019) and Naufal & Fatihat (2023) stated that asset management has a positive and significant effect on financial performance. However, there are also studies that state that there is no significant influence between these variables. This inconsistency of results creates a research gap that is relevant for further research. In addition, there is still limited research that examines the three variables simultaneously in the context of the food and beverage sub-sector in Indonesia. This is an opportunity for researchers to further explore the relationship between variables with a quantitative approach based on actual financial data.

This study is also based on the Signaling Theory, which explains that company management has more complete information about the company's internal conditions than external parties, and therefore needs to provide signals to investors through reliable financial reports. Information conveyed through financial ratios such as ROA, DER, TATO, and CR can provide an overview of current performance and future prospects. When a company shows improved performance through high ROA, this can provide a positive signal to invest ors and increase the company's attractiveness

ISSN 2303-0356
Hal. 95-106

in the capital market. Likewise, a healthy financial structure and good liquidity levels will increase investor confidence in the company's ability to manage risk and maintain profitability.

Based on the background, phenomena, and research gaps that have been explained, this study was conducted with the aim of determining and analyzing the effect of asset management, solvency, and liquidity on financial performance in food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange in 2021–2023. This study specifically aims to test: (1) the effect of asset management on financial performance; (2) the effect of solvency on financial performance; (3) the effect of liquidity on financial performance; and (4) the effect of these three variables simultaneously on the company's financial performance. It is hoped that the results of this study can provide theoretical contributions in enriching financial management literature, as well as provide practical contributions for companies in developing asset management strategies and financial structures to improve overall performance.

RESEARCH METHODS

Research Design

The research design used in this study is quantitative research with a causal associative approach. Quantitative research was chosen because the focus of this study is to measure the relationship between variables using numerical data and analyzed statistically. The causal associative approach is used to determine the relationship and influence between two or more variables, namely asset management, solvency, and liquidity on financial performance (Sugiyono, 2020).

Data collection technique

The data collection technique used is the documentation technique, namely by collecting secondary data in the form of annual financial reports from food and beverage sub-sector companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2023 period. The financial reports are accessed through the official IDX website atwww.idx.co.id. The type of data used is quantitative data, namely data in the form of numbers that can be measured and calculated objectively, such as Return on Assets (ROA), Total Asset Turnover (TATO), Debt to Equity Ratio (DER), and Current Ratio (CR) (Sugiyono, 2020).

Validity Test

Validity testing aims to measure the extent to which the data obtained truly reflects the concept or variable being studied. In this study, validity testing was not carried out directly on instruments such as questionnaires, because the data used were secondary data. However, validity is still considered through data selection based on financial indicators that have been recognized theoretically and practically, such as ROA, TATO, DER, and CR, each of which represents a research variable. In other words, validity in this context is conceptual and comes from the suitability between the indicators used and the variables analyzed.

Reliability Test

Reliability testing aims to determine the extent to which data can be relied on and provide consistent results if reused. In this study, reliability testing was not carried out through statistical calculations because the data used were financial reports that had been published periodically and compiled using consistent methods between years. Consistency in the preparation of financial reports from year to year ensures that the data has high reliability and can be used for continuous time period analysis.

The data used in this study are secondary data sourced from official financial reports that have been audited and published publicly by the Indonesia Stock Exchange (IDX). Financial reports of public companies in Indonesia must be prepared in accordance with Financial Accounting

Standards (SAK) and audited by an independent Public Accounting Firm registered with the Financial Services Authority (OJK). This audit process ensures that the financial statements have undergone feasibility and reliability testing before being published. Therefore, the validity and reliability of the data can be believed to have been met, and the data used in this study can be scientifically and legally accounted for.

RESULTS AND DISCUSSION

Normality Test

Table 1. Normality Test

One-Sample Kolmogorov-Smirnov Test		
		Y.1
N		60
Normal Parametersa,b	Mean	2.7276
	Std. Deviation	1.18319
Most Extreme Differences	Absolute	.078
	Positive	.078
	Negative	-.057
Test Statistics		.078
Asymp. Sig. (2-tailed)		.200c,d

Based on table 1 above, it can be seen that the significance value is 0.200. The significance value exceeding 0.05 indicates that H1 is accepted, so it can be concluded that the data is normally distributed.

Multicollinearity Test

Table 2. Multicollinearity Test

Coefficientsa			
Model		Collinearity Statistics	
		Tolerance	VIF
1	Asset Management	.898	1.113
	Solvency	.667	1,500
	Liquidity	.632	1,582

Coefficientsa

Based on the multicollinearity test results above, it can be concluded that:

1) Based on the results of variable X1, the tolerance value obtained was 0.898 and the VIF value was 1.113, so it can be concluded that variable X1 does not experience multicollinearity problems because the tolerance value is higher than 0.10 and the VIF value is smaller than 10.
2) Based on the results of the X2 variable, the tolerance value is 0.667 and the VIF value is 1.500, so it can be concluded that the X2 variable does not experience multicollinearity problems because the tolerance value is higher than 0.10 and the VIF value is smaller than 10.
3) Based on the results of the X3 variable, the tolerance value is 0.632 and the VIF value is 1.582, so it can be concluded that the X3 variable does not experience mu lticollinearity

problems because the tolerance value is higher than 0.10 and the VIF value is smaller than 10.

Heteroscedasticity Test

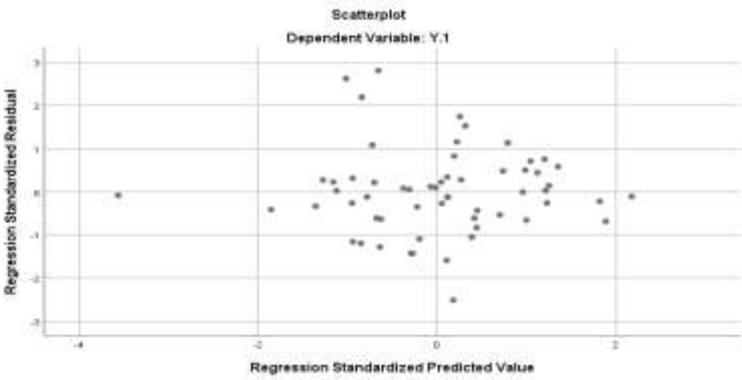


Figure 1Scatterplot

Figure 1 above shows that there is a clear pattern and the points are spread above and below the number 0 on the Y axis. Thus, it can be said that there is no heteroscedasticity.

Autocorrelation Test

Table 3 Autocorrelation Test

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.758a	.574	.546	10,013	1,737

From the statistical results above, it can be concluded that the Durbin-Watson statistical value is 1.737. So the result is 1.6889 < 1.737 < 2.3111, so there is no positive or negative autocorrelation, the decision is accepted.

Multiple Linear Regression Analysis

Table 4. Multiple Linear Regression Analysis

Coefficients a			
Model		Unstandardized Coefficients	
		B	Std.Error
1	(Constant)	6,359	2,810
	Asset Management	.003	.011
	Solvency	.001	.019
	Liquidity	.006	.005

The multiple linear regression model is as follows:

$$Y = 6.359 + 0.003X1 + 0.001X2 + 0.006X3$$

Information :
Y = Financial Performance
X1 = Asset Management
X2 = Solvency

X3 = Liquidity

From this equation it can be explained that:

a. The constant value generated based on the results of multiple linear regression tests is 6.359. This value means that all asset management, solvency and liquidity are worth 0, then the financial performance is 6.359.
b. The value of the asset management regression coefficient obtained is 0.003, which indicates a positive relationship. This can be interpreted that each asset management variable increases by one unit, then financial performance will increase by 0.003.
c. The value of the solvency regression coefficient obtained is 0.001, which indicates a positive relationship. This can be interpreted that each solvency variable increases by one unit, then financial performance will increase by 0.001.
d. The value of the liquidity regression coefficient obtained is 0.006, which indicates a positive relationship. This can be interpreted that every liquidity variable increases by one unit, then financial performance will increase by 0.006.

Hypothesis Testing

Table 5. Results of Partial Test Calculation (t-Test)

Coefficientsa			
Statistical Coordination			
Model		T	Sig.
1	(Constant)	2.263	.028
	Asset Management	2.373	.004
	Solvency	2,368	.024
	Liquidity	3.125	.015

From the results of Table 5 above, the following conclusions can be drawn:

1) The asset management variable has a calculated t value of 2.373 which is greater than the t table of 2.00247, namely (2.373 > 2.00247 and a significant value of 0.004 which is smaller than 0.05 (0.004 < 0.05), so it can be concluded that H1 is accepted, which means that asset management has a positive and significant effect on financial performance.
2) The solvency variable has a calculated t value of 2.368, the calculated t value is greater than the t table of 2.00247, namely (2.368 > 2.00247) and a significant value of 0.024 is smaller than 0.05 (0.024 < 0.05), so it can be concluded that H2 is accepted, which means that solvency has a positive and significant effect on financial performance.
3) The liquidity variable has a calculated t value of 3.125 which is greater than the t table of 2.00247, namely (3.125 > 2.00247) and a significant value of 0.015 which is smaller than 0.065 (0.015 < 0.05), so it can be concluded that H3 is accepted, which means that liquidity has a positive and insignificant effect on financial performance.

Simultaneous Test

able 6. Simultaneous Test (F Test)

ANOVA						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	9,884	3	3.295	3,507	.020b
	Residual	72,713	56	1.298		
	Total	82,597	59			

Based on table 6, it can be seen that the value of F count is 3.507> F table 2.53 with a significance value of 0.020 <0.05. This shows that the significance value <alpha (α = 0.05). So it can be concluded that there is a simultaneous influence between asset management, solvency and liquidity on financial performance. In the significance table, the figure 0.020 is below (α = 0.05). This shows that asset management, solvency and liquidity simultaneously have a positive and significant effect on financial performance in food and beverage sub-sector companies listed on the Indonesia Stock Exchange in 2021-2023.

Coefficient of Determination (R2)

Table 7. Coefficient of Determination

Model Summaryb			
Model	R	R Square	Adjusted R Square
1	.758a	.574	.546

Based on the results of the determination coefficient test that has been carried out, the determination value obtained shows the Adjusted R Square value in this study of 0.546 or 54.6%. This states that all independent variables, namely asset management, solvency and liquidity, interpret the dependent variable, namely financial performance, by 54.6% and the remaining 45.4% is influenced by other variables not examined in this study.

Discussion

The Influence of Asset Management on Financial Performance

Based on the results of the t-test conducted, it can be seen that the results of the study indicate that the asset management variable as measured by the Total Asset Turnover Ratio (TATO) has a positive and significant effect on financial performance, thus the first hypothesis (H1) is accepted. This is evidenced by the test results showing that the regression coefficient value is positive at 2.373. From the results of the t-test for the asset management variable, a significance value of 0.004 was obtained. Therefore, because the coefficient value is positive and the significance value is smaller than 0.05, the asset management variable has a positive and significant effect on financial performance. This means that the higher the TATO ratio, the more it improves financial performance.

This shows that increasing total assets predict companies that are effective in utilizing resources that will generate profits. This is in line with Signaling Theory, which states that high asset management will result in increased profits and show a positive signal regarding company performance. The higher the activity ratio or the higher the company's TATO level, the better the asset management is, which is indicated by the faster the company's operational asset turnover generates sales. High sales figures and accompanied by efficient use of expenses, the company will generate high profits. High profits and efficient asset management will result in high ROA values.(Diana & Osesoga, 2020).

Thus, the more efficient asset management is indicated by the higher TATO value, the more efficient the company's financial performance is. Positive results from increased profits encourage investors to invest in the company, and can be used to improve the company's operational strategy.(Cecilia & Sjarief, 2022). The results of this study are in accordance with research conducted byNaufal & Fatihat, (2023)stated that asset management has a positive and significant effect on financial performance. However, this is contrary to the results of the studyThe Last Supper (2018)which states that asset management has a negative effect on financial performance. While the results of the studyNoormuliyaningsih & Swandari (2016)stated that asset management does not have a significant effect on financial performance.

The Influence of Solvency on Financial Performance

Based on the results of the t-test conducted, it can be seen that the results of the study indicate that the solvency variable measured by the Debt to Equity Ratio (DER) has a positive and significant effect on financial performance, thus the second hypothesis (H2) is accepted. This is evidenced by the test results showing that the regression coefficient value is positive at 2.368. From the results of the t-test for the liquidity variable, a significance value of 0.024 was obtained. Therefore, because the coefficient value is positive and the significant value is smaller than 0.05, the solvency variable has a positive and significant effect on financial performance. This means that the higher this ratio means that the equity is less than the debt.

In this case, a higher DER can contribute positively to ROA. This is in accordance with the signal theory which can provide a positive signal to investors so that they are more enthusiastic about investing in the intended thing. Because more investors are interested, this can cause stock prices to rise and become more volatile. This is in line with researchAsniwati, (2020)AndParadise & Dara, (2020)which states that the solvency ratio (Debt to Equity Ratio) has a positive and significant effect on financial performance (Return on Assets). However, the results of this study are not in line with the research conducted by Nufal & Fatihat, (2023) which states that liquidity does not affect financial performance.

The Influence of Liquidity on Financial Performance

Based on the results of the t-test conducted, it can be seen that the results of the study indicate that the liquidity variable measured by the Current Ratio (CR) has a positive and significant effect on financial performance, thus the third hypothesis (H3) is accepted. This is evidenced by the test results showing that the regression coefficient value is positive at 3.125. From the results of the t-test for the liquidity variable, a significance value of 0.015 was obtained. Therefore, because the coefficient value is positive and the significant value is smaller than 0.05, the liquidity variable has a positive and significant effect on financial performance. This means that the higher this ratio means that the equity is less than the debt.

This is in accordance with research that has been conducted byDiana & The Owl (2020)& Asniwati (2020) who stated that liquidity has a positive and significant effect on financial performance. However, the results of this study are not in line with the research conducted by Nufal & Fatihat, (2023) who stated that liquidity has no effect on financial performance.

The Influence of Asset Management, Liquidity and Solvency on Financial performance

The fourth hypothesis (H4) of this study is that simultaneous asset management, solvency and liquidity have a positive and significant effect on financial performance. The value of F count is 3.507> F table 2.53 with a significance value of 0.020 <0.05 so that H4 is accepted. This shows that simultaneous asset management, solvency and liquidity simultaneously have a positive and significant effect on earnings management in food and beverage sub-sector companies listed on the Indonesia Stock Exchange in 2021-2023. It is known that the results of the research of the adjusted determination coefficient (R2) are 0.546. So it can be interpreted that the determination coefficient of 0.546 or 54.6% of financial performance can be influenced by the three independent variables consisting of asset management, solvency and liquidity. While the remaining 54.6% is influenced by other variables not included in this study. The results of this study indicate that asset management, solvency, and liquidity have a positive and significant effect on financial performance in food and beverage sub-sector companies listed on the IDX for the 2021–2023 period. This can be seen from the results of the t-test which shows that each independent variable has a significance value below 0.05, which means that it partially has a significant effect on Return on Assets (ROA) as an indicator of financial performance. In addition, the results of the F test also show that simultaneously the three variables have a significant effect on financial performance, with a significance value of 0.000 which is less than 0.05.

Theoretically, these results are in accordance with Signaling Theory, which explains that companies provide signals to investors through financial information such as healthy financial ratios. Increasing financial performance (in this case ROA) provides a positive signal that the company has good prospects and is managed efficiently. Good asset management, indicated by high TATO, supports this theory because it shows the company's ability to manage and rotate assets to generate sales. This finding is also consistent with the opinion of Ambarita (2018), who stated that high asset turnover indicates efficient resource management.

In terms of solvency, the results of this study support the research of Asniwati (2020) and Firdaus & Dara (2020) which found that DER has a positive and significant effect on ROA. Although high DER is often associated with greater financial risk, in this context, the company is able to manage its debt efficiently to support operational activities and make a profit. This is also in line with Signaling Theory, because companies that are able to use debt to finance productive activities will show good financial performance, which gives a positive signal to investors.

In the context of liquidity, the results of this study support the findings of Dewi (2023) and Asniwati (2020) which show that CR has a positive and significant effect on ROA. The higher the liquidity ratio, the greater the company's ability to meet short-term obligations, which contributes to operational stability and smooth business activities. This strengthens the role of liquidity as an important factor in maintaining the company's financial performance. However, it is important to note that liquidity that is too high can also indicate suboptimal utilization of current assets, so balanced management is needed between adequate funds and asset efficiency.

Thus, overall, the results of this study support previous theories and research, and provide empirical evidence that asset management, healthy capital structure, and the company's ability to meet short-term obligations are important determinants in shaping the financial performance of food and beverage companies in Indonesia. This study also strengthens the urgency for company management to continue to pay attention to and control these three financial aspects in a balanced and sustainable manner.

CONCLUSIONS AND SUGGESTIONS

CONCLUSIONS

Based on theoretical studies and research results and discussions, the following conclusions were obtained Asset management has a positive and significant effect on financial performance with a significant value of 0.004. Solvency has a positive and significant effect on financial performance with a significant value of 0.028. Liquidity has a positive and significant effect on financial performance with a significant value of 0.015. Simultaneously, asset management, solvency and liquidity have a positive and significant effect on financial performance with a significant value of 0.020.

SUGGESTION

Based on the research results which show that asset management, solvency and liquidity have a significant influence on financial performance, the following suggestions can be given:

1. **For Corporate Finance Managers**, it is recommended to be more optimal in managing company assets so that asset turnover can increase sales and profitability. Efficient asset management will support increased ROA and provide a positive signal to investors. In addition, capital structure management must be carried out in a balanced manner so that debt levels do not burden profits, but still support business expansion. Liquidity also needs to be maintained at an adequate level so that the company is able to meet short-term obligations without sacrificing asset efficiency.
2. **For Investors**, the results of this study can be used as a consideration in conducting fundamental analysis before investing, especially by considering financial ratios such as

TATO, DER, and CR which have been proven to affect ROA. Investors are advised to choose companies that have good asset management, healthy capital structure, and stable liquidity levels.

3. **For Academics and Further Researchers**, it is recommended to develop this research by adding other variables such as profitability, operational efficiency, or cost structure, as well as expanding the scope of the industrial sector so that the results obtained are more comprehensive and can be generalized.
4. **For Regulators and Policy Makers**, such as the Financial Services Authority (OJK) or the Indonesia Stock Exchange (BEI), these findings can be used as a basis for strengthening regulations on financial reporting transparency and encouraging companies to maintain their financial health through optimal management of financial ratios.

REFERENCES

Achmad, N., & Hidayat, L. (2013). Pengaruh manajemen aset terhadap kinerja keuangan perusahaan. *Jurnal Ilmiah Manajemen Kesatuan*, *1*(1), 23–38. https://doi.org/10.37641/jimkes.v1i1.252

Affi, F., & As'ari, H. (2023). Pengaruh profitabilitas, solvabilitas dan likuiditas terhadap kinerja keuangan perusahaan. *Jurnal Kewirausahaan, Akuntansi dan Manajemen Tri Bisnis*, *5*(1), 59–77.

Ambarita, A. (2018). Analisis pengembangan sistem informasi pengolahan aset daerah (Studi kasus: Dinas Pendapatan dan Pengelolaan Aset Daerah Provinsi Maluku Utara). *Indonesian Journal on Networking and Security*, *5*(4), 47–56.

Anggraeni, D. (2015). Pengaruh current ratio, quick ratio, debt to equity ratio dan ukuran perusahaan terhadap kinerja perusahaan (Studi empiris pada perusahaan manufaktur sub sektor makanan dan minuman yang terdaftar di Bursa Efek Indonesia periode 2012–2014). *Jurnal Akuntansi dan Keuangan*, *4*(2), 6.

Arham, A., Arfianty, A., & Amanda, R. (2023). Analisis rasio solvabilitas terhadap kinerja keuangan yang terdaftar di Bursa Efek Indonesia (BEI). *KIA: Konferensi Ilmiah Akuntansi*, *10*, 1–11. https://jurnal.umj.ac.id/index.php/KIA/article/download/17714/8856

Arsita, Y. (2021). Analisis rasio keuangan untuk mengukur kinerja keuangan PT Sentul City Tbk. *Jurnal Manajemen Pendidikan dan Ilmu Sosial*, *2*(1), 152–167. https://doi.org/10.38035/jmpis.v2i1.436

Asniwati. (2020). Pengaruh rasio likuiditas, solvabilitas, dan profitabilitas terhadap kinerja keuangan pada PT Midi Utama Indonesia Tbk yang terdaftar di Bursa Efek Indonesia. *Jurnal Economic*, *8*(1), 246–257.

Balqish, A. T. (2020). Pengaruh CR dan DER terhadap ROE pada perusahaan perdagangan eceran di BEI periode 2015–2018. *Owner: Riset dan Jurnal Akuntansi*, *4*(2), 657. https://doi.org/10.33395/owner.v4i2.298

Brigham, E. F., & Houston, J. F. (2015). *Manajemen keuangan*. Erlangga.

Cecilia, L. J., & Sjarief, J. (2022). Analisis pengaruh kepemilikan manajerial, jumlah rapat komite audit, profitabilitas, dan kualitas audit terhadap nilai perusahaan (Studi empiris pada perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia tahun 2017–2019). *Balance: Jurnal Akuntansi, Auditing dan Keuangan*, *18*(2), 179–199. https://doi.org/10.25170/balance.v18i2.3135

Dewi, Y. N. I. S. (2023). Pengaruh rasio solvabilitas, likuiditas, dan aktivitas terhadap kinerja keuangan perusahaan manufaktur sub sektor farmasi yang terdaftar di Bursa Efek Indonesia periode 2017–2021. *Skripsi*.

Diana, L., & Osesoga, M. S. (2020). Pengaruh likuiditas, solvabilitas, manajemen aset, dan ukuran perusahaan terhadap kinerja keuangan. *Jurnal Akuntansi Kontemporer*, *12*(1), 20–34.

ISSN 2303-0356
Hal. 95-106

https://doi.org/10.33508/jako.v12i1.2282

DN, Q., Wijaya, P., & Iqbal, M. (2017). Implementasi metode just in time pada sistem informasi perusahaan manufaktur untuk efisiensi biaya bahan baku. *Jurnal Sistem Informasi*, *1*(1), 1–10.

Dwi, R., & Pinem, D. (2015). Pengaruh profitabilitas, leverage dan ukuran perusahaan terhadap nilai perusahaan. *Jurnal Akuntansi*, *18*(1), 1–18.

Fauzan, A. F. T., & Rasyid, R. (2024). Analisis faktor yang mempengaruhi profitabilitas. *Jurnal Paradigma Akuntansi*, *6*(1), 35–45. https://doi.org/10.24912/jpa.v6i1.28534

Firdaus, G. R., & Dara, S. R. (2020). Analisis perbandingan kinerja keuangan sebelum dan sesudah melakukan akuisisi dan merger pada perusahaan non keuangan. *Akurasi: Jurnal Riset Akuntansi dan Keuangan*, *2*(2), 63–74. https://doi.org/10.36407/akurasi.v2i2.184

Ghozali, I. (2021). *Aplikasi analisis multivariate dengan program IBM SPSS 26* (10th ed.). Badan Penerbit Universitas Diponegoro.

Iman, C., Sari, F. N., & Pujiati, N. (2023). Pengaruh likuiditas dan profitabilitas terhadap nilai perusahaan. *Perspektif: Jurnal Ekonomi & Manajemen Universitas Bina Sarana Informatika*, *2*(1), 56–66. https://doi.org/10.55606/jumia.v2i1.2276

Indrayani, N. K., Endiana, I. D. M., & Pramesti, I. G. A. A. (2022). Pengaruh kebijakan dividen, likuiditas, leverage, profitabilitas, dan ukuran perusahaan terhadap nilai perusahaan. *Etnik: Jurnal Ekonomi dan Teknik*, *1*(10), 707–715. https://doi.org/10.54543/etnik.v1i10.119

Isbanah, Y. (2015). Pengaruh ESOP, leverage, dan ukuran perusahaan terhadap kinerja keuangan perusahaan di Bursa Efek Indonesia. *Jurnal Riset Ekonomi dan Manajemen*, *15*(1), 28. https://doi.org/10.17970/jrem.15.150103.id

Kasmir. (2016). *Analisis laporan keuangan*. PT Raja Grafindo Persada.

Likha, M., & Fitria, A. (2019). Pengaruh pertumbuhan laba, kinerja keuangan terhadap nilai perusahaan dimoderasi corporate social responsibility. *Jurnal Ilmu dan Riset Akuntansi*, *8*(5), 1–19.

Miati, N. L. P. M., Kawisana, I. P. G. W., & Wahyu, N. L. P. R. (2018). Pengaruh profitabilitas dan financial decision pada nilai perusahaan (Studi pada perusahaan jasa, dagang, dan investasi yang terdaftar di BEI periode 2014–2016). *Jurnal Riset Akuntansi Aksioma*, *16*(2), 91.

Mukaromah, N. F., & Futaqi, F. A. (2023). Pengaruh rasio likuiditas, solvabilitas, dan aktivitas terhadap kinerja keuangan perusahaan manufaktur. *JEKPEND*, *6*, 73–83. https://doi.org/10.26858/jekpend.v6i2.47758

Mulyani, E. L., & Budiman, A. (2018). Analisis pengaruh kualitas aset, likuiditas, solvabilitas, aktivitas dan non performing loan terhadap kinerja keuangan (Pada perbankan yang tercatat di Bursa Efek Indonesia). *Journal of Management Information and Decision Sciences*, *21*(1), 11–17.

Naufal, A. M., & Fatihat, G. G. (2023). Pengaruh rasio likuiditas, rasio solvabilitas dan rasio aktivitas terhadap kinerja keuangan perusahaan (Studi kasus pada perusahaan manufaktur sub sektor rokok yang terdaftar di Bursa Efek Indonesia periode 2017–2021). *Jurnal Pendidikan Akuntansi dan Keuangan*, *11*(1), 41–47.

Noni, E., & Hazmi, S. (2023). Pengaruh profitabilitas, likuiditas, dan pajak terhadap struktur modal pada perusahaan manufaktur sektor industri barang konsumsi yang terdaftar di Bursa Efek Indonesia periode 2020–2022. *Journal Akuntansi Manajerial*, *8*(2), 1–15.

Noormuliyaningsih, & Swandari. (2016). Pengaruh risiko aktivitas dan leverage terhadap tingkat profitabilitas. *Jurnal Wawasan Manajemen*, *4*(1), 65–73.

Padmanegara, O. H., Sunarsi, D., & Effendy, A. A. (2020). Pengaruh net profit margin dan debt to equity ratio terhadap harga saham pada PT Suryo Toto Indonesia, Tbk. *Jurnal Proaksi*, *7*(2), 228–233. https://doi.org/10.32534/jpk.v7i2.1415

Pradana, S. W. L., & Sanjaya, I. P. S. (2017). Dampak profitabilitas, aliran kas bebas, dan kesempatan investasi terhadap pembayaran dividen perusahaan perbankan. *Jurnal Keuangan dan Perbankan*, *21*(1), 113–124. https://doi.org/10.26905/jkdp.v21i1.1232

Puspitasari, I., & Purwanti, A. (2019). Pengaruh total assets turnover dan return on assets terhadap pertumbuhan laba (Survei pada perusahaan sub sektor makanan dan minuman yang terdaftar di Bursa Efek Indonesia periode 2011–2015). *Jurnal Riset Akuntansi*, *11*(1), 16–26. https://doi.org/10.34010/jra.v11i1.1617

Rahmadania, D., Purba, M., & Tajri, R. (2023). Pengaruh current ratio, debt to equity ratio dan return on equity terhadap harga saham pada perusahaan manufaktur yang terdaftar di Indeks IDX Value 30 periode 2016–2020. *Kumpulan Hasil Riset Mahasiswa Akuntansi (KHARISMA)*, *5*(Juni), 413–423. https://www.idx.co.id

Rasyidin, M., Rizkina, A., & Saleh, M. (2023). Reaksi investor terhadap kinerja keuangan perbankan di Indonesia. *TIN: Terapan Informatika Nusantara*, *4*(5), 306–312. https://doi.org/10.47065/tin.v4i5.4221

Rumondor, C. G., Ivonne, S. S., & Maramis, J. B. (2022). Analisis kinerja keuangan sebelum dan saat pandemi Covid-19 pada PT Angkasa Pura I (Persero) Bandar Udara Sam Ratulangi Manado. *Jurnal EMBA*, *10*(1), 1535–1544. https://ejournal.unsrat.ac.id/v3/index.php/emba/article/view/39378

Sanjaya, S., & Rizky, M. F. (2018). Analisis profitabilitas dalam menilai kinerja keuangan pada PT Taspen (Persero) Medan. *Kitabah*, *2*(2).

Sugiyono. (2020). *Metode penelitian kuantitatif, kualitatif, dan R&D*. Alfabeta.

Sunardi, N., & Sasmita, A. S. (2019). Pengaruh likuiditas, leverage dan growth terhadap kinerja industri makanan dan minuman yang tercatat di Indonesia Stock Exchange selama periode tahun 2011–2015. *Jurnal Sekuritas (Saham, Ekonomi, Keuangan dan Investasi)*, *2*(2), 81. https://doi.org/10.32493/skt.v2i2.2492

Supardi, H., Suratno, H., & Suyanto. (2018). Pengaruh current ratio, debt to asset ratio, total asset turnover dan inflasi terhadap return on asset. *JIAFE (Jurnal Ilmiah Akuntansi Fakultas Ekonomi)*, *2*(2), 16–27. https://doi.org/10.34204/jiafe.v2i2.541

Suranto, V. A. H. M., Nangoi, G. B., & Walandouw, S. K. (2017). Analisis pengaruh struktur modal dan kinerja keuangan terhadap nilai perusahaan pada perbankan di Bursa Efek Indonesia. *Jurnal EMBA*, *5*(2), 1031–1040. https://doi.org/10.1080/17480272.2014.973443

Tjahjono. (2014). Faktor-faktor yang mempengaruhi kinerja keuangan pada perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia. *Jurnal Bisnis dan Akuntansi*, *16*(3), 1–22.

Utami, W. B., & Pardanawati, S. L. (2016). Pengaruh likuiditas, solvabilitas, dan manajemen aset terhadap kinerja keuangan pada perusahaan go publik yang terdaftar dalam Kompas 100 di Indonesia. *Jurnal Akuntansi dan Pajak*, *17*(1), 1–63.

Wahyuni, S. F., & Hafiz, M. S. (2018). Pengaruh CR, DER dan ROA terhadap DPR pada perusahaan manufaktur di BEI. *Jesya (Jurnal Ekonomi & Ekonomi Syariah)*, *1*(2), 25–42. https://doi.org/10.36778/jesya.v1i2.18

Wanny, T., Jenni, Yeni, L., Merissa, Erlin, & Nasution, I. A. (2019). Pengaruh TATO, DER dan current ratio terhadap ROA pada perusahaan properti dan real estate. *Owner: Riset dan Jurnal Akuntansi*, *3*(2), 139. https://doi.org/10.33395/owner.v3i2.127

Yuliani, E. (2021). Pengaruh struktur modal, likuiditas dan pertumbuhan penjualan terhadap kinerja keuangan. *Jurnal Ilmu Manajemen*, *10*(2), 111. https://doi.org/10.32502/jimn.v10i2.3108

Yuniastuti, R. M., & Nasyaroeka, J. (2017). Kinerja keuangan perusahaan transportasi berbasis laporan keuangan yang terdaftar di Bursa Efek Indonesia. *Jurnal Manajemen Magister*, *3*(2), 200–211. https://jurnal.darmajaya.ac.id/index.php/jmmd/article/view/993

Jurnal Akuntansi ISSN 2303-0356
Vol. 15, No.2, June 2025 Hal. 107-116

The Influence of Audit Opinion, Internal Control and External Pressure on Financial Statement Fraud in the Pharmaceutical Sector: An Empirical Study 2019-2023

Refi Mariska Fitriani [1], Teguh Budi Raharjo[2], Abdulloh Mubarok[3]
Universitas Pancasakti Tegal[1,2,3]

ARTICLE INFO

Article history:
Received: June, 28th 2025
Revised: June 29th , 2025
Accepted: June 29th , 2025

Keywords:
Audit Opinion,
Internal Control,
Pressure
Financial Statement Fraud

Correspondence:
Refi Mariska Fitriani
refimf09@gmail.com

ABSTRACT

This research seeks to examine the effect of audit opinions, internal control systems, and external pressure on the occurrence of financial statement fraud in pharmaceutical companies listed on the Indonesia Stock Exchange (IDX) for the period 2019 to 2023. This study applied a quantitative research approach**,** with a population consisting of 36 pharmaceutical companies**.** The sample was determined using purposive sampling, based on predetermined criteria, resulting in 15 companies eligible for analysis. The Beneish M-Score model was utilized to assess financial statement fraud. Meanwhile, the audit opinion variable was measured using a dummy variable**,** internal control was evaluated using the Internal Control Disclosure Index (ICDI)**,** and external pressure was represented by the leverage ratio**.** The results indicate that internal control has a significant negative relationship with financial statement fraud, whereas external pressure shows a significant positive influence**.** In contrast, audit opinions do not have a statistically significant impact**,** suggesting that audit opinions alone may not be sufficient indicators for identifying fraud in pharmaceutical sector companies.

How to cite :
Fitriani,Refi Mariska dkk (2025). The Influence of Audit Opinion, Internal Control and External Pressure on Financial Statement Fraud in the Pharmaceutical Sector: An Empirical Study 2019-2023. *Jurnal Akuntansi Vol 15 No 2 June 2025 page*,107-114. https://doi.org/10.33369/jakuntansi.15.2.107-116

INTRODUCTION

Financial statements represent an entity's financial position and function as a primary source of information to support decision-making processes. Ideally, financial information should be presented in a transparent and objective manner. However, in practice, many entities still engage in fraudulent practices, resulting in inaccurate and misleading information that harms stakeholders (Azka & Utomo, 2021). According to the Institute of Internal Auditors, fraud which includes deception, information concealment, or breaches of trustis a prohibited act. It is often committed to obtain personal financial gain, frequently through abuse of authority, ultimately causing harm to various parties (Dhina et al., 2023)

Report (ACFE, 2022) reported that financial statement fraud accounts for 10% of total identified violations, with average losses reaching USD 593,000 per case and a frequency rate of 9%. This number continues to rise (ACFE, 2024) stated that there were 1,921 global cases, resulting in losses of USD 3.1 billion with a case rate of 5%. which identified 1,921 global fraud cases with total losses reaching USD 3.1 billion and a case rate of 5%. In the pharmaceutical sector specifically, 117 fraud cases were reported, involving financial statement manipulation, corruption, and asset misappropriation, resulting in total losses of approximately USD 100,000.

In Indonesia, a notable case occurred at PT Indofarma Tbk, a pharmaceutical company that suffered substantial losses despite receiving an unqualified (clean) audit opinion. According to audit findings by the Supreme Audit Agency (BPK), the company's faced a notable downturn in financial performance from IDR 7.96 billion in 2019 to a loss of IDR 120.34 billion by mid-2023. The 2023 BPK audit revealed multiple irregularities, including fictitious transactions, personal use of company deposits, and procurement without feasibility studies (Binekasri, 2024). The situation was further worsened by its subsidiary, PT Indofarma Global Medika, which was declared bankrupt on February 10, 2025, with losses amounting to IDR 294.77 billion (Puspadini, 2025).

A similar issue was identified at PT Kimia Farma Tbk, which received a qualified audit opinion, suggesting the presence of reporting irregularities and increased financial burdens. This discrepancy between the audit opinion and actual conditions highlights a gap between audit assessments and real-world financial integrity (Binekasri, 2024).

Research which specifically analyzes the interconnectedness of the three variables in the pharmaceutical sector is still limited. (Artana et al., 2023) only research that focuses on audit opinion and *external pressure* without considering internal control as a controlling factor *Fraud*. Research by (Jumali & Muniroh, 2023) Just study *external pressure* without incorporating audit opinion and internal control as a potentially mitigating factor *Fraud*. Meanwhile, (Muhammad et al., 2022) only examines internal control in the context of the banking sector, not pharmaceuticals.

Based on this exposure, the pharmaceutical sector has special characteristics such as strict regulations, high fraud risk and significant *fraud* cases that occur at Indofarma. Therefore, this study was conducted to fill the research gap by using a quantitative approach and utilizing Beneish M-Score in identifying fraud and ICDI (*internal control disclosure*) to assess the effectiveness of internal control. This study aims to provide valuable insights that can enhance the body of knowledge in auditing and finance, as well as provide practical contributions for auditors and management in strengthening the reliability of internal governance structures and monitoring processes in ensuring accurate financial disclosures

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

The Influence of Audit Opinion on *Financial Statement* Fraud

An audit opinion is an auditor's professional statement regarding the level of fairness of financial statements based on the results of the audit, as stipulated in Law Number 15 of 2004, Article 1 Paragraph 11**.** In its preparation, the audit opinion considers the auditor's evaluation of the company's compliance with accounting principles and accountability of financial statements. The audit opinion in its preparation consists of three aspects, namely compliance with accounting and auditing standards, materiality coverage and audit risks that can affect the accuracy of the opinion given (Bakade & Paramitalaksmi, 2024).

Within the framework of the Fraud Triangle, audit opinions can be linked to the rationalization aspect, as perpetrators may legitimize their fraudulent activities by assuming that their efforts, including financial misstatements, benefit the company (Ulfah et al., 2017).

On the other hand, the audit opinion is prepared based on the results of the auditor's audit to reflect the fairness of the financial statements. These results are then submitted to the users of financial statements as a basis for decision-making (Shanti & Kusumawardhani, 2020). Research (Artana et al., 2023) also Providing evidence of an audit opinion can reduce the risk *Fraud*, because the opinion reflects the level of compliance and can suppress fraudulent acts.
Based on the results of previous research, the hypothesis was formulated:
H1: Allegedly Audit Opinion Negatively Affects *Financial Statement* Fraud

The Effect of Internal Control on *Financial Statement* Fraud

The AICPA describes internal control as a coordinated process involving top management and operational units, aimed at improving efficiency, ensuring reliable financial reporting, and adhering to legal and regulatory requirements (Fernandhytia & Muslichah, 2020). Based on the Fraud Triangle theory, internal control is related to the *Opportunity*, where fraud tends to occur when there is an opportunity due to the weak internal control system of the company (Gunawan & Siregar, 2023).

Research by (Ramlah et al., 2023) conveyed that in efforts to achieve goals, management must implement internal control to operate effectively, efficiently and economically. An effective and appropriate internal control system will support the company in achieving its goals and minimizing the risk of occurrence *Fraud*. This is because fraud appears to be influenced by several factors such as control environment, risk evaluation process, implementation of control standards, effectiveness of continuous information and monitoring systems, and contribute to reducing fraud rates (Muhammad et al., 2022). Based on the results of previous research, the hypothesis was formulated:

H2: Suspected Internal Control Has a Negative Effect on *Financial Statement* Fraud

External Pressure

External pressure is a form of pressure that comes from the external environment, as a result of the pressure experienced by the company's management to adjust itself to the expectations of outsiders (Octaviana, 2022). External pressure is a factor related to the *Pressure* In the Fraud Triangle theory this pressure arises when a company faces external demands, such as obligations to pay debts, meet profit targets, or maintain financial reputation. In this situation, management can feel extremely pressured and encouraged to manipulate financial statements in order to create a positive image that does not correspond to the real reality (Sihombing et al., 2022).

According to research by companies may engage in fraudulent behavior as a way to fulfill targets or demands imposed by external stakeholders. In order to repay debts and maintain operational performance, additional funding is often required, which can drive management to manipulate financial document. Similarly, (Artana et al., 2023) highlight that external pressure positively influences the occurrence of fraud, as managerial efforts to meet external expectations and regulatory requirements are among the key factors that trigger fraudulent actions. Based on the results of previous research, the hypothesis was formulated:

H3: *Suspected External Pressure* Has a Positive Effect on *Financial Statement* Fraud

RESEARCH METHODOLOGY

This study employs a quantitative methodology, with data analyzed using SPSS version 22. The research population includes 36 pharmaceutical companies listed on the Indonesia Stock Exchange (IDX) during the 2019–2023 period. A purposive sampling technique was utilized, whereby samples were selected based on specific criteria that align with the objectives of the research.

The criteria used include: (1) the company consistently publishes annual reports during the observation period, (2) the company presents relevant data related to audit opinions, internal controls, and external pressure, and (3) the company does not undergo delisting. Based on these criteria, 15 companies were obtained that were suitable as samples.

The study relies on secondary data obtained from annual reports and financial statements of companies available on the official website of the Indonesia Stock Exchange (IDX). The analysis involves descriptive statistics, classical assumption tests including assessments for normality, multicollinearity, heteroscedasticity, and autocorrelation and multiple linear regression analysis to test the proposed hypotheses.

Opertional Definition of Variabels

Dependen Variabel:

Detection using the Beneish M-Score model based on 8 financial ratio (Hugo, 2019)

$$DSRI = \frac{\text{Receivable}_t / \text{Sales}_t}{\text{Net Receivable}_{t-1} \ / \ \text{Sales}_{t-1}}$$

$$GMI = \frac{(\ \text{Sales}_{t-1} - \text{COGS}_{t-1}\ ) / \text{Sales}_{t-1}}{\text{Sales}_t - \text{COGS}_t / \text{Sales}_t}$$

$$DEPI = \frac{Depreciation_{t-1}/(PP\&E_{t-1} + Depretiation_{t-1})}{Depretiation_{t}/(PP\&E_{t}+Depretiation_{t})}$$

$$SGI = \frac{Sales_t}{Sales_{t-1}}$$

$$LVGI = \frac{(CL_t+LTD_t) / TA_t}{(CL_{t-1} + LTD_{t-1})/TA_{t-1}}$$

$$TATA = \frac{\text{Income from Continuing Operations}_t - \text{Cash Flows from Operations}_t}{\text{Total Asset}_t}$$

$$AQI = \frac{1- [(CA_t + PP\&E_t + Securities_t) / TA_t]}{1- [(CA_{t-1}+PP\&E_{t-1}+Securities_{t-1})/TA_{t-1}]}$$

$$SGAI = \frac{SG\&A\ Expense_t / Sales_t}{SG\&A\ Expense_{t-1}/Sales_{t-1}}$$

The Beneish M-Score is calculated using the following formula: M = -4,840 + 0,920DSRI + 0,528GMI + 0,404AQI + 0,892SGI + 0,115DEPI - 0,172SGAI + 4,679 TATA - 0,327LVGI

Independent Variabel:
Opinion audit
Dummy variable approach is used to measure the audit opinion, where a company is assigned a score of 1 if it received an unqualified opinion from 2019 to 2023, and a score of 0 if it received any other type of opinion (Alit & Yuniasih, 2021).

Internal control
Internal control is measured using the Internal Control Disclosure Index (ICDI). If a criterion is met, a score of 1 is assigned; otherwise, a score of 0 is given. The criteria are based on the Regulation of the Head of Bapepam No. X.K.6/2012 concerning the Obligation to Submit Annual Reports by Issuers or Public Companies (Setiani, 2017).

$$ICDI = \frac{\sum d_1}{\sum d_m}$$

Description:
ICDI= Internal Control Disclosure Index
d_1= the number of internal control indicators disclosed by the company in the annual report
d_m = the total number of internal control indicators that should be disclosed

External Pressure
This study analyzes financial statement fraud using the leverage ratio as one of the indicators (Octaviana, 2022).

$$LEV = \frac{\text{Total Liabilities}}{\text{Total Asset}}$$

Description:
Leverage = measures the proportion of debt to the company's total assets
Total Liabilities = the company's total liabilities or debts
Total Assets = the total assets owned by the company

RESULTS AND DISCUSSION

Table 1. Descriptive Statistics of Research Variables

	N	Min	Max	Mean	Std. Deviation
Audit Opinion	75	.00	1.00	.9733	.16219
Internal Control	75	.720	1.000	.91653	.088295
External Pressure	75	.101	2.057	.39803	.287462
Financial Statement Fraud	75	-3.497	-.369	-2.17213	.652748
Valid N (listwise)	75				

Source: Processed by researcher, 2025

Table 1 presents descriptive statistics for 75 company samples analyzed in this study. The audit opinion variable, which is measured using a dummy (0 and 1), has a minimum value of 0 and a maximum of 1, with an mean of 0.9733 and a standard deviation of 0.16219. The internal control variable shows values ranging between 0.720 and 1.000, with a mean of 0.91653 and a standard deviation of 0.08829. For the external pressure variable, values range from 0.101 to 2.057, with a mean of 0.39803 and a standard deviation of 0.287462. Lastly, the dependent variable, financial statement fraud, measured using the Beneish M-Score, shows a minimum value of -3.497 and a maximum of -0.369, with a mean of -2.17213 and a standard deviation of 0.652748.

Classical Assumption Testing

This study conducts classical assumption tests, including tests for normality, multicollinearity, autocorrelation, and heteroscedasticity, to validate the regression model. Normality was assessed using the Kolmogorov–Smirnov test, which produced an Asymp. Sig. value of 0.200. Since this value exceeds the 0.05 significance threshold, the data can be considered normally distributed.

Multicollinearity was evaluated through tolerance and variance inflation factor (VIF) values. A tolerance below 0.10 or VIF above 10 typically signals multicollinearity. The results reveal that audit opinion has a tolerance of 0.697 and a VIF of 1.435; internal control has a tolerance of 0.885 and a VIF of 1.130; and external pressure has a tolerance of 0.633 and a VIF of 1.158. As these values fall within acceptable limits, the regression model is free from multicollinearity.

The Durbin–Watson (DW) test was employed to detect autocorrelation. At a 5% significance level with 75 observations and three independent variables, the DW statistic obtained was 1.676. Based on the Durbin–Watson table, the lower bound (dL) is 1.571 and the upper bound (dU) is 1.680. Since the DW value lies between dL and dU ($1.571 < 1.676 < 1.680$), it suggests that there is no autocorrelation present in the model.

Heteroscedasticity was tested using the Glejser method. The resulting significance values for audit opinion (0.597), internal control (0.916), and external pressure (0.828) were all greater than 0.05, confirming that the model satisfies the homoscedasticity assumption and does not suffer from heteroscedasticity.

Multiple Linear Regression Analysis

This research employs multiple linear regression analysis to evaluate the statistical influence of each independent variable on the dependent variable. This method is used to determine how strongly each independent variable audit opinion**,** internal control, and external pressure affects financial statement fraud**.** The results of the regression analysis yield coefficient values of 0.104 for audit opinion, -1.883 for internal control, and 0.982 for external pressure. Based on these findings, the multiple linear regression equation is formulated as follows:

$Y = -0.939 + 0.104X1 - 1.883X2 + 0.982X3 + e$

Hypothesis Test

Test F

Table 2 Statistical Test F (Simultaneous)

Type		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	5.293	3	1.764	4.775	.004b
	Residual	26.237	71	.370		
	Total	31.530	74			

Source: Processed by researcher, 2025

Based on the results presented in the table, the significance value of the F-test is 0.004 and the F-count is 4.775. Since the significance value is less than 0.05, it indicates that the independent variables audit opinion, internal control, and external pressure jointly have a statistically significant effect on financial statement fraud. Therefore, it can be concluded that the regression model is appropriate and feasible to be used in explaining the relationship between the variables in this study..

Test T

Table 3 Statistical Test T (Personal)

		Unstandardized Coefficients		Standardized Coefficients		
Type		B	Std. Error	Beta	t	Sig.
1	(Constant)	-.939	.931		-1.009	.317
	Audit Opinion	.104	.522	.026	.200	.842
	Internal Control	-1.883	.851	-.255	-2.213	.030
	External Pressure	.982	.309	.432	3.177	.002

Source: Processed by researcher, 2025

Based on the data presented in Table 3, the following results were obtained:

1. The analysis shows that the audit opinion variable has a regression coefficient of 0.104 with a significance level of 0.842. Since the significance level exceeds 0.05, it can be concluded that audit opinion does not have a significant effect on financial statement fraud. Therefore, the first hypothesis (H1) is rejected.
2. The internal control variable has a significance value of 0.030 and a regression coefficient of –1.883. As the significance level is below 0.05, the second hypothesis (H2) is accepted. This finding indicates that internal control has a significant negative influence on financial statement fraud. In other words, the more effective a company's internal control system, the lower the likelihood of fraudulent financial reporting.
3. The external pressure variable shows a significance value of 0.002 with a regression coefficient of 0.982. Because the significance value is below 0.05, the hypothesis is accepted. This finding suggests that external pressure has a significant positive effect on financial statement fraud, meaning that increasing financial pressure may lead management to manipulate financial statements in order to meet external expectations.

Coefficient Determination Test

Table 4 Determination Coefficient Test

Type	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.410a	.168	.133	.607889

Source: Processed by researcher, 2025

In the results of Table 4, the regression model can explain 13.3% of the variance in the audit opinion-dependent variables, internal controls, and external pressures—corresponding to the Adjusted R Square of 0.133. Meanwhile, other factors affecting the remaining 86.7%.

Discussion

The Influence of Audit Opinion on Financial Statement Fraud

The results of the regression analysis indicate that audit opinion does not have a significant effect on financial statement fraud, as reflected by a significance value exceeding 0.05. This finding suggests that the issuance of an unqualified (clean) audit opinion by auditors does not necessarily ensure the absence of fraudulent activities within the financial statements.

The audit opinion primarily reflects compliance with applicable accounting standards, but it may not fully uncover or deter fraudulent behavior within the company. The provision of an audit opinion does not always reflect that the financial statements are completely free from elements of fraud, because the opinion only assesses the fairness of the presentation according to accounting standards, not proving the truth (Muhammad et al., 2020). In accordance with previous research(Bakade & Paramitalaksmi, 2024), (Ufiana & Triyanto, 2022) and (Renata & Marlinah, 2022) which also states that the audit opinion has no significant influence on fraud.

The Effect of Internal Control on *Financial Statement* Fraud

The results of the analysis indicate that internal control has a significant negative effect on financial statement fraud. This implies that the more effective a company's internal control system, the lower the likelihood of fraudulent financial reporting.This is due to factors such as the control environment, risk assessment, control procedures, information and communication systems, and monitoring activities carried out by the company's internal parties are the main causes. This means that the more effective the internal control system that a company has, the potential for fraud in financial statements can be minimized (Muhammad et al., 2022).

Policies and procedures are implemented to ensure the achievement of organizational goals and minimize risks to information security threats. Based on the theory of planned behavior, the decline *Fraud* occurs because the individual considers the level of ease or difficulty in performing the action (Puspitasari, 2023). In line with previous research (Putri & Saud, 2021) and (Faisal et al., 2023) The more effective internal control, such as through open discussions, clear rules, and transparency, the potential for accountants to commit fraud can be reduced.

The Influence of External Pressure on Financial Statement Fraud

The results of the analysis show that external pressure significantly and positively influences financial statement fraud. These findings suggest that the greater the pressure from external parties, such as creditors, investors, or regulatory bodies, the higher the likelihood that management will manipulate financial reports**.** This condition arises as a response to the company’s need to portray a strong financial position in order to fulfill external expectations..

High external pressure encourages management to be more susceptible to financial statement fraud. One form of such pressure is the need to obtain external financing to n competitiveness, including for research and capital expenditure, which can increase the risk of manipulation of financial statements (Permata et al., 2021). In line with previous research (Honesty et al., 2024) and (Maharani & Napisah, 2024) which stated that the increase in credit risk also increased the company's concerns, so that the top management could be encouraged to commit fraud in order to maintain its image.

Conclusion

Based on the results of hypothesis testing, it can be concluded that the audit opinion does not have a significant effect on financial statement fraud. This indicates that the issuance of an audit opinion has not yet served as an effective indicator for detecting fraudulent financial reporting, leading to the rejection of the first hypothesis (H1). In contrast, internal control shows a significant negative effect on financial statement fraud, suggesting that a stronger and more effective internal control system can reduce the likelihood of fraud. These findings are consistent with the Fraud Triangle theory, particularly the opportunity element, thereby supporting the second hypothesi Additionally, external pressure is found to have a significant positive effect on financial statement fraud, implying that pressure from external stakeholders such as creditors or investors may compel management to manipulate financial statements to meet performance expectations. As a result, the third hypothesis (H3) is accepted.

Refferencess

ACFE. (2022). Occupational Fraud 2022: A Report To The Nations. *Association of Certified Fraud Examiners*, 1–96.

ACFE. (2024). Association of Certified Fraud Examiners The Nations Occupational Fraud 2024 :A Report To The Nations. *Association of Certified Fraud Examiners*, 1–106.

Allo, E. B. D. T., & Rachmawati, S. (2022). Financial Stability, External Pressure, Financial Targets, and Green Intellectual Capital that Affect Fraudulent Financial Statements. *Journal of Economics of Trisakti*, *2*(2), 1703–1714.

Artana, I. K. P., Diatmika, I. P. G., & Atmadja, A. T. (2023). The Influence of Auditor Opinion , Company Size , External Pressure on Fraud Financial Reporting with Industrial Conditions as Intervening Variables. *International Journal of Social Science and Business Volume*, *7*(1), 208–215.

Azka, M., & Utomo, D. C. (2021). Analysis of the Influence of Leverage, Profitability, and Company Size on the Quality of Financial Reporting (Empirical Study on Manufacturing Companies Listed on the Indonesia Stock Exchange in 2015-2019). *Diponegoro Journal of Accounting*, *10*(1), 1–10.

Bakade, S., & Paramitalaksmi, R. (2024). The Effect of Audit Opinions and Findings on Weaknesses in the Internal Control System on SOE Fraud for the 2020-2023 Period. *Scientific Journal of MEA (Management, Economics, and Accounting)*, *8*(3), 2496–2510.

Binekasri, R. (2024a). *Kimia Farma (KAEF) admitted that there was a violation of the subsidiary's financial statements*. CNBC Indonesia. https://www.cnbcindonesia.com/market/20240619110542-17-547404/kimia-farma--kaef--akui-ada-pelanggaran-laporan-keuangan-anak-usaha

Binekasri, R. (2024b). *The initial sign of the Indofarma case, the profit fell by 99.65%, but the audit results were reasonable*. CNBC Indonesia. https://www.cnbcindonesia.com/market/20240527094213-17-541334/tanda-awal-kasus-indofarma-laba-jeblok-9965-tapi-hasil-audit-wajar

Dhina, R., Billa, S., & Indriani, M. (2023). The Effect of Internal Control and Internal Audit on Fraud Prevention with Anti-Fraud Awareness as a Moderator in the Indonesian Banking

 ISSN 2303-0356
Hal. 107-116

Industry. *Scientific Journal of Accounting Economics Students (JIMEKA), 8*(1), 135–145.

Faisal, Y., Sari, E. G., Sipahutar, J. S. A., & Melindawati, R. (2023). The Influence of Morality, Internal Control on Fraud of Financial Reports. *Mercu Buana Accounting Research Journal*, *9*(1), 14–28.

Fernandhytia, F., & Muslichah. (2020). The effect of internal control, individual morality and ethical value on accounting fraud tendency. *Media Economics and Management*, *35*(1), 112–127.

Gunawan, G. O., & Siregar, A. (2023). Fraudulent Financial Reporting: An Analysis of the Influence of Hexagon Fraud Elements on Pharmaceutical Companies. *Journal of Accounting, Auditing and Finance*, *20*(2), 168–197.

Honesty, H. N., Finomia, F., & Setiawan, M. A. (2024). Financial Statement Fraud Analysis: Financial Stability, External Pressure and Quality an Auditing Quality. *Research Journal of Accounting and Business Accounting Research Journal*, *9*(1), 24–37.

Jumali, A., & Muniroh, H. (2023). The Effect of Company Size, Financial Stability and External Pressure on Financial Statement Fraud. *Accounting Global Journal*, *7*(2), 77–87.

Maharani, F., & Separated. (2024). *The Influence of Hexagon Fraud Elements on Fi Statement Fraud*. *8*(4), 4850–4864.

Muhammad, I., Pratiwi, R. W., & Yusuf, M. (2022). The Effect of Internal Control System and Information Asymmetry on Financial Statement Fraud at the Head Office of PT Bank Sulselbar Makassar. *Insan Cita Bongaya Research Journal*, *2*(1), 70–81.

Muhammad, R., Probowulan, D., & Martiana, N. (2020). Determination of Financial Statement Fraud in Sharia Companies. *Journal of Business, Management and Accounting*, *2*(1), 1–23.

Octaviana, N. (2022). Analysis of the elements of fraud hexagon theory as determinants. *Journal of Accounting*, *11*(2), 106–121.

Permata, I., Chandra, R., & Azhar, I. (2021). The Effect of Change in Auditors, Effectiveness of Audit Supervision and External Pressure on Financial Statement Fraud (Study on the Industrial Sector listed on the IDX). *Journal of Ocean Accounting Students*, *2*(5), 336–349.

Puspadini, M. (2025). *So the Culprit of Fraud, a subsidiary of Indofarma (IGM) was declared bankrupt*. CNBC Indonesia. https://www.cnbcindonesia.com/market/20250213074734-17-610224/jadi-biang-fraud-anak-usaha-indofarma--igm--dinyatakan-pailit

Puspitasari, D. (2023). The Influence of Internal Control, Individual Morality, and Religiosity on Fraud. *Scientific Journal of Unified Accounting*, *11*(1). https://doi.org/10.37641/jiakes.v11i1.1619

Putri, V. Y. E., & Saud, I. M. (2021). The Influence of Independent Audit Committees, Internal Control, and Attitudes towards Fraudulent Financial Reporting with Organizational Ethical Culture as Moderation Variables. *Indonesian Accounting and Business Review*, *5*(1), 13–25.

Ramlah, S., Saleh, S. M., Nur, S., Said, R., Gustiningsih, D. A., & Kamal, A. (2023). The Effect of Internal Control on Fraud Prevention. *Journal of Mirai Management*, *8*(2), 259–270.

Renata, F., & Marlinah, A. (2022). Analysis of Fraud Triangle Theory in detecting Financial Statement Fraud. *E-Journal of TSM Accounting*, *2*(4), 671–686. https://doi.org/10.34208/ejatsm.v2i4.1862

Shanti, Y. K., & Kusumawardhani, S. S. (2020). The Effect of 3 Auditor Intelligence on the Accuracy of Giving Opinions with Experience as Moderators. *JOURNAL OF ACCOUNTING OF THE WORLD*, *4*(2), 84–98.

Sihombing, T., Panggulu, G. E., & Harapan, U. P. (2022). Fraud Hexagon Theory and Fraudulent Financial Statement in it Industy in ASEAN. *Journal of Accounting and Finance Review*, *12*(3), 524–544. https://doi.org/10.22219/jrak.v12i3.23334

Ufiana, B., & Triyanto, D. N. (2022). The Influence of Diamond Fraud on Financial Statement Fraud of Companies in the Consumer Goods Industry Sector Listed o n the Indonesia Stock Exchange in 2016-2020. *EKOMBIS REVIEW: Scientific Journal of Economics and Business*, *10*(2), 859–868. https://doi.org/10.37676/ekombis.v10i2.2680

Ulfah, M., Nuraina, E., & Wijaya, A. L. (2017). The Influence of Pentagon Fraud in Detecting Fraudulent Financial Reporting (Empirical Study on Banking in Indonesia Listed on the IDX. *Scientific Forum on Accounting Education*, *5*(1), 399–417.

Jurnal Akuntansi
Vol. 15, No.2, June 2025

ISSN 2303-0356
Hal. 117-129

The Influence Of Audit Tenure, Auditor Reputation, Auditor Rotation, Audit Fee On Audit Quality

Virgiawan Deshandrio[1)] , Nadhif Rifadh Pasya[2)] , Irwan Sutirman Wahdiat[3)]
Universitas Swadaya Gunung Jati [1, 2, 3)]

ARTICLE INFO

Article history:
Received: June, 28th 2025
Revised: June 30th , 2025
Accepted: June 30th , 2025

Keywords:
Audit Tenure
Auditor Reputation
Auditor Rotation
Audit Fee
Audit Quality.

Correspondence:
Virgiawan Deshandrio
virgiawandeshandrio@gmail.com

ABSTRACT

This research aims to empirically examine the effect of audit tenure, auditor reputation, auditor rotation, and audit fee on audit quality in BUMN (State-Owned Enterprises in Indonesia) listed on the Indonesia Stock Exchange (IDX) from 2018 to 2023. Audit quality is a key indicator of the reliability of financial statements and reflects the auditor's ability to detect and report irregularities objectively. This study uses a quantitative approach with purposive sampling based on specific criteria: BUMN that consistently published complete annual reports and financial statements in Indonesian Rupiah during the observation period. The study results, obtained through logistic regression analysis, show that audit tenure and auditor rotation have a significant and positive impact on audit quality, suggesting that both longer engagement duration and proper auditor rotation enhance auditor performance and independence. In contrast, auditor reputation and audit fee do not significantly affect audit quality, indicating that affiliation with Big Four accounting firms or higher audit payments does not necessarily guarantee better audit outcomes. The regression model demonstrated good fit with a Nagelkerke R Square of 0.695, meaning the independent variables explain 69.5% of the variation in audit quality. These findings have practical implications for regulators and stakeholders in optimizing audit assignment policies to strengthen the quality of financial reporting. The research also highlights the need for greater oversight and accountability, particularly in the context of public companies. Future studies are encouraged to explore other factors that may influence audit quality using larger and more diverse samples.

How to cite :
Deshandrio, Virgiawan dkk (2025). The Influence Of Audit Tenure, Auditor Reputation, Auditor Rotation, Audit Fee On Audit Quality. *Jurnal Akuntansi Vol 15 No 2 June 2025 page*,117-129 https://doi.org/10.33369/jakuntansi.15.2.117-129

INTRODUCTION

Audit quality is the auditor's ability to detect and report errors in the accounting system during the financial statement audit process. Quality audits are conducted by competent and independent auditors (Arista et al., 2023). Auditor qualifications refer to the auditor's professional competence to detect errors or irregularities in financial statements, while independence is related to the attitude of the auditor who dares to inform the auditor of errors found objectively and without influence from other parties. Audit quality can also be interpreted as characteristics that are based on auditing standards and quality control standards, such as the Professional Standard for Public Accountants (SPAP) for auditing financial statements or ISO 9001 for quality control in organizations. It includes an overview of auditing practices and results that can be used to measure the effectiveness of auditors' professional performance. In other words, the quality of the audit depends on the extent to which the audit work is carried out according to the criteria that have been applied. In the performance of his duties, the auditor is guided by auditing standards and professional regulations to ensure that any violations in his client's financial reporting can be accurately identified and reported in the audited financial statements. This means that the quality of audits is not limited to the competence of the auditor, but also by compliance with applicable standards and regulations.

The low quality of audits in Indonesia encourages the Ministry of Finance to form a PPPK that is the authority to supervise audits to ensure that the financial statements that have been audited remain reliable and trustworthy. In order to affirm the crucial position of public accountants as an inseparable element of the financial industry in maintaining the credibility and sustainability of the system, the government passed the Financial Sector Development and Strengthening Law (P2SK) this year. Through this regulation, the Ministry of Finance collaborates with Bank Indonesia (BI) and the Financial Services Authority (OJK) to strengthen the role of supervision, especially in audit practices and the guarantee industry (Antara, 2023). Cases of financial report fraud also occurred within SOEs, one of which involved PT Waskita Karya, a large-scale construction company. The company has been dragged into two major scandals that have a serious impact on state finances, namely the manipulation of financial statements and the implementation of fictitious projects. The fraud was practiced by a number of high-ranking individuals in the company and caused state losses of Rp202 billion, but the recovery rate of losses only reached 34%. Five former officials of PT Waskita Karya (Persero) Tbk have been sentenced to 4 to 7 years in prison for being proven to have signed 41 fictitious employment contracts that cost the state Rp202.296 billion, as stated in the Central Jakarta District Court's Decision Number: 59/Pid.Sus-TPK/2020/PN Jkt.Pst. Based on the audit results of the Financial Audit Agency (BPK), it is indicated that Waskita Karya fabricated financial statements throughout the 2018-2021 period. These unreasonable accounting practices include improper recording of income, postponement of expenses, and accelerated recognition of assets in order to disguise their true financial condition (Nuari Ferlian, 2024).

This topic has been studied several times by other researchers with various variables to affect the quality of audits. This study will combine variables that are considered strong to measure quality audits, namely audit fees, auditor reputation, auditor rotation, and tenure audits. However, studies using these variables produced inconsistent findings when associated with audit quality. In the study (Hartadi, 2012), (Andriani & Nursiam, 2018), (Ayuni & Handayani, 2023) produced findings, audit fees affected the quality of the audit. With the high audit fees given by the client, the wider the audit procedures that he implements, which makes the quality of his work improve (Soares et al., 2021). However, inversely proportional to the findings of the study from (Suwarno et al., 2020), (Farid & Baradja,, (Sunaryanto & Farida, 2022) shows that audit fees do not affect audit quality. Refers (Suwarno et al., 2020) There is an independence factor that causes why audit fees do not affect audit quality.

From the above problem, there is an inconsistency in the study of (Hartadi, 2012), (Andriani & Nursiam, 2018), (Ayuni & Handayani, 2023) producing findings, audit fees affect the quality of audits. Meanwhile, in the study (Suwarno et al., 2020), (Farid & Baradja, 2022), (Sunaryanto & Farida, 2022) it produced different findings, namely that audit fees did not affect the quality of the audit. The inconsistency of previous findings indicates a research gap regarding the effect of these variables on audit quality. It is not yet clear what conditions make audit fees and other factors can or cannot improve audit quality. In addition, there are still limited studies that specifically examine the context of state-owned companies (BUMN), even though these companies have unique governance characteristics and high demands for public accountability.

This study aims to fill this gap by analyzing the effect of audit fees, auditor reputation, auditor rotation, and audit capacity stress on audit quality, by taking a sample of SOEs listed on the Indonesia Stock Exchange during 2018-2023. The results of the study are expected to make an academic contribution in the development of audit quality theory, as well as provide practical implications for regulators and auditors in increasing the transparency and accountability of public sector financial statements.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

The concept of agency theory is used for the theory underlying the business practices of a company. According to (Jensen & Meckling, 1976)agency theory is a contractual agency relationship, where one or more people (principal) asks another party (agent) to carry out a number of jobs on behalf of the principal, which can involve delegating some decision-making authority to the agent.

This agency conflict can be avoided by using the services of a third party as an intermediary between the principal and the agent, namely an independent external auditor(Permatasari & Astuti, 2019). What is meant by an independent party is an external auditor which provides audit services including assessment and examination of the performance, control, risk and governance of public companies . external auditor is important to maintain because the audit costs incurred are large so that the audit quality results are also high, then the auditor will have difficulties when dealing with the auditor's agency interests(Ayuni & Handayani, 2023).

Audit Quality

Audit quality is the auditor's ability to detect and report errors in the accounting system during the financial statement audit process. Quality audits are conducted by competent and independent auditors (Arista et al., 2023).

Audit quality refers to the likelihood that an auditor is able to detect and uncover irregularities in the client's accounting system. The level of probability is influenced by the auditor's technical competence, the audit procedures applied, the scope of sampling, and various other supporting factors (DeAngelo, 1981) In (Monoarfa, 2018).

The auditor's qualifications reflect the professional expertise he or she has in detecting errors and irregularities in the presentation of financial statements. Meanwhile, independence refers to the auditor's ability to convey the findings objectively and unaffected by external pressures. Audit quality can also be interpreted as characteristics that are based on auditing and quality control standards, such as SPAP for auditing financial statements or ISO 9001 for quality control in organizations. It includes an overview of auditing practices as well as results that can be used to measure the effectiveness of auditors' professional duties and responsibilities.

Tenure Audit

Tenure refers to the period of audit cooperation between the Public Accounting Firm (KAP) and the client based on a mutually determined audit service agreement. Debates arise when tenure lasts too short or lasts for a long time, as both are considered to affect the effectiveness and objectivity of the audit process (Edyatami & Sukarmanto, 2020). Some studies, such as (Nurhayati & Dwi, 2015) and (Andriani & Nursiam, 2018), state that the longer the auditor's attachment, the better his understanding of the client, so that audit quality increases. However, this finding is criticized by (Yulaeli, 2022) and (Effendi & Ulhaq, 2021) who show that tenure that is too long actually reduces auditor independence due to emotional closeness with clients. This indicates that the effect of audit tenure on audit quality is contextual and not fully consistent, so it needs to be studied further, especially in a complex organizational environment such as BUMN.

Auditor Reputation

Auditor reputation refers to the auditor's ability to maintain principles and carry out the audit process with the professionalism and competence he has (Irma et al., 2019). The Big Four KAP is often the benchmark for a KAP's reputation. This means that KAP affiliated with the Big Four is seen as able to produce higher audit quality than unaffiliated KAP (Andriani & Nursiam, 2018).

Auditor Rotation

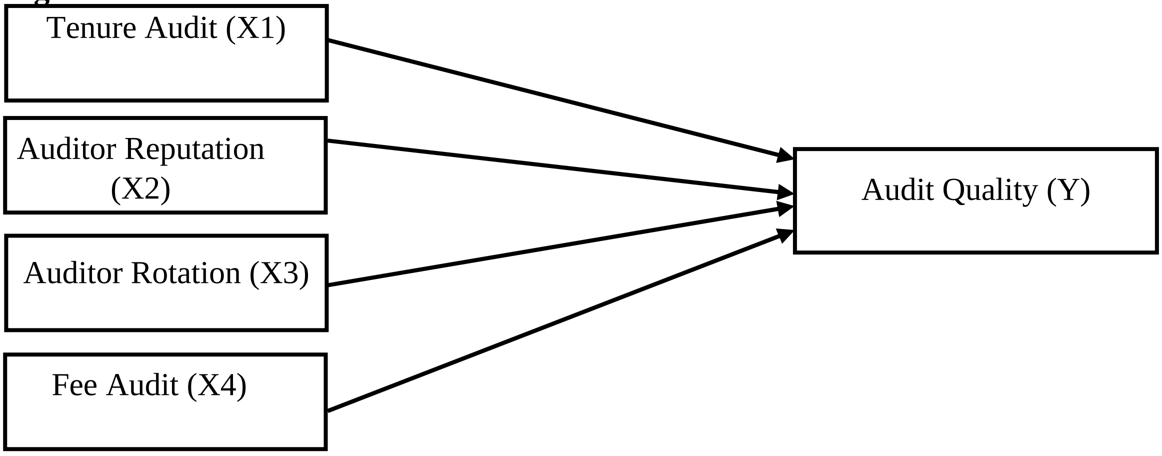
Auditor rotation is the replacement of auditors that must be practiced by companies in order to improve audit quality and maintain auditor independence. The importance of this rotation also lies in the potential for too close relationships between KAP and its clients due to long tenures, which can interfere with independence and ultimately make the quality of its audits decrease (Arini & Yandra, 2022). This rotation process occurs because a long or short period of engagement between the auditor and his client can affect the quality of the audit. Too close a relationship between the auditor and the client should be avoided by conducting periodic auditor changes, thus creating a new environment that allows the auditor to be more objective (Arista et al., 2023).

Fee Audit

Audit fee is the total cost paid by a company to be a reward for audit services provided by the audit company (Onyabe, 2022). The amount of audit fees can contribute to improving audit quality, because the fees obtained in a period and the predicted operational costs needed to carry out the audit mechanism can positively affect the quality of the audit (Ayuni & Handayani, 2023). The higher the fee given by the client, the wider the audit mechanism will be carried out by the auditor, the better the audit quality (Soares et al., 2021).

Research Model

Figure 1 Research Model



Hypothesis

The Audit Tenure on Audit Quality

Audit tenure is the period of attachment between the Public Accounting Firm (KAP) and the client which is believed to affect audit quality, either positively or negatively. Several previous studies such as (Nurhayati & Dwi, 2015) and (Andriani & Nursiam, 2018) found that the longer the auditor's attachment to the client, the better the auditor's understanding of the company's condition, so that audit quality increases. However, these findings contradict the research of (Yulaeli, 2022), (Effendi & Ulhaq, 2021), and (Yolanda et al., 2019) which state that audit tenure has no significant effect on audit quality due to the potential decrease in auditor independence due to a too long relationship with the client. This difference in results indicates that the effect of audit tenure on audit quality is contextual and not fully explained, especially within the scope of state-owned companies (BUMN) which have different governance characteristics and higher public expectations. Therefore, audit tenure was selected as one of the variables in this study to re-examine its relevance and significance in influencing audit quality, especially considering the context of SOEs in Indonesia, which are complex and at high risk of financial statement manipulation practices.

H1 : Audit Tenure Affects Audit Quality

The Auditor Reputation on Audit Quality

Auditor reputation reflects the level of public trust in the professionalism and competence of auditors in carrying out audit tasks objectively and according to standards. Auditors who come from highly reputable Public Accounting Firms (KAP) - especially those who are members of the Big Four - are generally considered to have better resources, experience, and quality control systems so that they are believed to be able to produce higher audit quality. Research by (Rizki & Sudarno, 2020), (Giandaiva & Burhany, 2022), and (Nurhayati & Dwi, 2015) supports this view by concluding that auditor reputation has a positive effect on audit quality. However, this finding is not in line with the results of research by (Andriani & Nursiam, 2018), (Ayuni & Handayani, 2023), and (Hartadi, 2012) which state that auditor reputation has no significant effect on audit quality, because auditors from non-Big Four KAP still have the same professional responsibilities and ethics in maintaining the quality of audit results. This difference shows that auditor reputation is not necessarily a guarantee of audit quality, especially if it is not supported by other factors such as independence and compliance with audit standards. Therefore, the auditor reputation variable was selected in this study to reassess its significance in the context of state-owned enterprises (SOEs), where expectations for audit transparency and accountability are much higher than in the private sector.

H2 : Auditor Reputation Affects Audit Quality

The Audit Rotation on Audit Quality

Auditor rotation is a periodic change of auditors that aims to maintain independence and avoid too close a relationship between auditors and clients. Auditors who handle one client for too long are at risk of losing objectivity, so rotation is expected to improve audit quality. Research by (Kurniasih & Rohman, 2014) and (Laili, 2021) shows that auditor rotation has a positive effect on audit quality because new auditors tend to have a fresher and more independent point of view. However, different results were found by (Hartadi, 2012), (Andriani & Nursiam, 2018), and (Ayuni & Handayani, 2023) who stated that rotation did not significantly affect audit quality. They argue that new auditors need adaptation time so that audit effectiveness can actually decrease. This difference in findings indicates that the effect of auditor rotation is still inconsistent and depends on the context of its implementation. Therefore, this study includes auditor rotation as an independent variable to re-examine its impact on audit quality, especially in the context of SOEs that have a high level of accountability.

H3 : Audit Rotation Affects Audit Quality

The Audit Fee on Audit Quality

Audit fees are fees paid by companies to auditors for audit services provided. Theoretically, the amount of the audit fee is considered to reflect the complexity of the audit and the scope of procedures performed by the auditor, so that the greater the fee received, the audit quality tends to increase. Research by (Hartadi, 2012), (Andriani & Nursiam, 2018), and (Ayuni & Handayani, 2023) supports this view, concluding that audit fees have a positive effect on audit quality because auditors will tend to perform more in-depth and comprehensive procedures when given adequate fees. However, different results were found in the studies of (Suwarno et al., 2020), (Farid & Baradja, 2022), and (Sunaryanto & Farida, 2022) which state that audit fees have no significant effect on audit quality. This is based on the argument that professional auditors must still carry out their duties according to auditing standards, regardless of the amount of fees received, and in fact high fees risk reducing independence due to potential pressure from clients. This difference shows that the relationship between audit fees and audit quality is still contextual and has not been fully explained consistently. Therefore, audit fee is used as a variable in this study to empirically re-examine its effect in the context of SOEs, which have greater public pressure and complex audit scope.

H4 : Audit Fee Affects Audit Quality

RESEARCH METHODS

Population and Sample

The population in this study are all BUMN sector listed on the Indonesia Stock Exchange (IDX) for the 2018-2023 period. The total number all BUMN listed on the IDX is 27 companies. One way to obtain a sample is by *purposive sampling* technique.

Table 1 List of Research Sample Criteria

No	Description	Total
1.	State-owned companies registered on the Indonesia Stock Exchange (IDX) for the period 2018-2023	27
2.	State-owned companies that issue a complete annual report for the period 2018-2023	(7)
3.	State-owned companies that issue financial statements in rupiah.	(1)
4.	BUMN companies listed on the Indonesia Stock Exchange that meet the criteria and can be used as mining companies. as the research sample.	19
4.	Period of observation year	6
5.	The amount of data used as a research sample	114

Source : www.idx.com (data processed)

Data collection techniques

This study uses data collection techniques in the form of documentation, namely by collecting data contained in the company in the form of financial reports and annual reports (Annual Report) of companies for the 2018-2023 period on the Indonesia Stock Exchange (IDX) website which are listed as BUMN companies.

Operational Definition of Variables

Table 2 Definition of Research Variables

Variables Independent	Variable Definition	Indicator	Scale
Audit Quality (Y)	Audit quality describes the extent to which the audit findings meet the audit standards that are the auditor's professional obligations. This aspect shows the level of conformity of the auditor's work with the predetermined standards (Supriyanto et al., 2022). In this study, the valuation will be based on ROE (Return On Equities).	In this study, audit quality was demonstrated through dummy variables, with a value of 1 in high-quality audits and 0 in low-quality audits. The determination depends on ROE (Return on Equity), which is the ratio of profit to the company's total equity, which is assessed based on its suitability with the set (Darmawan & Ardini, 2021)benchmarks.	Ratio
Audit Tenure (X1)	Tenure is a period of audit cooperation between KAP and its clients based on a mutually agreed audit service agreement. This tenure period is often the subject of debate, especially related to the implementation of audits that	The audit tenure period is calculated based on the number of years the auditor has been working with the same company, which in the first year of the engagement starts with the	Ratio

	take place in a short duration or a long period of time.(Edyatami & Sukarmanto, 2020)	number 1 and increases by 1 for each subsequent year.(Yolanda et al., 2019)	
Auditor Reputation (X2)	Auditor rotation is the replacement of auditors that must be implemented by the company in order to improve audit quality and maintain auditor independence. The importance of this rotation also lies in the potential for too close relationships between KAP and its clients due to long tenures, which can disrupt independence and ultimately make the quality of its audits decrease (Arini & Yandra, 2022)	The reputation of auditors is measured through dummy variables, namely companies whose auditors from the Big Four KAP are given a score of 1, while companies whose auditors from the Non-Big Four KAP are given a score of 0 (Irma et al., 2019).	Ratio
Auditor Rotation (X3)	Auditor reputation refers to the auditor's ability to maintain principles and carry out the audit process with his professionalism and competence. (Irma et al., 2019)The Big Four KAP is often used as a benchmark for the reputation of a KAP. It is interpreted that KAP affiliated with the Big Four is seen as able to make the quality of its audit better than KAP without affiliation.(Andriani & Nursiam, 2018)	In this study, audit rotation was assessed using dummy variables, with a value of 1 given to companies that carried out audit rotations, and a value of 0 to companies that did not (Hartadi, 2012).	Ratio
Audit Fee (X4)	Audit fee is the total cost paid by a company as a reward for audit services provided by the audit company (Onyabe, 2022).	The measurement of audit fees is carried out using a natural logarithm (ln) of the amount of audit fees obtained by the auditor (Darmawan & Ardini, 2021).	Ratio

Data Analysis Technique
The data analysis technique in this study uses logistic regression tests and in data processing using SPSS software

RESULTS AND DISCUSSION
Descriptive Analysis

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
TRANSFORM_X1	114	1.00	2.45	1.5606	.49208
TRANSFORM_X2	114	.00	1.00	.4123	.49442
TRANSFORM_X3	114	.00	1.00	.2456	.43235
TRANSFORM_X4	114	4.04	5.26	4.6014	.19313
Valid N (listwise)	114				

Table 3 Descriptive Statistical Test Results
Descriptive Statistics
Source: Data processing using SPSS

Based on the results of the descriptive test, it can be seen that the amount of research data in this study is 114 research data. In the table it is stated that the audit fee variable has a minimum value of 4.04, a maximum value of 5.26, an average value (mean) of 4.6014 and a standard deviation of 0.19313.

Regression Model Feasibility Test

Hosmer and Lemeshow Test

Step	Chi-square	Df	Sig.
1	4.462	8	.813

From the Hosmer and Lemeshow's Goodness of Fit Test, a Chi-Square score of 4.462 was produced while the significance was 0.813 (> 0.05), which means that this research model is declared appropriate and can be continued to the next stage of analysis.

Test the Overall Model

Iteration History,b,c,d

Iteration		-2 Log likelihood	Coefficients Constant	Audit Tenure	Auditor Reputation	Auditor Rotation	LN_X4
Step 1	1	89.589	1.340	-2.122	-.230	-2.504	.118
	2	77.139	3.435	-3.499	-.416	-4.142	.144
	3	73.869	5.389	-4.575	-.534	-5.536	.149
	4	73.473	6.302	-5.086	-.574	-6.253	.151
	5	73.464	6.452	-5.174	-.578	-6.380	.152
	6	73.464	6.455	-5.176	-.578	-6.383	.152
	7	73.464	6.455	-5.176	-.578	-6.383	.152

a. Method: Enter

b. Constant is included in the model.

c. Initial -2 Log Likelihood: 157.159

d. Estimation terminated at iteration number 7 because parameter estimates changed by less than .001.

In block number 0, the value −2LogL is only with a constant of 157.159. Meanwhile, in block number 1 which includes independent constants and variables, the number of observations (N) is 114. After subtracting the number of independent variables and 1, the degree of freedom (DF) of 110 is obtained. The Chi-Square value in DF was recorded at 135,480. Since the value of −2LogL is less than Chi-Square, the model to which independent variables have been added is declared to fit the data and the null hypothesis (H_0) is accepted.

Coefficient Determination Test (Nagelker R Square)

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	73.464a	.520	.695

a. Estimation terminated at iteration number 7 because parameter estimates changed by less than .001.

The value of Nagelkerke R Square is 0.695. This proves that independent variables have a contribution to clarifying the audit quality factor variable as much as 69.5%, while the other 30.5% are determined by other factors that are not observed in the model.

Logistic Regression Test

Variables in the Equation

		B	S.E.	Wald	Df	Sig.	Exp(B)
Step 1a	Audit Tenure	-5.176	1.121	21.316	1	.000	.006
	Auditor Reputation	-.578	.610	.900	1	.343	.561
	Auditor Rotation	-6.383	1.437	19.729	1	.000	.002
	LN_Fee	.152	.170	.795	1	.373	1.164
	Constant	6.455	4.088	2.493	1	.114	635.971

a. Variable(s) entered on step 1: Audit Tenure, Auditor Reputation, Auditor Rotation, LN_X4.

According to the logistic regression model table, the formations include:

KA = 6.455-5.176AUD – 0.578REP - 6.383ROT+ 0.152FEE+ e

The model can be described through the following points:

1. **Constant (α)**

   The constant is 6,455 which indicates that the audit quality can change by 6,455 through the influence of a number of independent variables, ranging from audit fees, audit rotation, auditor reputation, to auditor specialization.
2. **Regression Coefficient (β) of Tenure Audit**

   The audit tenure variable (AUD) regression coefficient is -5,176 which indicates that for every one unit increase in audit fees, the company's chance of getting adequate audit quality decreases by -5,176.
3. **Regression Coefficient (β) of Auditor Reputation**

   The auditor reputation variable (REP) has a regression coefficient of -0.578 which indicates that every time one unit increases for audit rotation, the company's chance of getting adequate audit quality also decreases by -0.578.
4. **Regression Coefficient (β) of Auditor Rotation**

   The auditor rotation variable (ROT) has a regression coefficient of -6.383 which indicates that every time one unit increases for the auditor's reputation, the company's chance of getting adequate audit quality also decreases by -6.383.
5. **Regression Coefficient (β) of Audit Fee**

The variable audit fee (FEE) regression coefficient is 0.152 which indicates that every time one unit increases for auditor specialization, the company's opportunity to get adequate audit quality also decreases by 0.152.

Hypothesis Test (Wald Test)

The wald test is to investigate whether there is an influence of a number of independent variables on dependents. Referring to table 4.8, the results can be obtained in the form of:

1. The Tenure audit resulted in a wald score of 21.316 while its significance was worth 0.00 which is less than the α coefficient score of 5% (0.05). It can be said that tenure audits have a significant and positive impact on audit quality.
2. The auditor's reputation resulted in a wald score of 0.900 while its significance was 0.343 which exceeded the α coefficient score of 5% (0.05). It can be said that audit rotation does not affect audit quality.
3. The auditor's rotation resulted in a wald score of 19.729 while its significance was 0.000 which was less than the sko of the α coefficient of 5% (0.05). It can be said that auditor rotation affects audit quality.
4. The audit fee resulted in a wald score of 0.795 while the significance was 0.373 which exceeded the α coefficient score of 5% (0.05). It can be interpreted that audit fees do not affect the quality of audits.

The Effect of Tenure Audits on Audit Quality

The first hypothesis proposed is, whether tenure audits affect audit quality. Referring to the test results, it can be seen that the tenure audit produced a coefficient of -5,176, while the significance level was 0.00 which signified, less than the value of 0.05. The findings produced can be evidence, the audit tenure has a significant and positive effect on the quality of the audit, **H1 is accepted**.

This finding is in line with the opinion of (Edyatami & Sukarmanto, 2020) which states that too long a period of auditor attachment can lead to personal closeness and reduce objectivity in the examination. As a result, auditors can lose their professional skepticism and become less critical of potential financial statement errors. In this context, the negative results reinforce the assumption that audit tenure does not always have a positive impact on audit quality, especially if it is not accompanied by strict independence monitoring.

The Influence of Auditor Reputation on Audit Quality

The second hypothesis tested is whether the auditor's reputation affects the quality of the audit. Referring to the test results, it can be seen that the auditor's reputation coefficient is -0.578 while the significance level is 0.343 which indicates that it exceeds 0.05. The findings produced provide evidence that the auditor's reputation does not affect the quality of the audit, it can be said that **H2 was rejected**. From these findings, it can be concluded that the results of a good audit quality are not always KAP affiliated with the Big Four KAP. Auditors from the Big Four or non-Big Four KAP have equal responsibilities to maintain public trust. Although a KAP has a high reputation, it does not fully guarantee that it is free from errors or violations in the audit process of financial statements, which can result in a decrease in audit quality.

The findings are supported by studies from (which produce findings, the reputation of the auditor does not affect the quality of the audit. But unlike the study of (Andriani & Nursiam, 2018; Ayuni & Handayani, 2023; Hartadi, 2012)(Nurhayati & Dwi, 2015), which (Rizki & Sudarno, 2020)(Giandaiva & Burhany, 2022) produced findings, auditor reputation has a positive impact on audit quality.

The Effect of Auditor Rotation on Audit Quality

The third hypothesis proposed is whether auditor rotation affects audit quality. Referring to the test results, it can be seen that the audit rotation coefficient is -6,383 while the significance level is 0.00 which indicates that it exceeds 0.05. The findings produced provide evidence that auditor rotation affects the quality of the audit, it can be said that **H3 is accepted**. Auditor rotation is important to be carried out as POJK Number 9 of 2023 concerning the Use of Public Accountant Services and Public Accounting Firms in Financial Services Activities is given a limit of 5 (five) consecutive years through a gap period of 2 (two) consecutive years to maintain auditor independence.

The resulting findings are supported by studies from, which resulted in the findings, auditor rotation affects audit quality. But inversely proportional to the study of proportional to the study of (Kurniasih & Rohman, 2014) ,(Hartadi, 2012) , (Andriani & Nursiam, 2018), (Ayuni & Handayani, 2023) which produced findings, auditor rotation affected audit quality.

The Effect of Audit Fees on Audit Quality

The fourth hypothesis proposed is whether audit fees affect audit quality. Referring to the test results, it can be seen that the audit fee coefficient is 0.152 while the significance level is 0.373 which indicates that it exceeds 0.05. The findings produced provide evidence, the audit fee does not affect the quality of the audit, so **H4 is rejected**. Audit fees are measured based on the total payment for audit services received by KAP. It can be said that the amount of fees paid by the company does not directly affect the improvement or decrease in the quality of the audit produced.
The resulting findings are supported by studies from (Suwarno et al., 2020); (Farid & Baradja, 2022); (Sunaryanto & Farida, 2022) which produced findings, audit fees did not affect audit quality. But it is inversely proportional to the study from (Hartadi, 2012); (Andriani & Nursiam, 2018); (Ayuni & Handayani, 2023) which produced findings, audit fees significantly affect audit quality.

CONCLUSIONS AND SUGGESTION

Referring to the findings of the analysis and discussion, from this study, it can be concluded that audit tenure and auditor rotation affect and positively affect the quality of audits in SOEs registered on the IDX in 2018-2023. Meanwhile, the reputation of auditors and audit fees do not affect the quality of audits in SOEs registered on the IDX in 2018-2023.

According to the existing conclusions, this study has a number of limitations, for example related to the use of the sample. The samples taken were limited and not representative of the entire wider population. In addition, the limited sample size can also reduce the statistical power of the analysis performed, thus affecting the validity of the results obtained.

The suggestions given by the researcher include the use of large and more varied samples so that the findings produced are more representative and can be generalized to a wider population.

REFERENCES

Andriani, n., & nursiam. (2018). Pengaruh fee audit, audit tenure, rotasi audit dan reputasi auditor terhadap kualitas audit (studi empiris pada perusahaan manufaktur yang terdaftar di bursa efek indonesia tahun 2013-2015). *Riset akuntansi dan keuangan indonesia*, *3*(1).

Antara. (2023, march 7). *Sri mulyani berharap standar dan kualitas audit keuangan di indonesia meningkat*. Https://www.tempo.co/ekonomi/sri-mulyani-berharap-standar-dan-kualitas-audit-keuangan-di-indonesia-meningkat-211652. Https://www.tempo.co/ekonomi/sri-mulyani-berharap-standar-dan-kualitas-audit-keuangan-di-indonesia-meningkat-211652

Arini, p. R., & yandra, f. (2022). Pengaruh tekanan klien dan rotasi audit terhadap independensi auditor: pendekatan eksperimen. *Owner*, *6*(2), 1475–1485. Https://doi.org/10.33395/owner.v6i2.764

Arista, d., kuntadi, c., & pramukty, r. (2023). Pengaruh audit tenure, ukuran perusahaan, dan rotasi audit terhadap kualitas audit (literature review audit internal). *Jurnal economina*, *2*(6), 1247–1257. Https://doi.org/10.55681/economina.v2i6.594

Ayuni, f., & handayani, d. F. (2023). Pengaruh fee audit, rotasi audit, reputasi auditor dan spesialisasi auditor terhadap kualitas audit. *Jurnal buana akuntansi*, *8*(1), 41–56. Https://doi.org/10.36805/akuntansi.v8i1.2958

Darmawan, m. S., & ardini, l. (2021). Pengaruh audit fee, audit tenure, audit delay dan auditor switching pada kualitas audit. *Jurnal ilmu dan riset akuntansi*, *10*(5).

Deangelo, l. E. (1981). Auditor size and audit quality. *Journal of accounting and economics*, *3*(3), 183–199. Https://doi.org/https://doi.org/10.1016/0165-4101(81)90002-1

Edyatami, n. F., & sukarmanto, e. (2020). Pengaruh audit tenure, audit capacity stress dan komite audit terhadap kualitas audit. *Prosiding akuntansi*.

Effendi, e., & ulhaq, r. D. (2021). Pengaruh audittenure, reputasi auditor, ukuran perusahaan dan komite audit terhadap kualitas audit. *Jurnal ilmiah mea (manajemen, ekonomi, dan akuntansi)*, *5*(2), 1475–1504.

Farid, m. N. F., & baradja, l. (2022). Pengaruh fee audit, audit tenure, audit rotasi, ukuran perusahaan klien pada kualitas audit. *Jurnal ekonomi trisakti*, *2*(2), 1063–1078. Https://doi.org/10.25105/jet.v2i2.14750

Giandaiva, t., & burhany, d. I. (2022). The effect of audit fees, public accounting firm (kap) rotation, and auditor reputation on audit quality (study at kap in jakarta). *Sigma-mu*, *14*.

Hartadi, b. (2012). Pengaruh fee audit, rotasi kap, dan reputasi auditor terhadap kualitas audit di bursa efek indonesia. *Ekuitas: jurnal ekonomi dan keuangan*, *16*(1), 84–103. Https://doi.org/10.24034/j25485024.y2012.v16.i1.147

Irma, f. A., rispantyo, r., & kristianto, d. (2019). Pengaruh audit tenure, rotasi auditor, reputasi auditor, dan spesialisasi auditor terhadap kualitas audit. *Jurnal akuntansi dan sistem teknologi informasi*, *15*(4).

Jensen, m. C., & meckling, w. H. (1976). Theory of the firm: managerial behavior, agency costs and ownership structure. *Journal of financial economics*, *3*, 305–360.

Kurniasih, m., & rohman, a. (2014). Pengaruh fee audit, audit tenure, dan rotasi audit terhadap kualitas audit. *Diponegoro journal of accounting*, *3*(3), 1–10. Http://ejournal-s1.undip.ac.id/index.php/accounting

Laili, n. I. (2021). Pengaruh fee audit, tenure audit, rotasi audit terhadap kualitas audit dengan komite audit sebagai variabel moderasi pada perusahaan sektor keuangan yang terdaftar di bursa efek indonesia. *Jurnal ebi*, *3*(1). Https://doi.org/10.52061/ebi.v3i1.32

Monoarfa, r. (2018). *Kualitas audit badan pengawas daerah* (m. Mirnawati, ed.). Ideas publishing.

Nuari ferlian. (2024, june 15). *Pt waskita karya: terjerat rekayasa laporan keuangan dan proyek fiktif, kerugian negara belum terlunasi sepenuhnya konten ini telah tayang di kompasiana.com dengan judul "pt waskita karya: terjerat rekayasa laporan keuangan dan proyek fiktif, kerugian negara belum terlunasi sepenuhnya*. Kompasiana. Https://www.kompasiana.com/ferliannuari6308/666d65a4c925c42c6f668de3/pt-waskita-karya-terjerat-rekayasa-laporan-keuangan-dan-proyek-fiktif-kerugian-negara-belum-terlunasi-sepenuhnya?page=1&page_images=1

Nurhayati, s., & dwi, s. (2015). Pengaruh rotasi kap, audit tenure, dan reputasi kap terhadap kualitas audit pada perusahaan manufaktur. *Jurnal akuntansi aktual*, *3*(2), 165–174.

Onyabe, j. (2022). Do audit fee and auditor independence influence audit quality? *Asian journal of finance & accounting*, *14*, 66–80. Https://doi.org/10.5281/zenodo.7018516

Permatasari, i. Y., & astuti, c. D. (2019). Pengaruh fee audit, rotasi auditor, dan reputasi kap terhadap kualitas audit. *Jurnal akuntansi trisakti*, *5*(1), 81–94. Https://doi.org/10.25105/jat.v5i1.4839

Rizki, m., & sudarno. (2020). Pengaruh reputasi kap, ukuran kap, dan biaya audit terhadap kualitas audit (studi pada perusahaan manufaktur yang terdaftar di bei tahun 2015-2017). *Diponegoro journal of accounting*, *9*(3), 1–11. Http://ejournal-s1.undip.ac.id/index.php/accounting

Soares, c., nyoman, n., suryandari, a., putu, a. A., bagus, g., & susandya, a. (2021). Pengalaman auditor serta due professional care terhadap kualitas audit. *Jurnal kharisma*, *3*(1).

Sunaryanto, o. R., & farida. (2022). *Pengaruh fee audit, rotasi kap, reputasi auditor dan ukuran perusahaan terhadap kualitas audit (studi empiris pada perusahaan property dan real estate yang terdaftar di bei tahun 2016-2020)*. Https://journal.unimma.ac.id

Supriyanto, s., pina, p., christian, c., & silvana, v. (2022). Menganalisis indikator kualitas audit pada perusahaan audit di indonesia. *Sibatik journal: jurnal ilmiah bidang sosial, ekonomi, budaya, teknologi, dan pendidikan*, *2*(1), 199–210. Https://doi.org/10.54443/sibatik.v2i1.520

Suwarno, a. E., anggraini, y. B., & puspawati, d. (2020). Audit fee, audit tenure, auditor's reputation, and audit rotation on audit quality. *Jurnal riset akuntansi dan keuangan indonesia*, *5*(1), 61–70. Https://doi.org/https://doi.org/10.23917/reaksi.v5i1.10678

Yolanda, s., indra arza, f., & halmawati. (2019). Pengaruh audit tenure, komite audit dan audit capacity stress terhadap kualitas audit. *Jurnal eksplorasi akuntansi*, *1*(2), 543–555. Http://jea.ppj.unp.ac.id/index.php/jea/issue/view/5

Yulaeli, t. (2022). Pengaruh fee audit dan audit tenure terhadap kualitas audit. *Jurnal buana akuntansi*, *7*(2), 191–199. Https://doi.org/10.36805/akuntansi.v7i2.2113

Jurnal Akuntansi
Vol. 15, No.2, June 2025

ISSN 2303-0356
Hal. 130-156

Modern Slavery Disclosure in the G20: Firm and National-Level Insights

Vidya Intani Athfalina[1]
Universitas Airlangga[1]

ARTICLE INFO

Article history:
Received: June, 3th 2025
Revised: June 29th , 2025
Accepted: June 30th , 2025

Keywords:
civil law legal systems
corporate governance
inde
cross-country determinants
G20 firms
modern slavery disclosure
neo-institutional theory
supply chain transparency

Correspondence:
Vidya Intani Athfalina
Vidya.intani@feb.unair.ac.id

ABSTRACT

The urgency for firms to disclose modern slavery practices has increased in light of global human rights concerns. This study investigates the firm-level and country-level determinants that influence modern slavery disclosure using panel data from 6,757 firm-year observations across listed firms in G20 countries (2015–2020). Data from the listed firm in the G20 countries were used. These nations have contributed most of the world's GDP and share the objective of adhering to modern slavery standards. Employing a panel data regression model with fixed effects and robust standard errors, grounded in neo-institutional and stakeholder theories, the analysis incorporates variables such as corporate governance, firm size, profitability, state governance, and legal system. Secondary data were collected from the Thomson Reuters Eikon and World Bank databases. The results indicate that firm governance ($\beta = 0.0623; p < 0.01$), firm size ($\beta = 1.31; p < 0.01$), country-level governance ($\beta = 3.69; p < 0.01$), and civil law legal system ($\beta = 12.74; p < 0.01$) have a statistically significant positive impact on modern slavery disclosure. Profitability is found to have no significant influence ($p > 0.10$). The final model explains 21.6% of the variance in disclosure ($R^2 = 0.216$). These findings demonstrate that both firm-internal characteristics and national institutional contexts play a decisive role in shaping disclosure practices, with firms in civil law countries and those with stronger governance frameworks reporting substantially higher levels of information. This study contributes to the literature in several ways. First, it provides large-scale empirical evidence across multiple countries, addressing the lack of cross-country analyses in prior research. Second, it integrates firm-level and country-level determinants within a unified model, offering new insights into how internal resources and external pressures jointly influence modern slavery transparency. Finally, by highlighting the non-significance of profitability, this research challenges assumptions that stronger financial performance automatically leads to more ethical disclosure, thereby expanding the theoretical understanding of disclosure behavior. Firms have varying levels of disclosure of modern slavery. Businesses and investors have an obligation to uphold human rights in their supply chains and combat modern forms of slavery, including forced labor and human trafficking. Overall, the results underscore the importance of robust corporate governance, institutional quality, and legal frameworks in promoting accountability and transparency in addressing modern slavery risks..

How to cite :
Athfalina, Vidya Intani. (2025) Firm and Country-Level Determinants Of Modern Slavery Disclosure: Empirical Evidence From G20 Countries. *Jurnal Akuntansi Vol 15 No 2 June 2025 page*,130-156. https://doi.org/10.33369/jakuntansi.15.2.130-156

INTRODUCTION

Modern slavery encompasses practices such as deceptive recruitment, wage withholding, forced labor, and the exploitation of vulnerable individuals hidden across countries, sectors, and governments (Burns & Jollands, 2020; Gold et al., 2015; ILO, 2017a; Shilling et al., 2021). Despite estimates indicating that tens of millions are affected globally (Bales, 2009; ILO, 2017a), disclosure practices by firms remain limited and often symbolic (Birkey et al., 2018; Christ et al., 2019; Schaper & Pollach, 2021).

G20 countries, which account for 85% of global GDP and are major importers of slave-related goods (Department of Foreign Affairs and Trade, n.d.; GSI, 2018), present a critical context for examining modern slavery transparency. Prior studies have shown that disclosure is influenced by factors such as industry pressure, NGO engagement, and governance structures (Birkey et al., 2018; Flynn & Walker, 2020; Islam & Van Staden, 2018). However, much of this research has concentrated on compliance or descriptive analyses rather than evaluating the determinants of substantive disclosure quality.

Furthermore, few studies have comprehensively assessed how firm-level characteristics—such as corporate governance and firm size—and country-level institutional contexts—such as governance quality and legal systems—jointly shape disclosure practices (Giannarakis et al., 2014; A. Khan et al., 2013). This gap is particularly salient given evidence that institutional configurations vary widely between developed and emerging markets, influencing the relationship between governance and ESG reporting (Dhaliwal et al., 2012).

Accordingly, this study aims to address these limitations by analyzing how internal and external factors influence modern slavery disclosure among G20-listed firms. By integrating stakeholder theory (Freeman, 1999) and neo-institutional theory (DiMaggio & Powell, 1983), it seeks to provide empirical insights into the mechanisms that drive transparency beyond mere compliance.

LITERATURE REVIEW AND HYPHOTESIS

Neo-institutional Theory

Neo-institutional theory serves as this study's theoretical framework, providing a robust lens through which to examine organizational practices, particularly disclosure. DiMaggio and Powell (1983), foundational scholars in this area, distinguish between coercive, mimetic, and normative isomorphisms as processes that shape organizational behavior. These patterns explain why firms' actions, including their disclosure practices, tend to converge despite varying individual characteristics. This theory has been extensively utilized in prior research "to establish the relationship between stakeholder pressure and individual firm reporting practices and to explain adoption and reporting of social and environmental standards in general," (Islam & McPhail, 2011). The fundamental premise of neo-institutional theory is that institutions play a critical role in economic and organizational processes, influencing corporate behavior based on the institutional factors within their environment.

The three distinct types of isomorphism (coercive, mimetic, and normative) are central to neo-institutional theory: 1) Coercive Isomorphism: This refers to formal and informal pressures exerted on organizations by other powerful entities, such as governmental regulations, legal frameworks, and societal expectations (DiMaggio & Powell, 1983). For example, mandatory reporting laws or industry-specific compliance requirements can compel firms to disclose certain information. This type of pressure is particularly relevant in the context of modern slavery, where governments are increasingly enacting legislation requiring companies to report on their efforts to combat such practices (e.g., the UK Modern Slavery Act, Australian Modern Slavery Act); 2) Mimetic Isomorphism: This occurs under conditions of uncertainty or ambiguity, where organizations imitate the behaviors or structures of other successful or legitimate organizations in their field (DiMaggio & Powell, 1983). When there is a lack of clarity on how to address complex issues like modern slavery, firms may model their disclosure practices on those of leading companies or industry peers, assuming these practices are effective. This "copying" mechanism helps reduce perceived risk and enhance legitimacy; 3) Normative Isomorphism: This arises from professionalization, driven by shared values, norms, and standards disseminated through professional bodies, industry associations, and educational systems . Professionals within organizations, influenced by their training and professional networks, adopt compliance strategies that align with accepted best practices. In the context of modern slavery, this could involve adhering to guidelines promoted by human rights organizations, sustainability reporting frameworks, or industry-specific codes of conduct.

Prior research has consistently demonstrated a strong relationship between various institutional pressures and a firm's reporting behaviors, including practices and policies related to modern slavery (Christ et al., 2019; Flynn & Walker, 2020). When multiple stakeholder groups impose pressure on firms, there is an increased likelihood that companies will be compelled to provide more information regarding the existence of modern slavery in their supply networks and operations (Flynn, 2019)

For instance, Flynn and Walker (2020) specifically identified all three sources of institutional pressure, international human rights agreements (coercive), multi-stakeholder initiatives (mimetic), and professional standards (normative)—when examining the UK Voluntary Modern Slavery Statements by Financial Times Stock Exchange companies. This highlights how a combination of legal requirements, peer behavior, and professional expectations drives disclosure. Similarly, in the Australian context, Christ et al. (2019) found that Australian companies frequently use similar terminology and emphasize common issues when discussing modern slavery, suggesting strong mimetic and normative influences within the industry.

The institutional environment in which G20 companies operate regarding modern slavery is characterized by a diverse array of disclosure pressures, encompassing individual or combined legislative/coercive, cognitive/normative, and mimetic forces (DiMaggio & Powell, 1983; Willmott, 2015) This study adopts New Institutional Sociology (NIS) as its framework to examine modern slavery disclosure for several reasons. Companies may exert pressure on each other to report proactively on concerns over anticipated regulations (mimetic/coercive). Furthermore, with the increasing number of modern slavery cases being uncovered, there may be significant normative pressure from various organizations—such as industry associations, non-governmental organizations (NGOs), and non-profits—to disclose modern slavery risks in both domestic and international supply chains (Crane, 2013). Rather than merely describing various stakeholder pressures demanding corporate accountability (Ijiri, 1983), this research focuses on the actual disclosures provided by firms.

Drawing on neo-institutional theory, this study argues that firm-level characteristics such as governance quality, size, and profitability determine how effectively firms respond to these pressures. For example, firms with strong governance and large resources are better equipped to comply with coercive regulations, imitate leading practices, and align with professional expectations, resulting in more extensive disclosure. At the same time, country-level institutional factors such as governance quality and legal systems are expected to amplify or moderate these pressures, creating variation across national contexts. Accordingly, the hypotheses in this study predict that both internal organizational capacities and external institutional environments will be positively associated with the level of modern slavery disclosure. Given these findings, neo-institutional theory provides a useful perspective for examining management's approach to modern slavery issues and understanding what motivates companies to enhance the quality of their disclosures.

Stakeholders Theory

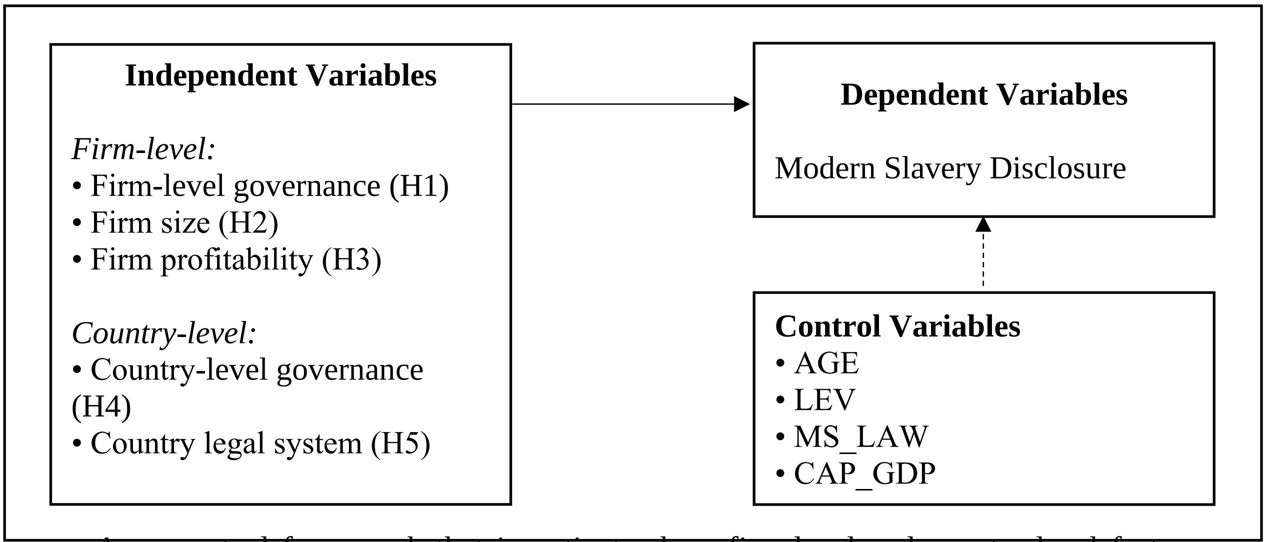
The internal environment of a firm often significantly influences how sustainability is implemented. Stakeholder theory, primarily advanced by Freeman (1999), provides a comprehensive framework for understanding how organizations manage their relationships with various groups that can affect or are affected by their objectives. Unlike traditional shareholder-centric views, this theory posits that a firm's knowledge of economics, law, and philanthropy should address not only shareholders but also all other stakeholders (Freeman, 1999).

Freeman and David (1999) define stakeholders broadly as any individual or group impacted by a firm's goal accomplishment, or any group with the authority to influence those goals. To build and maintain positive stakeholder relationships, firms are incentivized to adopt sustainability-related initiatives (Freeman, 1999). This engagement often translates into higher levels of disclosure. For example, studies by Michelon and Parbonetti (2012) highlight that energy firms, particula 132 t actively participate in social responsibility initiatives to secure and maintain stakeholder support. This implies that firms disclose their sustainability efforts to satisfy stakeholder demands and manage their social license to operate.

In their study on modern slavery within supply chains, Stevenson and Cole (2018) suggested that both institutional theory and stakeholder theory offer valuable opportunities for further research. They noted that stakeholder theory is particularly useful because, although external stakeholders are the primary recipients of modern slavery statements, businesses still need to carefully consider the implications of these statements for their suppliers and other internal stakeholders. This highlights the dual role of disclosure: not only to inform external parties but also to manage relationships and expectations throughout the entire value chain.

Drawing on stakeholder theory, it can be argued that firms with stronger governance structures and more substantial resources are better positioned to identify and engage with diverse stakeholder groups who expect transparency about modern slavery risks. Such firms are likely to disclose more comprehensive information to maintain legitimacy, reduce reputational risk, and strengthen relationships with investors, regulators, NGOs, and consumers. Accordingly, this study hypothesizes that firm-level characteristics such as governance quality, size, and profitability will be positively associated with the level of modern slavery disclosure because they enhance a firm's capacity to address stakeholder expectations. Therefore, stakeholder theory provides a crucial lens for analyzing the motivations behind and the audience for modern slavery disclosures.

Figure 1. Conceptual Framework: Interrelation Between Firm- and Country-Specific Variables and Modern Slavery Disclosure



A conceptual framework that investigates how firm-level and country-level factors may affect how much information businesses disclose concerning modern slavery is shown in Figure 1. On the company side, governance structures, firm size, and profitability are expected to play key roles in shaping disclosure behavior, because these elements frequently show how capable and eager a company is to be open about social and ethical issues. At the national level, the quality of governance and the strength of the legal system are believed to affect the broader institutional pressure or support that firms face when addressing modern slavery risks. Additionally, the model includes a number of control variables—such are the size of the capital market, corporate age, financial leverage, and the existence of legislation against modern slavery—to account for other external influences that might shape disclosure practices. This figure illustrates a set of hypotheses suggesting that corporate transparency on modern slavery is the result of both internal governance and the surrounding regulatory and institutional environment.

According to the neo-institutional theory (DiMaggio & Powell, 1983), Through adherence to standards and rules, enhanced corporate governance (more oversight) leads to better stakeholders' value and corporate performance. Characteristics and matters related to the board will significantly affect how corporate governance runs effectively. Various sizes, independence, diversity, and the existence of an ESG/CSR committee are included (Naseem et al., 2017). The company's supervisory board is thought to be able to raise awareness of the need to apply the sustainability idea (Hussain et al., 2018). It is hoped that firm with effective management can strengthen their internal control to lessen issues resulting from opportunistic conduct and the prevalence of information asymmetry, and the firm will share more information.(Arayssi et al., 2020; Jizi, 2017; Naseem et al., 2017), as revealed through modern slavery reporting. A large variety of boards (experience, expertise, and expertise) can provide good input to management (Amran et al., 2014; Katmon et al., 2019), which should increase the view of legitimacy and be more likely to engage in more robust corporate modern slavery initiative and disclosures. The findings of prior research on independent boards and sustainability performance have been conflicting. Issues about stakeholders sometimes receive greater attention from independent boards than shareholder interests. (Hussain et al., 2018; Mahmood et al., 2018). In order to preserve their reputation, businesses may be encouraged to focus on sustainable policies by having an independent board (Amran et al., 2014). Board independence improves sustainability disclosures and practices (Jo & Harjoto, 2012; Lau et al., 2016; Ntim & Soobaroyen, 2013). While, (Haniffa & Cooke, 2005; Said et al., 2009) found negative relationships. A study by Hermawan (2011) found that How well the financial reporting process is supervised depends on the governance structure. Such governance impacts financial reporting and how well it manages the enterprise's disclosure of modern slavery. The significance of governance on non-financial disclosures has been the subject of conflicting research, and the previous study has not addressed the connection between corporate governance and disclosures of modern slavery. (Jo & Harjoto, 2012; Lau et al., 2016; Ntim & Soobaroyen, 2013). Drawing on neo-institutional theory, it can be argued that corporate governance structures serve as mechanisms through which firms respond to institutional pressures, including legal requirements, stakeholder expectations, and normative standards about human rights reporting. In this perspective, firms with stronger governance are better positioned to internalize such pressures and translate them into more extensive and credible disclosures of modern slavery practices. Accordingly, this study hypothesizes that enhanced corporate governance will be positively associated with the level of modern slavery disclosure, as firms seek to secure legitimacy and meet evolving societal demands. Nonetheless, in line with predictions, the first hypotheses of the study are:

H1: Firm-level governance had a positive effect on the modern slavery disclosure level.

According to neo-institutional theory (DiMaggio & Powell, 1983), firm size influences all institutional isomorphisms (coercive, normative, and mimetic) and is expected to affect the disclosure of modern slavery positively. For social and environmental practices considered unsustainable, the large firm is more vulnerable to coercive pressure to become the primary source of regulation targets (Flynn, 2019). They are more at risk of attracting attention, public outrage, and even formal reprimands/penalties if they fail to demonstrate that they comply with existing regulations/norms for a responsible supply chain (Hoejmose et al., 2014). They are therefore more inclined to give stakeholders more information about human rights in order to lessen outside pressure and show their dedication to sustainable development issues (Valls Martinez et al., 2019; Zahid et al., 2020). The larger company has greater financial and economic resources available for environmental and social initiatives (Valls Martinez et al., 2019). It includes developing proper tools within the firm, such as social reports, establishing a code of ethics, and adopting sustainability standards on disclosure content related to modern slavery as regulated by t(Brammer & Pavelin, 2008)ative (Brammer & Pavelin, 2008). In addition to employing outside assurances to bolster the veracity of supplied data, the well-known company is better equipped to meet these requirements due to their ample financial resources and advantageous position (Brammer & Pavelin, 2008). So they can influence suppliers to behave better (New, 2015). Associated with mimetic isomorphism, to gain a competitive advantage over their competitors, a large firm will offer higher-quality disclosures (Christ & Burritt, 2018). Recent research that supports this opinion shows that CSR reports to firms provide greater disclosure of corruption practices and bribery (Sethi et al., 2017), ethical codes (Garegnani et al., 2015; Sethi et al., 2017), and modern slavery (Flynn & Walker, 2020; Voss et al., 2019) which is higher. Most earlier research has generally obtained a positive link between size and disclosure (Arayssi et al., 2016; Lagasio & Cucari, 2019; Qureshi et al., 2020; Tamimi & Sebastianelli, 2017). Drawing on neo-institutional theory, it can be argued that larger firms experience stronger and more varied institutional pressures to conform to societal expectations about transparency and accountability. These firms are also more exposed to scrutiny from regulators, investors, and civil society, which reinforces their motivation to disclose credible information about modern slavery risks. Accordingly, this study hypothesizes that firm size will be positively associated with the level of modern slavery disclosure, as larger firms seek legitimacy and competitive advantage through more extensive reporting. The more prominent firm is assumed to contribute more to social projects, such as combatting modern slavery. Therefore, to see the effect on the amount of disclosure of modern slavery, firm size calculated by market capitalization is included in the model.

H2: Firm size positively affects the disclosure of modern slavery disclosure level.

According to neo-institutional theory (DiMaggio & Powell, 1983), it is proposed that there is a mimetic isomorphism. There are two views on profitability and how it affects how much information about modern slavery is disclosed. It has to do with the resources' accessibility. A company must dedicate organizational resources to implement measures to prevent modern slavery. Previous research has demonstrated how a company can handle social and environmental challenges by continuously improving its supply chain and operations management (Park-Poaps & Rees, 2010). Profitability provides a firm with resources that can be used to invest in tools, equipment, and management control systems for measuring and reporting better-quality disclosure (Ismail et al., 2018; Lu & Abeysekera, 2014). These findings suggest that firms with excess cash will be better able and in a position to invest in the resources needed to combat modern slavery, disclose higher levels of information, and then be motivated to make the public aware of these efforts (Perez-Batres et al., 2012). Flynn's research (2019) provides contrary evidence, where a sample of UK-based enterprises found no link between modern slavery reporting compliance and profit. Flynn (2019) argues that a lack of financial resources drives firms to adopt modern slavery reporting initiatives. In response to this, Rao et al. (2022) argue that In terms of the level of modern slavery report, a firm with more significant profit is far more flexible in deciding what to disclose. Firms that report truthfully may be concerned about increased scrutiny if their profits increase (Rao et al., 2022). Examining the relationship between profitability and the degree of modern slavery disclosure is uncertain because the factors influencing the caliber of modern slavery reporting are still being studied. This study proposes a link between profit and the reporting of modern slavery. Drawing on neo-institutional theory, it can be argued that profitability interacts with institutional pressures in complex ways. On one hand, firms with higher profits have more resources to comply with disclosure expectations and to adopt visible anti-slavery initiatives as a means of signaling legitimacy. On the other hand, profitable firms may also be more cautious in their disclosures to avoid attracting regulatory or stakeholder scrutiny about the sources of their financial performance. Accordingly, this study hypothesizes that profitability will be positively associated with the level of modern slavery disclosure, as resource availability increases the firm's capacity to report, despite the presence of conflicting motivations. According to the above description, it is hypothesized:

H3: Firm profitability positively affects the modern slavery disclosure level

Much prior research has employed the neo-institutional theory method (DiMaggio & Powell, 1983) to describe the link between sustainability and governance at the country level. Much prior research has employed the neo-institutional theory method (DiMaggio & Powell, 1983) to explain the connection between national government and sustainability. According to this theory, non-governmental groups and legislation can influence corporate behavior and thus determine how firms carry out their corporate activities(Baldini et al., 2018; Campbell, 2007; DiMaggio & Powell, 1983). An important factor in encouraging firms to act ethically is the government's capacity to issue regulations related to sustainability (Agyemang et al., 2015), including regulations regarding modern slavery. According to neo-institutional theory, regulation as a country-level governance mechanism will be viewed as a regulatory/coercive authority when firms must meet the demands and presumptions of critical stakeholders, such as authorities (DiMaggio & Powell, 1983; M. R. Khan, 2020). Based on these findings, stakeholder pressure could urge firms to participate in stakeholders' societal activities and increase the disclosure of modern slavery. Regulators, as substantial stakeholders, have the right to make rules that firms must comply with so that they do not face legitimacy problems. In addition, national authorities or regulators that focus on specific industries are essential to exercise oversight of sustainability legislation (M. R. Khan, 2020). As a result, it is reasonable if public governments implement sustainability legislation and enforce sustainable development principles, including those relating to modern slavery. Firms tend to comply with policies rather than regulators because they depend on national regulators to expand their firms. Regulations and expectations will force a firm to communicate its obligations to the larger community of stakeholders in their sector (Kinderman, 2020), which includes disclosure regarding modern slavery. However, there is currently no empirical data to support the claim that state-level governance and reporting rates of modern slavery are linked. Therefore, this study argues that corporate use of modern slavery reporting will be heavily influenced by national-level governance. When governance is effective in these nations, policymakers already have monitoring and control systems that can be utilized to track firm actions in the combat over modern slavery and increased disclosure of modern slavery. Drawing on neo-institutional theory, it can be argued that country-level governance operates as a source of coercive isomorphism, compelling firms to adopt disclosure practices that align with regulatory expectations and social norms. In contexts where governance quality is high, firms are under greater pressure to legitimize their operations and demonstrate accountability through transparent reporting of modern slavery risks and actions. Accordingly, this study hypothesizes that stronger national governance will be positively associated with the level of modern slavery disclosure, as firms respond to regulatory frameworks and institutional monitoring. A hypothesis is offered based on the preceding description:

H4: Country-level governance had a positive effect on the modern slavery disclosure level.

According to neo-institutional theory (DiMaggio & Powell, 1983), all isomorphic pressures are primarily normative and coercive pressures on various stakeholders related to a country's legal system. According to this study, stakeholder-oriented countries will report on modern slavery more frequently than shareholder-oriented ones. The firm will face sustainability challenges in stakeholder-oriented countries, such as human rights. On the other hand, the firm will be less motivated and less prepared to implement SDGs reporting in countries with a higher shareholder orientation. Following the literature, nations with code laws (such as France, Germany, and others) have a stakeholder-oriented corporate culture that prioritizes stakeholders' various demands and interests, with the citizens of these countries interested in firm activities. Firm (Holder-Webb et al., 2009; Sìmnett et al., 2009; van der Laan Smith et al., 2005). Key stakeholders within those nations are anticipated to substantially impact corporate activities, particularly stakeholder-focused corporate social initiatives and reporting on modern slavery. In shareholder-oriented corporate cultures found throughout common law jurisdictions, stakeholder groups have less impact on firm operations (e.g., Australia). The firm is primarily seen as a catalyst for creating and maximizing shareholder value in this law (Sìmnett et al., 2009). Instead of concentrating solely on safeguarding the interests of significant shareholders, countries that prioritize stakeholders look out for the interests of all stakeholders (Jensen & Berg, 2012; Van der Laan Smith et al., 2005). Decisions made by decision-makers in society that prioritize stakeholders' interests reflect these interests in policies, procedures, and governance (Jensen & Berg, 2012). It includes a code of ethics and the activities and efforts made by the firm in responding to modern slavery. For example, Campbell (2007) defines a set of economic and institutional parameters that a firm must comply with to operate responsibly. Empirically, Holder-Webb et al. (2009) research shows that Because the environment in which they are placed has a stronger focus on shareholders, US firms outpace multinationals concerning CSR disclosure. In their study of 31 countries, Simnett et al. (2009) found that firms with stakeholder-oriented nations are presumably with shareholder-oriented nations to choose to conduct audits to verify their sustainability reporting. Drawing on neo-institutional theory, it can be argued that the prevailing legal system shapes the normative expectations and coercive pressures that firms experience regarding transparency. In stakeholder-oriented (civil law) countries, these pressures are stronger, encouraging firms to engage in more extensive disclosure of modern slavery practices to maintain legitimacy among diverse stakeholders. Accordingly, this study hypothesizes that firms operating within civil law legal systems will report higher levels of modern slavery disclosure compared to firms in common law systems, which are more shareholder-focused.

H5: Country civil law legal system positively influences the modern slavery disclosure level.

RESEARCH METHODS

181

184 Primary samples from 19 observations at the national level were used on the G20 nations – Argentina, Australia, Arabia, Brazil, Canada, China, Japan, Germany, Indonesia, India, Great Britain, Italy, Korea, France, Mexico, Russian Republic, Saudi, South Africa, the United States, Turkey. Since Germany, France, Italy, and the United Kingdom have represented the majority of the data, the European Union is not included. The report includes, without exception, all industrial sectors, including banking; despite its highly regulated nature, it refers to prior research on modern slavery's reporting (Rao et al., 2022).

The sample selection method is shown in Table 1**,** 40,234 firms became the initial sample of the study. A total of 34,915 firms do not have a report of modern slavery. In addition, 3,106 firms were removed from the sample because they lacked adequate data. Three nations, including India, Italy, and the United Kingdom, were consequently excluded because they lacked data on the primary or control variables. There was no difference in the number of time units for each firm, so a balanced panel data model was used with a sample of 2,213 firms and 6,757 observations from 2015 to 2020.

Table 1. Sample Selection Process of G20 Public Firms (2015–2020)

	Samples	***Firm-Year Observations***
All public firms located in the G20 (2015-2020)	40,234	241,410
(-) Firm that has not disclosed modern slavery	(34,915)	(219,152)

Firm that published and disclosed modern slavery	5,319	22,258
(-) Firm with missing key variables and control variable data	(3,106)	(15,501)
Firm that has complete research variable data	2,213	6,757

This research uses quantitative and empirical methods. Information from a secondary source is used, meaning it is used to collect data from a source other than the source. Firm-level governance data, size, and profitability are collected through Refinitiv Eikon, while governance data at the country level is collected from the World Bank (WGI) database. The division of countries by legal system in the categories of common law and civil is used division based on previous studies, including Farooq & AbdelBari, 2015 (2015), Guidara et al. (2014) dan La Porta et al. 1999 (1999). Refinitiv Eikon collects information about the firm's financial situation, including age and leverage. Meanwhile, update on regulations related to slavery practices reporting, referring to the Global Slavery Index website (GSI, 2018). In the meantime, another element connected to country-level statistics gathered from World Bank data is per capita market capitalization.

To analyze the link between the modern slavery disclosure, characteristics of firm and country, models below are used:

$MS\_DISCLOSURE_{it} = \alpha_0 + \beta\, FIRM_{it} + \beta\, COUNTRY_{jt} + \beta\, CONTROLS_{it} + \varepsilon_{it}$…..(1)

Which is then elaborated as follows:

$MS\_DISCLOSURE_{it} = \beta_0 + \beta_1 FIRM\_GOV_{it} + \beta_2 SIZE_{it} + \beta_3 ROA_{it} + \beta_4 COUNTRY\_GOV_{it} + \beta_5 LEGAL\_SYSTEM_{it} + \beta_6 AGE_{it} + \beta_7 LEV_{it} + \beta_8 MS\_LAW_{it} + \beta_{10} CAP\_GDP_{it} + \varepsilon_{it}$…..(2)

Table 2 contains a list of all variable measurements, along with definitions and data sources. To evaluate the generality of modern slavery in the non-financial statements of G20 firms, the research will use completeness or full disclosure assessment (Imhoff Jr, 1992). An unweighted Score containing eight categories of human rights data on Eikon by summing up the overall score will be used. Each score component was found in prior research (Pucheta-Martínez, M. C., & Gallego-Álvarez, 2019; Refinitiv, 2021; Sánchez et al., 2011). The score component used in this study was then adapted to the theme and sub-theme of measurement/assessment of the level of disclosure of modern slavery that Christ et al. (2019) had carried out. And Rao et al. (2022) regarding the practice of disclosure of modern slavery of the firm.

Table 2. Operational Definition and Source of Variables

	Dependent Variables		
$MS\_DISCLOSURE_{it}$	The modern slavery disclosure index is a combined score with an average value of 8-dimensional disclosure rates on the topic of modern slavery Gerged et al., 2021; Pucheta-Martínez, M. C., & Gallego-Álvarez, 2019	Indicator Count: 8	Thomson Reuters
	Independent Variables		
	Specific characteristics of the firm *(FIRM)*		
$FIRM\_GOV_{it}$	The firm-level governance quality index is a score on the commitment and effectiveness of corporate governance (Bhaskaran et al., 2021; Dwekat et al., 2020; Ragazou et al., 2022; Signori et al., 2021)	Indicator Count: 34	Thomson Reuters
$SIZE_{it}$	The market value of all different kinds of instrument-level stocks is used to compute the company size, which is the natural	Indicator Count: 1	Thomson Reuters

	logarithm of the firm's market capitalization (Drempetic et al., 2020)		
ROA_{it}	The ratio of a company's net profit before financing expenses to its total shareholders' equity is a measure of profitability, which is the rate of return on assets (Kılıç & Kuzey, 2018)	Indicator Count: 1	Thomson Reuters
	Country-specific characteristics *(COUNTRY)*		
$COUNTRY\_GOV_{it}$	The country-level governance quality index is a combined score with an average value of 6 components of state legal strength based on WGI(Kaufmann et al., 2011; Moussa et al., 2022; Yamen et al., 2018)	Indicator Count: 6	World Bank
$LEGAL\_SYSTEM_{it}$	The legal system is a *dummy* variable that is valued as 1 if the firm is located in a country that values its stakeholders *(civil law)* and 0 vice versa, which respects *its* shareholders *(common law)* (Bose & Khan, 2022; Sìmnett et al., 2009)	Indicator Count: 1	Pengukuran Simnett *et al.* (2009)
	Control Variables (*CONTROLS)*		
AGE_{it}	The number of days since the company's initial public offering (IPO) is used to determine the firm's age (Chay et al., 2015; Chun et al., 2008; Jain et al., 2008; Pastor & Veronesi, 2003; Shumway, 2001)	Indicator Count: 1	Thomson Reuters
LEV_{it}	*The ratio of total debt to total assets is known as leverage* (Fernandez-Feijoo et al., 2014)	Indicator Count: 1	Thomson Reuters
MS_LAW_{t}	Modern slavery disclosure rules are *dummies* related to the existence of disclosure rules related to modern slavery, worth 1 if required and 0 and vice versa (Baldini et al., 2018)	Indicator Count: 1	Firm's annual report, sustainability report, and related website
CAP_GDP_{t}	*The market capitalization of the listed domestic firm (% of GDP)* is the average ratio of the stock market capitalization of the listed firm to country-level GDP (Doidge et al., 2007; Florou & Kosi, 2015)	Indicator Count: 1	World Bank

The quality of institutions at the firm level, the size of the firm, its profitability, and governance at the country level are independent factors at the firm level. Corporate governance is a weighted average composite score on Thomson Reuters. It consists of 34 indicators related to "corporate success and commitment to adopting best practices in corporate governance." (Thomson Reuters ASSET4 ESG Data Glossary 2013, 2013), which is shown between the range of 0 (bad) to 100 (strong). According to Drempetic's (2020) study, the size of a firm is determined by its market capitalization, which constitutes the total of the market values of all sorts of related instrument-level stocks measured in dollars. While the proxy profitability, i.e., net profit divided by firm assets (return on assets), refers to Kiliç et al. (2015).

Governance and legal systems at the country level are independent factors at the government level. In order to assess the efficacy of governance at the national level under the World Governance Index, the state governance index is based on the following criteria: political stability, effectiveness of governance, quality of regulation, rule of law, voice and accountability, and corruption control. This score is between the range of performance in the governance of about -2.5 (bad) and 2.5 (strong). Finally, the division over a sample of G20 firms operating under various legal systems is examined. Australia, Canada, India, the United Kingdom, Saudi Arabia, United States and South Africa are considered *common* law countries for analysis purposes, while Argentina, Brazil, China, Indonesia, Italy, Japan, Germany, Mexico, France, the Republic of Korea, Russia and Turkey are considered *civil law* countries (Farooq & AbdelBari, 2015; Guidara et al., 2014; la Porta et al., 1999).

By selecting the proxies most frequently used in previous research, a number of control variables were chosen in line with studies on non-financial disclosure (ILO, 2017b; Lochner, 2020; Lucas & Landman, 2021; Ross et al., 2015; Such et al., 2020) as well as cost of equity (Ellili et al., 2020). For the research model, to reduce the potential for model specification errors, both firm-specific and country-specific control variables were included.

Regarding firm-level controls and considering the hypotheses and theories used, in the regression equation, controls were added including firm age (AGE) and leverage/debt position (LEV). This study includes these controls because they may be able to explain some of the remaining variation in non-financial disclosure scores. To estimate the regression model, industry dummies were included based on industry categorization, and control was performed over cross-sectional and time-series associations by clustering by firm and year (Gow et al., 2010; Petersen, 2009).

The first factor, firm age (AGE), refers to the age of the company. According to Shumway (2001), the number of years since the company's listing/IPO is the economic indicator of firm age. Several studies have used this method to calculate firm age (Chay et al., 2015; Chun et al., 2008; Jain et al., 2008; Pastor & Veronesi, 2003; Shumway, 2001), namely by summing one plus the years since IPO to measure firm age, to avoid zero. Thomson Reuters provides related data. Companies that have only recently gone public may not yet be adequately equipped and capitalized to handle the various obstacles that must be overcome in product and financial markets (Jain et al., 2008). Therefore, compared to firms that went public longer ago, newer companies tend to be less prepared to address and disclose modern slavery. As a result, it is hypothesized that the quality of modern slavery disclosure may be positively affected by firm age at the time of going public.

The second factor, leverage (LEV), represents the source of funding that companies need to sustain themselves. Furthermore, because even demands from debtholders also influence the level of ESG disclosure, leverage can be used to measure visibility to investors (Fernandez-Feijoo et al., 2014), which is also likely to have a positive effect on modern slavery disclosure.

Several country-level controls are also included, such as the existence of modern slavery disclosure rules (MS_LAW) and country-level market capitalization to GDP ratio (CAP_GDP), to control for significant differences in modern slavery reporting. Modern slavery regulation (MS_LAW), as an additional country-level control, is measured with a binary variable taking the value 1 if the company's country requires disclosure of modern slavery reporting, and 0 otherwise. The presence of specific regulations requiring modern slavery disclosure has been controlled for, referring to Baldini et al. (2018), who included a control variable for CSR regulation.

This study also accounts for economic development (Florou & Kosi, 2015), with data sourced from the World Bank World Development Indicators. It is hypothesized that firms disclose better in countries with a higher country-level market capitalization to GDP ratio. This is consistent with controlling for financial market development in a country, measured by country-level stock market capitalization to GDP (MarCAP_GDP) (Doidge et al., 2007), which shows that advanced financial markets promote productivity and growth through better accumulation of physical capital and more effective investment in intangible capital, including human capital. The key idea here is that the design of how well financial markets function can influence how effectively information for corporate decision-making is shared and collected—the lower the information asymmetry, the better. Strong financial markets can drive better corporate control by facilitating the process of information gathering (Yartey, 2007).

With the help of the STATA program, this research uses panel data regression. Model fixed effects were adopted based on the Breush and Pagan Lagrangian Multiplier Test. First, the Pearson correlation matrix was used to evaluate the presence of multicollinearity among the variables. All correlation coefficients were below the threshold of 0.8, indicating no serious multicollinearity issues. Second, multicollinearity was further assessed through the Variance Inflation Factor (VIF) test. All VIF values were below 5, with an average of 1.98, confirming the absence of harmful collinearity between predictors.

Third, heteroskedasticity testing using the Breusch-Pagan test revealed the presence of heteroskedasticity to account for *cross-sectional* dependence or temporal effects, as the p-value was below 5%. To address this issue, the model was re-estimated using robust standard errors. Furthermore, this study conducted a series of classical assumption tests to ensure the robustness of the regression results. Lastly, the explanatory power of the full regression model was evaluated using the adjusted R^2, which yielded a value indicating that the independent and control variables together explain a substantial portion of the variation in the firm's cost of equity. Thus, before conducting the nine hypotheses testing for the model, standard diagnostic tests were performed to ensure the appropriateness of using linear regression. These included tests for normality, autocorrelation, heteroskedasticity, and multicollinearity. The outcomes of these diagnostics served as the basis for determining the validity and robustness of the linear regression approach applied in this study.

RESULTS AND DISCUSSION

Table 3 displays a descriptive statistical summary of the research variables across the sample from 2015-2020. The average of modern slavery disclosure (MS_DISCLOSURE) is 19.6. Based on the scores used in this study, the average firm has a reasonably low score of 19.6 out of 100. The greater the score means, the more significant the firm's commitment to increasing the level of modern slavery disclosure reported by the firm. The most negligible modern slavery disclosure was 1.29, while the largest was 89.6. This small percentage may be since the disclosure of modern slavery in the sample firms is still optional and not mandatory in some countries.

Table 3. Descriptive Statistics of Research Variables (n = 6,757)

VARIABLE	OBSERVATION	MEAN	STD. DEV.	MIN	MAX	SKEWNESS	KURTOSIS
MS_DISCLOSURE	6757	19.636	24.513	1.297	89.632	0.999	2.558
FIRM_GOV	6757	52.916	27.789	0.116	99.986	-0.084	1.851
SIZE	6757	1,861,000,000	1,245,383,544	2,426,350	4,562,000,000	0.418	2.049
ROA	6757	0.089	0.138	-0.665	0.564	-1.32	9.672
COUNTRY_GOV	6757	0.927	0.634	-0.759	1.677	-1.224	3.098
FIRM_AGE	6757	7842.365	5232.457	79	42227	1.707	9.322
LEV	6757	0.825	0.833	0	4.58	1.797	6.518

CAP_GDP	6757	127.609 130	52.399	8.7	345.353	-0.087	3.415
DUMMY VAR.	**OBSERVATION**	**MEAN**	**STD. DEV.**	**MIN**	**MAX**	**SKEWNESS**	**KURTOSIS**
LEGAL_SYSTEM	6757	0.323	0.468	0	1	0.756	1.571
MS_LAW	6757	0.63	0.483	0	1	-0.541	1.292

Source: STATA output (processed), regression using random effect model.

Degree of corporate governance (FIRM_GOV) shows an average score of 52.9 and a range of 0 to 100. The quality of state governance (COUNTRY_GOV), which can have a minimum score of -2.5 or a maximum of 2.5, currently has an average of 0.92. It shows that enterprise-level governance generally has a higher level of quality than national governance.

Firm size (SIZE) is a market capitalization's natural logarithm used to calculate the firm size (SIZE). With a considerable standard deviation of USD 1,245 million, the average firm in the sample country has total assets of USD 1,861 million. This shows that each country's sample of these research firms has a very different data distribution for its total assets. The firm with the lowest total capitalization is USD 2.4 million, while the firm with the highest capitalization is USD 4.562 million.

The return on assets (ROA) 's mean for the firm in the sample country is 8.9%, which means that for every $100 total of assets, a profit of $8.9 can be generated. The firm with the lowest ROA, which suffered a significant loss of 66.5% of its total assets, had a ROA of -0.66%. Moreover, the ROA that acquires the most assets overall is 56%. Liabilities (LEV) make up 82.5% of the total average assets for enterprises in the study countries. A 0.83 standard deviation implies the presence of variations in each firm. 0% is the smallest value firm that uses debt as a source of funding and has small total assets, while 458% is the most significant value in the research sample.

The firm's average market capitalization per GDP (CAP_GDP) in the sample country was USD 127.6. The smallest value is $8.7, while the largest is $345.3. The legal system (LEGAL_SYSTEM) is a dummy variable that cites the research of Bose & Khan 2022 (2022), having a value of 1 for the state of the civil law legal system and 0 and vice versa. As many as 32.3% of observations are in the category of stakeholder-oriented civil law nations. The dummy variable of the rules relating to the obligation to dismantle modern slavery (MS_LAW) has a value of 1 for the category of states that have obligations in disclosing modern slavery, 63% of all observations, already required in making disclosures of modern slavery.

The model regression examined how firm-specific and country-specific factors affected modern slavery disclosure. Table 4 displays the test results. Given that the VIF is less than 10, the multicollinearity issue has no impact on the regression's outcome. Table **1**Table 4 shows the regression result, specifically for the data in the third column. Starting from the country-specific factor, the 1st hypothesis examination demonstrates that at 5%, the coefficient of FIRM_GOV has a considerably favorable impact ($p < 0.01$) on modern slavery disclosure, so H1 is accepted. The same result is seen in the 2nd hypothesis test, where the SIZE coefficient is significant ($p < 0.01$) to modern slavery disclosure, so H2 is accepted. However, for the 3rd hypothesis examination, the coefficient of ROA as a profitability proxy has no statistically significant effect on modern slavery reporting, and H3 is rejected. Furthermore, country-level governance, as in the 4th hypothesis test, reveal that the coefficient of COUNTRY_GOV has appreciable beneficial effects on CSR disclosure at 1% ($p < 0.01$), so hypothesis H4. Lastly, the legal system in a country for civil law has a significantly positive effect ($p < 0.01$) on modern slavery disclosure, according to the coefficient of LEGAL_SYSTEM, which examines the 5th hypothesis and concludes that H5 is accepted.

Table 4. Regression Results: Firm- and Country-Level Determinants of Modern Slavery Disclosure

	EXPECTED SIGN	MAIN VARIABLES	CONTROL VARIABLES	ALL VARIABLES
		MS_DISCLOSURE	MS_DISCLOSURE	MS_DISCLOSURE
FIRM_GOV	+	0.1331325397*** (0.0000000)		0.0623079365*** (0.0000000)
SIZE	+	1.1431276434*** (0.0029482)		1.3105292176*** (0.0005076)
ROA	+	2.4074577723* (0.0985592)		1.9580863 (0.1439333)
COUNTRY_GOV	+	-0.8403496498 (0.2116853)		3.6938253329*** (0.0001813)
LEGAL_SYSTEM	+	9.8227690594*** (0.0000000)		12.7403136788*** (0.0000000)
AGE	+		0.0007402344*** (0.0000000)	0.0005855484*** (0.0000000)
LEV	+		1.6734610280*** (0.0000279)	1.8451303569*** (0.0000038)
MS_LAW	+		5.5349067910*** (0.0000039)	6.8905348708*** (0.0000000)
CAP_GDP	+		-0.0552304973*** (0.0000002)	0.0000111 (0.4996776)
Constant		9.5077048043*** (0.0000000)	-7.0364467542* (0.0744935)	-17.8745715258*** (0.0004489)
Robust Standard Errors		Yes	Yes	Yes
Year Effects		No	Yes	Yes
Industry Effects		No	Yes	Yes
Observations		6757	6757	6757
$R_{\text{-Squared}}$ (Overall)		3.18%	21.73%	21.59%
Degree of Freedom		5	19	24
Chi-square		277.3645	899.6504	1070.5346

Source: STATA output (processed), regression using random effect model.
The p-values are in parentheses. *** p<0.01, ** p<0.05, * p<0.10 (one-tailed test). The table was tested using random effect regression based on the results of the Breusch dan Pagan Lagrangian Multiplier test.

Impact of Firm-level Governance on Modern Slavery Disclosure Level

Examining the 1st hypothesis reveals that firms are encouraged to disclose modern slavery in more detail in the current year by the firm-level governance quality (Table 4). The regression coefficient of 0.0623 ($p < 0.01$) shows that, holding other variables constant, every one-point increase in the corporate governance score is associated with a 0.0623 point increase in the modern slavery disclosure index. This suggests that governance quality contributes materially to improving transparency, even when controlling for firm size, profitability, and country-level institutional factors. The significance level indicates a robust relationship unlikely to be due to random variation. This finding also implies that governance structures, such as the presence of sustainability committees, independent board members, and comprehensive policies, are not only symbolic but translate into concrete disclosure practices. The positive impact remains significant after introducing multiple control variables and year and industry fixed effects, which strengthens confidence in the result's validity across contexts.

This presents compelling empirical evidence favoring H1, which hypothesizes that effective corporate governance would lead to the disclosure of modern slavery. It fits with neo-institutional theory, which says that good governance tends to follow the rules and regulations of institutional organizations to get legitimacy and improve a firm's reputation. Specifically, this result supports DiMaggio and Powell's (1983) argument that coercive and normative isomorphic pressures can drive convergence in disclosure practices as firms adapt to institutional expectations. Similarly, the fact that the firm has a committee to demonstrate its efficiency demonstrates its concerns about its reputation and social responsibility. (Fuente et al., 2017; Neu et al., 1998). This is also consistent with findings by Jo and Harjoto (2012) and Hussain et al. (2018), who showed that governance mechanisms, including board independence and the integration of CSR policies, positively influence the quality and quantity of sustainability disclosures. Similar to what Jizi (2017) discovered in his prior research on the link between governance and firm sustainability disclosure, the outcomes are comparable. Furthermore, the result aligns with stakeholder theory (Freeman, 1999), highlighting that firms with stronger governance structures are better able to balance stakeholder expectations and proactively communicate social performance. Strong governance indicates a firm's commitment to ethical behavior, which enhances its reputation and stakeholder trust. Overall, the evidence suggests that firms can leverage effective governance frameworks as a strategic asset to meet institutional and stakeholder pressures for accountability on modern slavery issues.

Impact of Firm Size on Modern Slavery Disclosure Level

The 2nd hypothesis test indicates how firm size influences the degree of modern slavery disclosure. In quantitative terms, the regression coefficient of 1.31 ($p < 0.01$) indicates that for each unit increase in the log of market capitalization, the modern slavery disclosure score increases by 1.31 points, all else held constant. This is a substantial effect size, demonstrating that firm size is among the strongest predictors in the model. The robustness of this result after controlling for governance, profitability, country governance, legal system, and other controls suggests that the scale and resources of larger firms systematically enable more detailed reporting. This aligns with the argument that bigger companies are not only more visible but also better resourced to develop reporting infrastructures, implement internal monitoring systems, and commission third-party verifications. This finding also reinforces the idea that disclosure is partly a function of organizational capacity: small firms may face capability constraints that limit their ability to produce comprehensive modern slavery statements. Therefore, policymakers and regulators should consider providing tailored support or simplified disclosure frameworks for smaller entities to reduce this gap.

Based on the second hypothesis, it is possible to reduce the cost of equity in the next period by increasing CSR reporting this year. However, the significant positive effect of SIZE on MS_DISCLOSE is revealed in Table 4. Modern slavery disclosure levels are positively impacted by firm size. The findings invalidate null hypothesis, showing that firm size does affect disclosure. This is congruent with neo-institutional theory, which says that larger firms are obliged to battle modern slavery because of its institutional exposure. Larger firms are generally more visible and subjected to greater public and institutional scrutiny, which drives them to adopt more comprehensive disclosures (Arayssi et al., 2016; Ismail et al., 2018). This result also supports DiMaggio and Powell's (1983) notion of mimetic isomorphism: under uncertainty, smaller firms may look to larger peers for cues about appropriate disclosure practices, reinforcing the leadership role of big firms in setting expectations. Their exposure to normative and mimetic pressures makes them more likely to align with global standards on human rights reporting. Consistent with Sethi et al. (2017) and Flynn and Walker (2020), this finding reinforces that firm size is a critical antecedent of sustainability and human rights reporting, as large firms often experience higher reputational risks and stronger stakeholder demands. Moreover, as noted by Rao et al. (2022) and Flynn (2019), firms with larger market capitalizations tend to invest more in sustainability reporting practices to mitigate reputational risk. This relationship also aligns with stakeholder theory (Freeman, 1999), which emphasizes that larger firms have broader stakeholder bases and therefore face more complex expectations to demonstrate accountability on issues such as modern slavery. This supports the view that size can act as a driver of institutional isomorphism, despite its mixed predictive capacity in some contexts (Zahid et al., 2020).

Impact of Firm Profitability on Modern Slavery Disclosure Level

Based on the analysis of the 3rd hypothesis (Table 4), there is no real relationship between the change in firm profitability and modern slavery disclosure level. In quantitative terms, the coefficient for ROA is positive (1.95) but statistically insignificant ($p > 0.10$), suggesting that even if profitability improves, there is no consistent increase in disclosure scores. This reinforces the interpretation that profitability alone is not sufficient to predict proactive disclosure. Firms may prioritize financial performance over transparency, especially when the regulatory or stakeholder pressure is weak. Moreover, this result indicates that disclosure is less a function of discretionary financial slack and more a function of external institutional and governance factors. It is possible that even profitable firms perceive modern slavery disclosure as a potential reputational risk if it exposes weaknesses in their supply chains. This finding also highlights the importance of regulatory frameworks: in the absence of binding disclosure requirements, profitability does not automatically translate into accountability initiatives.

This result opposes the hypothesized association between financial resources and ethical firm conduct. The result of this research contradicts the notion that greater financial resources will motivate firms to participate in anti-slavery measures such as audits of the supply chain and enhanced transparency (Ismail et al., 2018; Sethi et al., 2017). This finding suggests that firms' financial performance does not necessarily lead to ethical disclosure behavior, contradicting the assumption that firms with more slack resources would allocate more toward transparency initiatives (Ismail et al., 2018; Sethi et al., 2017). This pattern is consistent with the argument by DiMaggio and Powell (1983) that mimetic and coercive isomorphism, rather than purely economic resources, are stronger determinants of standardized practices like disclosure. It also aligns with Dean & Marshall (2020), who found that in some jurisdictions, even highly profitable companies showed limited motivation to disclose slavery-related risks. This evidence supports the view that institutional context—particularly regulatory requirements and stakeholder expectations, is a more powerful driver of disclosure behavior, as also discussed by Flynn and Walker (2020) and Crane (2013). This could indicate that social disclosure, in this context, is more a response to institutional pressure than internal resource availability. From the perspective of stakeholder theory (Freeman, 1999), this result further implies that stakeholder influence mechanisms may not effectively activate transparency in the absence of clear norms and pressures, even when firms have the financial means. Overall, this suggests that incentives and external pressure mechanisms may be more effective levers for improving disclosure than relying on voluntary actions driven by profitability.

Impact of Country-level Governance on Modern Slavery Disclosure Level

Governance of the state positively impacts firms to disclose modern slavery, as shown in Table 4. This result is the evidence of the 4th hypothesis, which states that the amount of disclosure increases as the governance quality of a nation improves. Specifically, the coefficient of 3.69 ($p < 0.01$) indicates that for each additional point in the governance index, firms' modern slavery disclosure increases by nearly 3.7 points, holding other factors constant. This is a substantial and statistically significant effect that highlights the powerful role of national institutions in shaping corporate behavior. The finding suggests that firms operating in well-governed countries face both formal pressures, such as clearer legal frameworks—and informal expectations to report transparently on social issues. Moreover, this result underscores the idea that regulatory environments can create an enabling context for disclosure even in the absence of direct mandates. Companies in countries with better governance may perceive that stakeholders, including investors, media, and civil society, are more vigilant and demanding of accountability. The consistency and strength of this effect after including controls and fixed effects also suggest that improving country-level governance could be a policy lever to encourage wider adoption of transparent reporting practices.

These findings are congruent with institutional theory, which suggests that institutional elements such as legislation indirectly affect organizations (DiMaggio & Powell, 1983). This is in line with the idea that institutional environments shaped by strong governance—such as the rule of law, regulatory quality, and accountability—provide coercive and normative pressures that encourage firms to adopt better non-financial disclosure practices (Gerged et al., 2021; Eccles et al., 2014). This result echoes the empirical findings of Baldini et al. (2018), who observed that stronger country-level governance is associated with higher-quality ESG disclosures across sectors. Similarly, Kinderman (2020) highlights that the credibility of national institutions can act as a catalyst for companies to internalize sustainability norms. Government must take part in a substantial role in enhancing disclosure of modern slavery since good national governance increases the private sector's grasp of the SDGs in their employment environment (Eccles et al., 2014) and improves non-financial reporting (Gerged et al., 2021), based on the findings. From the perspective of stakeholder theory (Freeman, 1999), this finding suggests that when countries exhibit effective governance, stakeholder expectations are more institutionalized and consistently enforced, making it more difficult for firms to avoid disclosure without risking legitimacy loss. In countries with high governance standards, firms are more likely to internalize sustainability expectations and align their reporting with the Sustainable Development Goals (SDGs), especially on labor issues like modern slavery. Overall, these results reinforce the argument that external institutional environments, rather than internal firm characteristics alone, are key drivers of modern slavery disclosure.

Impact of Country Civil Law Legal System on Modern Slavery Disclosure Level

The 5th hypothesis (Table 4) is examined, revealing that firms are motivated to disclose modern slavery in greater detail when it is based in a civil law country. From a quantitative perspective, the coefficient of 12.74 ($p < 0.01$) is among the largest in the model, indicating that firms located in civil law countries score, on average, nearly 13 points higher in modern slavery disclosure compared to firms in common law countries, holding other factors constant. This magnitude suggests that the legal system is a powerful institutional determinant of disclosure practices, likely because stakeholder-oriented cultures embed expectations about social responsibility into corporate governance norms. The robustness of this relationship, even after including controls for firm governance, size, profitability, and national governance quality, further demonstrates that legal tradition independently shapes transparency behavior. Moreover, this finding implies that legal systems can either amplify or dampen the effectiveness of other institutional pressures: in civil law countries, firms may proactively disclose to align with societal expectations, while in common law contexts, disclosure may be more compliance-driven and minimal.

According to the new institutional theory, institutional stakeholders provide normative and coercive pressure, highlighting their need for sustainability information on social causes such as modern slavery and other components. DiMaggio and Powell (1983) argue that coercive and normative isomorphisms are more pronounced in environments where laws and professional standards are embedded in the broader societal fabric, which is characteristic of civil law systems. Firms from civil law countries, which emphasize stakeholder rights, tend to disclose more comprehensively than firms in common law jurisdictions that focus on shareholder interests. This supports prior studies by Meek et al. (1995), Liang & Renneboog (2016), and Zimmerer-Benz (2020), which found that civil law environments reduce information asymmetry and promote broader social disclosures. These results are also consistent with Simnett et al. (2009), who found that firms in stakeholder-oriented legal environments are more likely to undertake external assurance of sustainability reports, demonstrating a deeper commitment to accountability.

Interestingly, even though some common law countries like Australia have mandated modern slavery reporting (e.g., the Modern Slavery Act 2019), the institutional orientation of civil law countries appears to foster more voluntary and detailed disclosures overall. This observation reinforces the perspective of Holder-Webb et al. (2009), who emphasize that even with similar regulatory requirements, disclosure practices differ because legal origin shapes corporate culture and expectations of legitimacy. The findings are consistent with Meek, Roberts, and Gray's (1995) and Liang and Renneboog's (2016) findings that civil law countries have reduced information asymmetries on average. Overall, the results highlight that policymakers aiming to improve disclosure standards should consider how legal and institutional frameworks interact to influence corporate reporting incentives. In line with stakeholder theory (Freeman, 1999), the higher disclosure observed in civil law systems can be interpreted as an outcome of a corporate environment where firms are more attuned to the expectations of a broad set of stakeholders rather than merely shareholders.

The Association With Control Variables

Firm age. Regarding the control variables, Table 4 shows that AGE has a coefficient of 0.0005 (p-value = 0.000), implying that firm age positively influences the disclosure of modern slavery. Significant results were found for the firm-specific control variable related to firm age (FIRM_AGE), where the number of days from the IPO date was used to measure firm age, which correlated statistically with the disclosure of modern slavery. Older companies are better equipped to deal with obstacles (Jain et al., 2008), including exposing modern slavery. Although the coefficient appears numerically small, its statistical significance suggests that even incremental increases in firm maturity contribute meaningfully to disclosure practices. This may reflect that older firms have had more time to institutionalize robust reporting systems, develop stakeholder engagement processes, and build internal capabilities for tracking complex issues like modern slavery in their supply chains. Additionally, seasoned firms may perceive higher reputational risks if they fail to disclose transparently, given their longer track record and accumulated visibility in the market. This finding supports the view that the experience and established organizational routines of older firms create stronger incentives and capacities for adopting comprehensive sustainability disclosures.

Leverage. As can be seen from LEV (Table 4), it has a significant positive effect with a coefficient of 1.8451 (p-value = 0.000) on disclosure, according to predictions. Following previous studies, companies that have high leverage (LEV) tend to disclose more about their ESG activities because they experience higher visibility. (Reverte, 2009). Given the public pressure on corporate entities in the form of public intrusion into companies that violate the social contract, there is a positive relationship between the tendency of companies to disclose information voluntarily (Reverte, 2009). The magnitude of the coefficient suggests that leverage is a substantial driver of disclosure: each unit increase in leverage is associated with nearly 1.85 points higher modern slavery disclosure, controlling for other variables. This reinforces the notion that firms with higher debt levels face stronger expectations to maintain legitimacy in the eyes of creditors and investors, who may view transparent reporting as a signal of lower risk. High leverage can also increase scrutiny from banks and institutional investors, who increasingly incorporate ESG criteria—including human rights practices—into their risk assessments. Therefore, disclosure can serve as a reputational mechanism to reassure stakeholders that the firm is proactively managing social and operational risks associated with modern slavery. This finding highlights that capital structure not only influences financial strategy but also shapes the incentives to communicate non-financial performance and compliance.

Modern slavery law. From Table 4, the coefficient value for the variable MS_LAW as a law for disclosing modern slavery is statistically significant and has a positive coefficient of 6.8905 (p-value = 0.000) towards the level of disclosure of modern slavery. The null hypothesis was rejected, as expected. The findings support previous studies which show that the quality of disclosure of voluntary modern slavery is generally dominated by mimetic factors. This is evident in the jurisdictional effects in California and England prior to the enactment of the UK Modern Slavery Act and the California Transparency in Supply Chains Act of 2010, where companies would imitate one another in terms of quality of disclosure when reporting was voluntary. (Birkey et al., 2018; Lake et al., 2016; Mantouvalou, 2018). However, the findings of this sample provide evidence in support of the adoption of laws requiring disclosure of modern slavery to improve the standards of these companies. The decisions of countries such as the United States, Germany, France, and others to enforce reporting of modern slavery strengthen the argument that coercive pressure is necessary. Quantitatively, the coefficient of nearly 6.9 demonstrates that the mere existence of mandatory disclosure regulations results in a substantial increase in reported modern slavery information compared to countries without such requirements. This underscores the powerful role of coercive isomorphism, where legal compulsion rather than voluntary initiatives is the main driver of transparency.The consistency of this effect across different countries in the sample highlights that regulation can overcome inertia or reluctance among firms, particularly those with limited internal motivation to disclose sensitive practices. Furthermore, the result suggests that mimetic and normative pressures alone may not be sufficient to achieve meaningful disclosure unless supported by a credible threat of regulatory enforcement. Overall, this finding has strong policy implications: it supports arguments that clear, enforceable legislation is an effective tool to standardize disclosure practices and reduce information asymmetry for stakeholders concerned about modern slavery.

Capital. Finally, according to Table 4, country-level controls over the impact of CAP_GDP on disclosure regarding modern slavery have not been demonstrated. The probability value based on the variable is 0.4996, which is greater than 5% of significance. The country-level listed domestic enterprise market capitalization (% of GDP) is shown to have no effect, so there is no difference in countries with strong economies towards higher disclosure of modern slavery. This finding suggests that the relative size of a country's financial market, as proxied by stock market capitalization to GDP, does not play a meaningful role in shaping firms' reporting behavior on modern slavery. One possible interpretation is that economic development and the maturity of capital markets alone do not automatically translate into stronger institutional or stakeholder pressures specific to human rights disclosure. It also implies that even in advanced economies with deep capital markets, firms may lack sufficient incentives or obligations to report comprehensively on modern slavery unless explicit regulations or cultural expectations exist. The insignificance of CAP_GDP reinforces the idea that legal frameworks and governance quality are more decisive factors influencing disclosure practices than macro-level financial indicators. Overall, this result highlights that capital market development, while important for economic growth and investment, does not appear to be a direct driver of transparency regarding modern slavery risks. This underscores the need for targeted policy interventions rather than reliance on market forces alone to improve disclosure standards.

Robustness Test

Robustness tests are performed by converting the firm's profitability/return on assets (ROA) measurement into return on equity *(*ROE). Table 5 shows a substantial positive link among the variables of enterprise-level governance quality (FIRM_GOV), corporate size (SIZE), state-level governance (COUNTRY_GOV), state legal system (LEGAL_SYSTEM), and modern slavery disclosures (MS_DISCLOSURE). A significant level below 5% (p-value 5%) is affected by each variable. Variable profitability (ROE) continues to generate very limited returns. Based on these data, it can be claimed that although some criteria are employed, corporate governance, business size, state governance, and state legal systems have the most significant influence in efforts to raise the disclosure of modern corporate slavery.. This is because all four variables significantly influence the constant disclosure of modern slavery.

Table 5. Regression Results Using ROE as Profitability Proxy (Robust Standard Errors)

	EXPECTED SIGN	**MS_DISCLOSURE**	148
FIRM_GOV	+	0.0700274***	(0.0000000)
SIZE	+	1.2025187***	(0.0045724)
ROE	+	3.3101916	(0.2701151)
COUNTRY_GOV	+	3.9820016***	(0.0002427)
LEGAL_SYSTEM	+	11.0203473***	(0.0000001)
AGE	+	0.0005110***	(0.0000001)
LEV	+	1.8807508***	(0.0000246)
MS_LAW	+	6.6029155***	(0.0000047)
CAP_GDP	+	-0.0068958	(0.3249840)
Constant		-16.4456865***	(0.0019172)
Robust Standard Errors		Yes	
Year Effects		Yes	
Industry Effects		Yes	
Observations		5554	
$R_{\text{-Squared}}$ (Overall)		20.35%	
Degree of Freedom		24	
Chi-square		824.1953845	

Source: STATA output (processed), regression using random effect model.
The p-values are in parentheses. *** p<0.01, ** p<0.05, * p<0.10 (one-tailed test). The table was tested using random effect regression based on the results of the Breusch dan Pagan Lagrangian Multiplier test.

CONCLUSIONS AND SUGGESTION

Disclosure research on the broad topic of modern slavery has been increasingly commonplace in recent years. By concentrating on the determinants of disclosure at both the national and corporate levels. The purpose of this study is to investigate the elements that influence the disclosure of contemporary slavery.. This research covers a broader range of topics than past studies have, and it takes into consideration the fact that modern slavery sometimes involves the movement of people across international borders in order to carry out its activities. Additionally, it analyzes data from many countries. The countries that make up the G20 group offer the ideal setting for more extensive risk factors for the development of modern slavery because of their distinctive contributions to the global economy and their different legal systems, religious beliefs, and cultural traditions. This research aims to gather more data as well as to create a more compelling justification for the empirical data about human rights-related problems.

In this particular analysis, a selection of G20 countries was examined, and 2015–2020 served as the period under consideration. A total of 6757 observations were made in this study. The findings of this research indicate that a firm's decision to report extensively on modern slavery in the current year depends on various criteria, including corporate governance, firm size, national-level governance, and the country's legal framework of the firm's headquarters. These elements affect whether or not the firm will provide in-depth reporting on modern slavery in the coming year. Consequently, the determinant is a component that plays a role in the degree to which information regarding modern slavery is disclosed to the general public. State legal systems have increased the disclosure of modern slavery, according to another research work. The analysis also shows that state legal systems have advanced to the disclosure of modern slavery, even though the firm's profitability does not influence this. This outcome is probably the effect of businesses claiming honestly being more concerned about being scrutinized if they are more profitable (Rao et al., 2022) The higher profitability is probably due to cheap labor in the supply chain and related to modern slavery activities (Crane, 2013). Therefore, if they reveal modern slavery, they may be at a disadvantage in comparison to less open businesses (Dean & Marshall, 2020). They will so mimic one another's behavior in order to conceal information and evade monitoring.

This study extends prior research by integrating both neo-institutional theory and signaling theory in explaining disclosure behavior and its consequences. It confirms that disclosure is driven by institutional pressures at both the firm and country level, while also functioning as a signal that influences investor behavior. Moreover, this study contributes to the literature by being among the first to link modern slavery disclosure directly to the cost of equity, thus bridging a gap in ESG and corporate finance scholarship. The findings serve as empirical evidence for policymakers to consider mandatory modern slavery reporting frameworks as an instrument to improve transparency and accountability. Regulators in G20 countries can encourage disclosure by embedding specific modern slavery indicators, such as supplier audit counts, whistleblower reports, or contractual enforcement, into standard corporate governance reporting requirements. Doing so may not only improve corporate behavior but also reduce firms' capital costs, creating a dual benefit for firms and society. For companies, the results highlight actionable factors, such as improving internal governance mechanisms and integrating modern slavery topics into annual reports, that can enhance disclosure quality. Firms are advised to treat transparency on slavery risks as a strategic advantage, especially in relation to investor perception and financial planning. Proactively addressing modern slavery in supply chains and governance practices may not only mitigate reputational risks but also lower the firm’s cost of capital.

For companies, the results highlight actionable factors, such as improving internal governance mechanisms and integrating modern slavery topics into annual reports, that can enhance disclosure quality. Firms are advised to treat transparency on slavery risks as a strategic advantage, especially in relation to investor perception and financial planning. Proactively addressing modern slavery in supply chains and governance practices may not only mitigate reputational risks but also lower the firm’s cost of capital. Practically, managers should consider establishing dedicated committees or appointing compliance officers specifically responsible for monitoring modern slavery risks and disclosure practices. Companies can also engage with NGOs and industry associations to adopt best practices and leverage external expertise. Policymakers are encouraged to harmonize reporting standards across jurisdictions to reduce complexity for multinational firms. For example, adopting a standardized disclosure template or a centralized registry for modern slavery statements could improve comparability and enforcement. Governments should also consider offering incentives, such as tax relief or public procurement preferences, to firms demonstrating high-quality and transparent reporting.

This study has limitations in several respects. First, in measuring disclosure of modern slavery, this analysis relied exclusively on secondary data sources, specifically the Refinitiv Eikon ESG database and public reports, which may not capture all disclosures comprehensively. For example, companies that communicate modern slavery commitments through standalone sustainability reports, press releases, or website updates that are not indexed in the dataset may appear to have lower disclosure than they actually practice. As a result, the level of information unavailability may be influenced by limitations in data coverage and the classification criteria applied by the database provider, rather than an actual absence of disclosure. Second, although supply chain difficulties are at the core of modern slavery, this research has not examined differences across high-risk and low-risk sectors or supply chain configurations in depth. For instance, industries such as agriculture, apparel manufacturing, and mining are empirically documented to have a higher prevalence of forced labor (Birkey et al., 2018; Flynn & Walker, 2020), but this study aggregated observations across all industries, potentially diluting sector-specific insights. The results may therefore not fully reflect sectoral patterns or sector-tailored disclosure challenges. Third, this research focused exclusively on listed firms headquartered in G20 countries, omitting other relevant economies that play critical roles in modern slavery practices through global supply chains (e.g., Vietnam, Bangladesh). In addition, three G20 countries, Saudi Arabia, Argentina, and Turkey, were excluded because comprehensive firm-level disclosure data and governance indicators were not consistently available for the full observation period (2015–2020). Consequently, the findings cannot be generalized to all G20 members or emerging markets outside the sample. Fourth, the study used a cross-sectional approach combining panel data but did not systematically test for endogeneity or causality. While lagged variables and fixed effects were applied to mitigate bias, there remains the possibility of reverse causality, such as firms with more robust disclosure practices attracting better governance structures, rather than governance strictly causing higher disclosure. Finally, the study measured disclosure quantity, meaning the breadth of topics that companies reported—but did not assess the accuracy, completeness, or impact of those disclosures on actual modern slavery outcomes in supply chains. This limitation means that while the findings can demonstrate patterns of transparency, they do not provide evidence about whether more disclosure leads to real improvements in working conditions or reduces the incidence of forced labor.

Future research is encouraged to address these gaps by combining multiple data sources, including qualitative assessments and direct surveys of firms, to validate and triangulate disclosure metrics more comprehensively. Researchers should also examine sector-specific dynamics more systematically to identify which industries, such as agriculture, apparel, or electronics, are most responsive to regulatory interventions and where disclosure has the greatest potential to drive change. Additionally, expanding the geographic scope beyond G20 economies to include suppliers and firms operating in high-risk jurisdictions could improve the generalizability of findings and highlight unique challenges in emerging markets. To strengthen causal inference, future studies may employ quasi-experimental methods or instrumental variable approaches that can better disentangle whether governance and disclosure practices truly lead to improved outcomes or merely reflect other underlying factors. Finally, it is important for future work to assess the effectiveness of disclosure in reducing actual instances of modern slavery in practice, rather than focusing solely on whether companies improve transparency in their reporting documents.

REFERENCES

Agyemang, O. S., Fantini, G., & Frimpong, J. (2015). Does country-level governance enhance ethical behaviour of firms? An African perspective. *International Journal of Law and Management*.

Amran, A., Lee, S. P., & Devi, S. S. (2014). The influence of governance structure and strategic corporate social responsibility toward sustainability reporting quality. *Business Strategy and the Environment*, *23*(4), 217–235. https://doi.org/10.1002/bse.1767

Arayssi, M., Dah, M., & Jizi, M. (2016). Women on boards, sustainability reporting and firm performance. *Sustainability Accounting, Management and Policy Journal*.

Arayssi, M., Jizi, M., & Tabaja, H. H. (2020). The impact of board composition on the level of ESG disclosures in GCC countries. *Sustainability Accounting, Management and Policy Journal*, *11*(1), 137–161. https://doi.org/10.1108/SAMPJ-05-2018-0136

Baldini, M., Dal Maso, L., Liberatore, G., Mazzi, F., Terzani, S., Maso, L. D., Liberatore, G., Mazzi, F., Terzani, S., Dal Maso, L., Liberatore, G., Mazzi, F., & Terzani, S. (2018). Role of country- and firm-level determinants in environmental, social, and governance disclosure. *Journal of Business Ethics*, *150*(1), 79–98.

Bales, K. (2009). Winning the fight: eradicating slavery in the modern age. *Harvard International Review*, *31*(1), 14.

Bhaskaran, R. K., Sujit, K. S., & Mongia, S. (2021). Linkage between performance and sustainability initiatives in banking sector--An empirical examination. *International Journal of Productivity and Performance Management*. https://doi.org/10.1108/IJPPM-07-2020-0385

ISSN 2303-0356
Hal. 130-156

Birkey, R. N., Guidry, R. P., Islam, M. A., & Patten, D. M. (2018). Mandated social disclosure: An analysis of the response to the California Transparency in Supply Chains Act of 2010. *Journal of Business Ethics*, *152*(3), 827–841. https://doi.org/10.1007/s10551-016-3364-7

Bose, S., & Khan, H. Z. (2022). Sustainable development goals (SDGs) reporting and the role of country-level institutional factors: An international evidence. *Journal of Cleaner Production*, *335*(December 2021), 130290. https://doi.org/10.1016/j.jclepro.2021.130290

Brammer, S., & Pavelin, S. (2008). Factors influencing the quality of corporate environmental disclosure. *Business Strategy and the Environment*, *17*(2), 120–136.

Burns, J., & Jollands, S. (2020). Acting in the public interest: accounting for the vulnerable. *Accounting and Business Research*, *50*(5), 507–534.

Campbell, J. L. (2007). Why would corporations behave in socially responsible ways? An institutional theory of corporate social responsibility. *Academy of Management Review*, *32*(3), 946–967.

Chay, J. B., Kim, H., & Suh, J. (2015). Firm Age and Valuation: Evidence from Korea. *Asia-Pacific Journal of Financial Studies*, *44*(5), 721–761. https://doi.org/10.1111/ajfs.12111

Christ, K. L., & Burritt, R. L. (2018). Current perceptions on the problem of modern slavery in business. *Business Strategy & Development*, *1*(2), 103–114.

Christ, K. L., Rao, K. K., & Burritt, R. L. (2019). Accounting for modern slavery: an analysis of Australian listed company disclosures. *Accounting, Auditing & Accountability Journal*, *32*(3), 836–865. https://doi.org/10.1108/AAAJ-11-2017-3242

Chun, H., Kim, J.-W., Morck, R., & Yeung, B. (2008). Creative destruction and firm-specific performance heterogeneity. *Journal of Financial Economics*, *89*(1), 109–135.

Crane, A. (2013). Modern slavery as a management practice: Exploring the conditions and capabilities for human exploitation. *Academy of Management Review*, *38*(1), 49–69.

Dean, O., & Marshall, S. (2020). A race to the middle of the pack: An analysis of slavery and human trafficking statements submitted by Australian banks under the UK Modern Slavery Act. *Australian Journal of Human Rights*, *26*(1), 46–73.

Department of Foreign Affairs and Trade. (n.d.). *The G20*. Australian Government. Retrieved August 22, 2022, from http://dfat.gov.au/international-relations/international-organisations/g20/pages/the-g20.aspx

Dhaliwal, D. S., Radhakrishnan, S., Tsang, A., & Yang, Y. G. (2012). Nonfinancial disclosure and analyst forecast accuracy: International evidence on corporate social responsibility disclosure. *The Accounting Review*, *87*(3), 723–759.

DiMaggio, P. J., & Powell, W. W. (1983). The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American Sociological Review*, 147–160.

Doidge, C., Karolyi, G. A., & Stulz, R. M. (2007). Why do countries matter so much for corporate governance? *Journal of Financial Economics*, *86*(1), 1–39.

Drempetic, S., Klein, C., & Zwergel, B. (2020). The influence of firm size on the ESG score: Corporate sustainability ratings under review. *Journal of Business Ethics*, *167*(2), 333–360. https://doi.org/10.1007/s10551-019-04164-1

Dwekat, A., Segu\'\i-Mas, E., Tormo-Carbó, G., & Carmona, P. (2020). Corporate governance configurations and corporate social responsibility disclosure: Qualitative comparative analysis of audit committee and board characteristics. *Corporate Social Responsibility and Environmental Management*, *27*(6), 2879–2892.

Eccles, R. G., Ioannou, I., & Serafeim, G. (2014). The impact of corporate sustainability on organizational processes and performance. *Management Science*, *60*(11), 2835–2857.

Ellili, N. O. D., Ould, N., & Ellili, D. (2020). Environmental, social, and governance disclosure, ownership structure and cost of capital: evidence from the UAE. *Sustainability*, *12*(18), 1–23.

Farooq, O., & AbdelBari, A. (2015). Earnings Management Behaviour of Shariah-Comliant Firms and non- sahariah Compliant Firms. *Journal of Islamic Accountiing and Business Research*, *6*(2), 173–188.

Fernandez-Feijoo, B., Romero, S., & Ruiz, S. (2014). Effect of stakeholders' pressure on transparency of sustainability reports within the GRI framework. *Journal of Business Ethics*, *122*(1), 53–63.

Ferrell, A., Liang, H., & Renneboog, L. (2016). Socially responsible firms. *Journal of Financial Economics*, *122*(3), 585–606.

Florou, A., & Kosi, U. (2015). Does mandatory IFRS adoption facilitate debt financing? *Review of Accounting Studies*, *20*(4), 1407–1456.

Flynn, A. (2019). Determinants of corporate compliance with modern slavery reporting. *Supply Chain Management: An International Journal*, *25*(1), 1–16. https://doi.org/10.1108/SCM-10-2018-0369

Flynn, A., & Walker, H. (2020). Corporate responses to modern slavery risks: an institutional theory perspective. *European Business Review*.

Freeman, R. E. (1999). Divergent stakeholder theory. *Academy of Management Review, 24*(2), 233–236.

Fuente, J. A., García-Sanchez, I. M., & Lozano, M. B. (2017). The role of the board of directors in the adoption of GRI guidelines for the disclosure of CSR information. *Journal of Cleaner Production*, *141*, 737–750.

Garegnani, G. M., Merlotti, E. P., & Russo, A. (2015). Scoring firms' codes of ethics: An explorative study of quality drivers. *Journal of Business Ethics*, *126*(4), 541–557.

Gerged, A. M., Beddewela, E. S., & Cowton, C. J. (2021). Does the quality of country-level governance have an impact on corporate environmental disclosure? Evidence from Gulf Cooperation Council countries. *International Journal of Finance and Economics*, *December 2020*, 1–22. https://doi.org/10.1002/ijfe.2469

Giannarakis, G., Konteos, G., & Sariannidis, N. (2014). Financial, governance and environmental determinants of corporate social responsible disclosure. *Management Decision*, *52*(10), 1928–1951.

Gold, S., Trautrims, A., & Trodd, Z. (2015). Modern slavery challenges to supply chain management. *Supply Chain Management: An International Journal*.

Gow, I. D., Ormazabal, G., & Taylor, D. J. (2010). Correcting for cross-sectional and time-series dependence in accounting research. *The Accounting Review*, *85*(2), 483–512.

GSI. (2018). *The Global Slavery Index 2018*. Walk Free Foundation. https://www.globalslaveryindex.org/

Guidara, A., Khlif, H., & Jarboui, A. (2014). Voluntary and timely disclosure and the cost of debt: South African evidence. *Meditari Accountancy Research*.

Haniffa, R. M., & Cooke, T. E. (2005). The impact of culture and governance on corporate social reporting. *Journal of Accounting and Public Policy*, *24*(5), 391–430. https://doi.org/10.1016/j.jaccpubpol.2005.06.001

Hermawan, A. A. (2011). The influence of effective board of commissioners and audit committee on the informativeness of earnings: Evidence from Indonesian listed firms. *Asia Pacific Journal of Accounting and Finance*, *2*(1), 1–38. https://accounting.feb.ui.ac.id/apjaf/pub/pub3/3. paper 1_ancella.pdf

Hoejmose, S. U., Roehrich, J. K., & Grosvold, J. (2014). Is doing more doing better? The relationship between responsible supply chain management and corporate reputation. *Industrial Marketing Management*, *43*(1), 77–90.

Holder-Webb, L., Cohen, J. R., Nath, L., & Wood, D. (2009). The supply of corporate social responsibility disclosures among US firms. *Journal of Business Ethics*, *84*(4), 497–527.

ISSN 2303-0356
Hal. 130-156

Hussain, N., Rigoni, U., & Orij, R. P. (2018). Corporate governance and sustainability performance: Analysis of triple bottom line performance. *Journal of Business Ethics*, *149*(2), 411–432.

Ijiri, Y. (1983). On the accountability-based conceptual framework of accounting. *Journal of Accounting and Public Policy*, *2*(2), 75–81.

ILO. (2017a). *Global Estimates of Modern Slavery*.

ILO. (2017b). *Global estimates of modern slavery: Forced labour and forced marriage*. International Labor Office. https://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/documents/publication/wcms_575479.pdf

Islam, M. A., & Van Staden, C. J. (2018). Social movement NGOs and the comprehensiveness of conflict mineral disclosures: evidence from global companies. *Accounting, Organizations and Society*, *65*, 1–19.

Ismail, A. H., Rahman, A. A., & Hezabr, A. A. (2018). Determinants of corporate environmental disclosure quality of oil and gas industry in developing countries. *International Journal of Ethics and Systems*.

Jackson, G., Bartosch, J., Avetisyan, E., Kinderman, D., & Knudsen, J. S. (2020). Mandatory non-financial disclosure and its influence on CSR: An international comparison. *Journal of Business Ethics*, *162*(2), 323–342.

Jain, B. A., Jayaraman, N., & Kini, O. (2008). The path-to-profitability of Internet IPO firms. *Journal of Business Venturing*, *23*(2), 165–194. https://doi.org/10.1016/j.jbusvent.2007.02.004

Jensen, J. C., & Berg, N. (2012). Determinants of traditional sustainability reporting versus integrated reporting. An institutionalist approach. *Business Strategy and the Environment*, *21*(5), 299–316.

Jizi, M. (2017). The influence of board composition on sustainable development disclosure. *Business Strategy and the Environment*, *26*(5), 640–655.

Kaufmann, D., Kraay, A., & Mastruzzi, M. (2011). The Worldwide Governance Indicators: Methodology and Analytical Issues1. *Hague Journal on the Rule of Law*, *3*(2), 220–246.

Khan, A., Muttakin, M. B., & Siddiqui, J. (2013). Corporate governance and corporate social responsibility disclosures: Evidence from an emerging economy. *Journal of Business Ethics*, *114*(2), 207–223.

Khan, M. R. (2020). Ethical business practice and short term earning intensity during the Covid-19 crisis in Bangladesh. *... of Financial, Accounting, and Management*. https://mail.goodwoodpub.com/index.php/ijfam/article/view/167

Kiliç, M., Kuzey, C., & Uyar, A. (2015). The impact of ownership and board structure on Corporate Social Responsibility (CSR) reporting in the Turkish banking industry. *Corporate Governance*.

Kılıç, M., & Kuzey, C. (2018). The effect of corporate governance on carbon emission disclosures: Evidence from Turkey. *International Journal of Climate Change Strategies and Management*.

La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (1999). Corporate ownership around the world. *The Journal of Finance*, *54*(2), 471–517.

Lagasio, V., & Cucari, N. (2019). Corporate governance and environmental social governance disclosure: A meta-analytical review. *Corporate Social Responsibility and Environmental Management*, *26*(4), 701–711. https://doi.org/10.1002/csr.1716

Lake, Q., MacAlister, J., Berman, C., Gitsham, M., & Page, N. (2016). *Corporate Leadership on Modern Slavery: How have companies responded to the UK Modern Slavery Act one year on?* Hult International Business School.

Lochner, L. (2020). Education and crime. In *The economics of education* (pp. 109–117). Elsevier.

Lu, Y., & Abeysekera, I. (2014). Stakeholders' power, corporate characteristics, and social and environmental disclosure: evidence from China. *Journal of Cleaner Production*, *64*, 426–436.

Lucas, B., & Landman, T. (2021). Social listening, modern slavery, and COVID-19. *Journal of Risk Research*, *24*(3–4), 314–334..

Meek, G. K., Roberts, C. B., & Gray, S. J. (1995). Factors influencing voluntary annual report disclosures by US, UK and continental European multinational corporations. *Journal of International Business Studies*, *26*(3), 555–572.

Michelon, G., & Parbonetti, A. (2012). The effect of corporate governance on sustainability disclosure. *Journal of Management & Governance*, *16*(3), 477–509.

Moussa, T., Allam, A., & Elmarzouky, M. (2022). Global modern slavery and sustainable development goals: Does institutional environment quality matter? *Business Strategy and the Environment*, *October 2021*, 2230–2244. https://doi.org/10.1002/bse.3018

Naseem, M. A., Rehman, R. U., Ikram, A., & Malik, F. (2017). Impact of board characteristics on corporate social responsibility disclosure. *Journal of Applied Business Research (JABR)*, *33*(4), 801–810.

Neu, D., Warsame, H., & Pedwell, K. (1998). Managing public impressions: environmental disclosures in annual reports. *Accounting, Organizations and Society*, *23*(3), 265–282.

New, S. J. (2015). Modern slavery and the supply chain: the limits of corporate social responsibility? *Supply Chain Management: An International Journal*.

Pastor, L., & Veronesi, P. (2003). *Stock prices and IPO waves*. National Bureau of Economic Research Cambridge, Mass., USA.

Perez-Batres, L. A., Doh, J. P., Miller, V. V, & Pisani, M. J. (2012). Stakeholder pressures as determinants of CSR strategic choice: Why do firms choose symbolic versus substantive self-regulatory codes of conduct? *Journal of Business Ethics*, *110*(2), 157–172.

Petersen, M. A. (2009). Estimating standard errors in finance panel data sets: Comparing approaches. *The Review of Financial Studies*, *22*(1), 435–480.

Pucheta-Martínez, M. C., & Gallego-Álvarez, I. (2019). An international approach of the relationship between board attributes and the disclosure of corporate social responsibility issues. *Corporate Social Responsibility and Environmental Management*, *26*(3), 612–627.

Qureshi, M. A., Kirkerud, S., Theresa, K., & Ahsan, T. (2020). The impact of sustainability (environmental, social, and governance) disclosure and board diversity on firm value: The moderating role of industry sensitivity. *Business Strategy and the Environment*, *29*(3), 1199–1214.

Ragazou, K., Passas, I., Garefalakis, A., Zafeiriou, E., & Kyriakopoulos, G. (2022). The Determinants of the Environmental Performance of EU Financial Institutions: An Empirical Study with a GLM Model. *Energies*, *15*(15), 5325.

Rao, K. K., Burritt, R. L., & Christ, K. (2022). Quality of voluntary modern slavery disclosures: top Australian listed companies. *Pacific Accounting Review*, *34*(3), 451–478. https://doi.org/10.1108/PAR-07-2021-0117

Refinitiv. (2021). *Esg Data in Eikon*. 4–5.

Reverte, C. (2009). Determinants of corporate social responsibility disclosure ratings by Spanish listed firms. *Journal of Business Ethics*, *88*(2), 351–366.

Ross, C., Dimitrova, S., Howard, L. M., Dewey, M., Zimmerman, C., & Oram, S. (2015). Human trafficking and health: a cross-sectional survey of NHS professionals' contact with victims of human trafficking. *BMJ Open*, *5*(8), e008682.

Said, R., Zainuddin, Y., & Haron, H. (2009). The relationship between corporate social responsibility disclosure and corporate governance characteristics in Malaysian public listed companies. *Social Responsibility Journal*, *5*(2), 212–226. https://doi.org/10.1108/17471110910964496

Sánchez, I. G., Dominguez, L. R., & Alvarez, I. G. (2011). Corporate governance and strategic information on the internet: A study of Spanish listed companies. *Accounting, Auditing & Ac*130*countability Journal*.

Schaper, S., & Pollach, I. (2021). Modern slavery statements: From regulation to substantive supply chain reporting. *Journal of Cleaner Production*, *313*(March), 127872. https://doi.org/10.1016/j.jclepro.2021.127872

Scott, W. R. (2001). Institutions and organizations (2nd [thoroughly rev. and expanded] ed.). *Thousand Oaks, CA.[Etc.]: Sage*.

Sethi, S. P., Martell, T. F., & Demir, M. (2017). An evaluation of the quality of corporate social responsibility reports by some of the world's largest financial institutions. *Journal of Business Ethics*, *140*(4), 787–805.

Shilling, H. J., Wiedmann, T., & Malik, A. (2021). Modern slavery footprints in global supply chains. *Journal of Industrial Ecology*, *25*(6), 1518–1528. https://doi.org/10.1111/jiec.13169

Shumway, T. (2001). Forecasting bankruptcy more accurately: A simple hazard model. *The Journal of Business*, *74*(1), 101–124.

Signori, S., San-Jose, L., Retolaza, J. L., & Rusconi, G. (2021). Stakeholder value creation: Comparing ESG and value added in European companies. *Sustainability*, *13*(3), 1392. https://doi.org/10.3390/su13031392

Sìmnett, R., Vanstraelen, A., & Chua, W. F. (2009). Assurance on sustainability reports: An international comparison. *Accounting Review*, *84*(3), 937–967. https://doi.org/10.2308/accr.2009.84.3.937

Stevenson, M., & Cole, R. (2018). Modern slavery in supply chains: a secondary data analysis of detection, remediation and disclosure. *Supply Chain Management: An International Journal*, *2*(January), 81–99. https://doi.org/10.1108/SCM-11-2017-0382

Such, E., Jaipaul, R., & Salway, S. (2020). Modern slavery in the UK: how should the health sector be responding? *Journal of Public Health*, *42*(1), 216–220.

Tamimi, N., & Sebastianelli, R. (2017). Transparency among S&P 500 companies: An analysis of ESG disclosure scores. *Management Decision*, *55*(8), 1660–1680.

Thomson Reuters ASSET4 ESG Data Glossary 2013. (2013). Thomson Reuters Corporate Responsibility Ratings (TRCRR): Rating and Ranking - Rules and Methodologies. *Thomson Reuters*, *August*, 1–19. http://financial.thomsonreuters.com/content/dam/openweb/documents/pdf/tr-com-financial/methodology/corporate-responsibility-ratings.pdf

Valls Martinez, M. del C., Cruz Rambaud, S., & Parra Oller, I. M. (2019). Gender policies on board of directors and sustainable development. *Corporate Social Responsibility and Environmental Management*, *26*(6), 1539–1553.

Van der Laan Smith, J., Adhikari, A., & Tondkar, R. H. (2005). Exploring differences in social disclosures internationally: A stakeholder perspective. *Journal of Accounting and Public Policy*, *24*(2), 123–151.

Voss, H., Davis, M., Sumner, M., Waite, L., Ras, I. A., Singhal, D., & Jog, D. (2019). International supply chains: compliance and engagement with the Modern Slavery Act. *Journal of the British Academy*, *7*(s1), 61–76.

Willmott, H. (2015). Why institutional theory cannot be critical. *Journal of Management Inquiry*, *24*(1), 105–111.

Yamen, A., Allam, A., Bani-Mustafa, A., & Uyar, A. (2018). Impact of institutional environment quality on tax evasion: A comparative investigation of old versus new EU members. *Journal of International Accounting, Auditing and Taxation*, *32*, 17–29.

Yartey, C. A. (2007). Well-developed financial intermediary sector promotes stock market development: Evidence from Africa. *Journal of Emerging Market Finance*, *6*(3), 269–289.

Zahid, M., Rahman, H. U., Ali, W., Khan, M., Alharthi, M., Qureshi, M. I., & Jan, A. (2020). Boardroom gender diversity: Implications for corporate sustainability disclosures in Malaysia. *Journal of Cleaner Production, 244*, 118683.

Jurnal Akuntansi
Vol. 15, No.2, June 2025

ISSN 2303-0356
Hal. 157-170

The Role of External Auditors in Client Tax Compliance : A Case Study at Budiandru & Partners Public Accounting Firm

Fauziah Tiara Anggraini [1], Zul Azmi[2]
Universitas Muhammadiyah Riau[12]

ARTICLE INFO

Article history:
Received: June,28th 2025
Revised: June 29th , 2025
Accepted: June 30th , 2025

Keywords:
Tax Compliance
External Auditor
Role Of Auditor

Correspondence:
Fauziah Tiara Anggraini
ftafauziah@gmail.com

ABSTRACT

Taxes constitute a primary source of state revenue and play a crucial role in national development and the improvement of public welfare. However, tax compliance in Indonesia remains relatively low, as reflected in the suboptimal tax ratio. One effort to enhance tax compliance is through the involvement of external auditors. This study aims to examine the role of external audits in improving client tax compliance. A qualitative descriptive method was employed, using purposive sampling to select five senior auditors who were interviewed through semi-structured interviews conducted in July 2025 at Budiandru & Partners Public Accounting Firm, located in Pekanbaru City. The findings indicate that external audits contribute to helping clients prepare credible financial statements, understand the tax system, and encourage honesty and transparency in tax reporting. Audits also enhance clients' tax knowledge, play an indirect role in the dissemination of tax regulations, foster awareness and responsibility toward tax obligations, increase alertness to potential sanctions, and promote transparency. In the context of tax modernization, auditors also assist clients in adapting to digital systems, although technical challenges are still encountered..

How to cite :
Anggraini, Fauziah Tiara and Zul Azmi. (2025) The Role of External Auditors in Client Tax Compliance : A Case Study at Budiandru & Partners Public Accounting Firm. *Jurnal Akuntansi Vol 15 No 2 June 2025 page*,157-170.
https://doi.org/10.33369/jakuntansi.15.2.157-170

INTRODUCTION

Taxes are one of the primary sources of state revenue. Every individual and business entity is required to pay taxes, as mandated by statutory regulations. Although the public may not receive direct benefits, taxes are utilized to the fullest extent to support the collective welfare (Waluyo, 2017). According to Law Number 28 of 2007 concerning General Provisions and Tax Procedures (KUP), Article 1 Paragraph 2, a Taxpayer is defined as an individual or entity that holds both rights and obligations in the field of taxation. This includes parties responsible for paying, withholding, or collecting taxes in accordance with applicable tax laws and regulations.

Tax compliance is defined as the willingness of taxpayers to fulfill their tax obligations in accordance with prevailing regulations without the need for enforcement actions (Wijaya et al., 2025). This includes the obligation to pay taxes in full and on time, to report accurately, and to voluntarily contribute to the provision of public services. Moreover, ethical awareness and the role of digitalization are emphasized as important drivers of compliance (Lukovszki et al., 2025). Tax compliance is a crucial element in ensuring the effectiveness of the tax system and maintaining the stability of state revenue. The level of taxpayer compliance is reflected in accurate income reporting, timely submission of tax returns (SPT), and payment of tax liabilities within the deadlines set by tax regulations in order to avoid penalties (Surugiu et al., 2025).

The level of tax compliance in Indonesia remains a serious concern, as reflected in the low contribution of tax revenue to the Gross Domestic Product (GDP), commonly referred to as the tax ratio. In 2023, Indonesia's tax ratio stood at only 10.31%, and it further declined to 10.07% in 2024. This figure lags significantly behind neighboring countries such as Vietnam (16.21%) and Thailand (17.18%), and is substantially lower than the OECD average of 33.5% (IKPI Jakarta, 2025). This condition indicates that tax revenues are far from optimal, with one of the main contributing factors being the low level of taxpayer compliance.

At the regional level, the trend in tax revenue has also shown positive development. This is reflected in the data on Regional Original Revenue (Pendapatan Asli Daerah/PAD) from the tax sector in Pekanbaru City over the past five years, which indicates an upward trend in actual tax collections, although these achievements have not yet fully met the targets set by the local government (Pekanbaru.go.id, 2025). This situation suggests the presence of driving factors contributing to improved tax compliance. One such factor is the role of external auditors, who assess the fairness of financial statements and the tax-related aspects of their clients (Sumaryanto & Witanto, 2024).

Table 1: tax income in pekanbaru 2020 - 2024

Year	Revenue Target	Actual Revenue	Percentage
2020	830 Miliar	537 Miliar	65%
2021	832 Miliar	587 Miliar	70%
2022	742 Miliar	719 Miliar	97%
2023	838 Miliar	785 Miliar	94%
2024	850 Miliar	822 Miliar	97%

Source : Pekanbaru.go.id (2025)

External auditors play a significant role in reducing tax avoidance practices through rigorous and responsible examinations. Such actions encourage companies to comply more fully with prevailing tax regulations (Khoirunnisa' & Suwardi, 2024). One public accounting firm that fulfills this role is Budiandru & Partners Public Accounting Firm. Headquartered in Jakarta, the firm has operated a branch office in Pekanbaru City since 2023. At this branch, they offer a range of professional services, including auditing, financial consulting, and tax services.

According to Saputra (2017), the involvement of external auditors in regional tax audits has a positive impact, as it encourages taxpayers to report their turnover more honestly and accurately. This demonstrates that the role of external auditors can help strengthen the self-assessment system, as their presence provides both moral and professional motivation for taxpayers to comply with their tax obligations. However, this finding contrasts with the results of a study by Chyz et al. (2021) which shows that the involvement of external auditors in tax planning tends to focus more on improving tax avoidance efficiency and reducing tax risks, without having a significant impact on the level of tax compliance.

According to Alkautsar et al. (2023), the findings indicate that the three core components of the Theory of Planned Behavior (TPB) attitude toward tax compliance, subjective norms from the social environment, and perceived behavioral control over the ability to comply significantly influence taxpayers' intentions to comply. Similarly, Kesuma et al. (2023) found that these three TPB components attitude toward tax compliance, subjective norms, and perceived behavioral control have a significant impact on taxpayers' compliance intentions, which in turn directly affect actual tax compliance. Therefore, this study offers a novel contribution by integrating TPB into the context of external auditing and examining how auditors influence clients' attitudes, subjective norms, and perceived control regarding tax compliance.

Based on the background described above, this study focuses on the role of auditors in enhancing client tax compliance. The research aims to understand how the implementation of external audits can influence clients' tax compliance behavior and to identify the factors that contribute to achieving such compliance. Accordingly, the objective of this study is to identify and analyze the role of external auditors in client tax compliance based on indicators previously identified in the literature, namely: quality of service, the tax system, taxpayer honesty, tax knowledge, tax dissemination, taxpayer awareness, tax sanctions, transparency, and tax system modernization.

LITERATURE REVIEW

Behavior Theory

According to Ajzen (1991) in the Theory of Planned Behavior (TPB), intention is the primary factor that determines whether an individual will engage in a particular behavior. A person's behavior is influenced by three main components: attitude toward the behavior, subjective norms, and perceived behavioral control. Attitude toward the behavior serves as the foundation for decision-making, based on the individual's evaluation of whether the behavior is beneficial or not. Subjective norms refer to social pressure and expectations from the surrounding environment that influence one's decision to act. Meanwhile, perceived behavioral control relates to the extent to which an individual feels capable of performing a behavior, including perceived ease or obstacles in carrying out the action.

Research conducted by indicates that stricter sanctions and tighter monitoring systems can encourage taxpayer compliance by instilling fear of potential violations. Meanwhile, Mebratu (2024) emphasizes that the modernization of tax administration systems—such as digitalization and the simplification of procedures—can enhance voluntary tax compliance by providing greater ease and clarity in fulfilling tax obligations. Both findings align with the framework of the Theory of Planned Behavior, which emphasizes that compliance behavior is influenced by the degree to which individuals feel motivated, hold positive attitudes, and perceive ease or obstacles in performing a given action.

However, the Theory of Planned Behavior (TPB) has also been criticized for placing too much emphasis on individual and psychological factors, while often overlooking structural variables such as the stability of reporting systems or the quality of tax services (Khristy et al., 2022). In the context of this study, external auditors can serve as key actors in shaping all TPB components: they influence clients' attitudes through education, establish norms through professional pressure, and strengthen perceived behavioral control through technical guidance. Thus, while TPB remains relevant, it should be complemented by organizational and systemic factors.

In this study, the role of auditors is not limited to reviewing tax reports, but also extends to influencing clients' behavioral change. Through an objective and educational audit process, auditors help shape positive attitudes toward compliance, instill norms through professional and ethical pressure, and enhance clients' sense of control by providing technical guidance and a clearer understanding of the tax system. In this way, auditors contribute to shaping clients' behavior to become more compliant with their tax obligations.

Tax Compliance

Tax compliance is a complex phenomenon that has been extensively studied in both economic and behavioral contexts (Zulaikhah, 2025). One of the foundational theories underpinning this study is the tax compliance theory developed by Allingham & Sandmo (1972). This theory views tax compliance as the result of a rational decision by taxpayers regarding whether to accurately report their income to tax authorities under conditions of uncertainty. In this context, taxpayers consider the likelihood of detection and the severity of penalties before deciding whether to comply with their tax obligations.

Tax knowledge influences compliance, as taxpayers who understand tax rules and obligations tend to be more compliant. These findings are consistent with compliance theory, which posits that knowledge increases taxpayers' awareness of the risks of non-compliance, thereby encouraging accurate tax reporting (Wahyuni et al., 2025). Within the scope of this study, external audits reinforce compliance not only through the potential for detection—as aligned with Allingham and Sandmo's theory—but also through the transfer of knowledge and values, reflecting a more modern behavioral approach. This means that the role of auditors encompasses two dimensions: control (detection) and education (prevention).

Tax compliance is generally classified into two categories: formal compliance and material compliance. Formal compliance refers to the fulfillment of tax obligations in accordance with the administrative procedures outlined in tax legislation. Meanwhile, material compliance reflects the actual fulfillment of all substantive tax requirements in line with the spirit and intent of the prevailing laws (Timothy & Abbas, 2021).

External Auditor

An external auditor is a professional independent of a company's management who is responsible for ensuring the accuracy of financial statements, detecting errors or fraud, and serving as an information intermediary between company management and external parties such as stakeholders or the public (Fathelbab & Abu Quba', 2024). The responsibilities of an external auditor include the analysis and audit of financial statements, which often also involve tax examinations (Viriany & Wirianata, 2022). According to Rashid & Fatah (2022), the overall responsibility of the external auditor is to provide reasonable assurance to shareholders and, more broadly, to the public, that the financial statements are free from material misstatements.

Public accounting services are generally divided into two main categories: attestation services and non-attestation services. Attestation services include financial statement audits, examinations of pro forma and prospective financial information, reviews of financial statements, and other audit services that require a formal statement or opinion from the auditor. On the other hand, non-attestation services cover areas such as accounting, finance, management, report preparation, taxation, and consulting. Typically, the career path in public accounting begins with the position of junior auditor, progressing to senior auditor, then manager, and ultimately culminating in the role of partner within the public accounting firm (Viriany & Wirianata, 2022).

RESEARCH METHODS

This study employs a qualitative descriptive method aimed at gaining an in-depth understanding of a phenomenon or social condition by describing it as it naturally occurs. The data collected consists of words, respondents' statements, and observational findings. This approach emphasizes a comprehensive understanding of meaning, context, and individual experiences (Surya et al., 2021). The primary data source in this research consists of firsthand information obtained directly by the researcher through on-site interactions, rather than from secondary sources. Data collection was conducted in July 2025 at the Public Accounting Firm (KAP) Budiandru & Partners, located in Pekanbaru City, using semi-structured interview techniques. Semi-structured interviews allow the researcher to use a pre-established question framework while maintaining flexibility to ask follow-up questions when needed in order to obtain more in-depth and relevant information (Kaharuddin, 2021).

The selection of research subjects was carried out using purposive sampling, a technique based on specific criteria and research objectives set by the researcher. According to S. Arikunto (2013), purposive sampling is a non-random sampling technique in which subjects are chosen based on particular considerations or purposes, rather than stratification, randomization, or location. The informants in this study are senior auditors working at the Public Accounting Firm (KAP) Budiandru & Partners. To ensure data validity, this study employed source triangulation, which involves testing the credibility of data by comparing information obtained from multiple informants. This approach enhances the trustworthiness of the data, as the researcher conducts cross-checks and analyses from various sources to draw more objective and accurate conclusions. Through this method, the researcher is able to trace and compare interview results to identify consistency and validate the information obtained (Nurfajriani et al., 2024). A total of five informants participated in this study, all of whom are senior auditors at KAP Budiandru & Partners.

The data analysis technique used in this study is the interactive model developed by Miles and Huberman. According to Qomaruddin & Sa'diyah (2024), this model consists of three main stages: (a) Data reduction, which involves selecting, simplifying, and organizing raw data into structured and meaningful information; (b) Data display, which refers to organizing information in a systematic format that is easy to understand—typically presented in descriptive narratives, tables, charts, or diagrams; and (c) Conclusion drawing and verification, which is the final stage of qualitative data analysis, although the process of interpreting and forming conclusions actually begins as early as the data collection phase. Therefore, while the formal conclusion is drawn at the end, the researcher continuously builds interpretation throughout the observation and interview process.

Table 2. Overview of primary data

Data source	Position	ID	Minutes
Interview	Partner & Manager	A1	30
		A2	30
	Staff (Senior)	A3	30
		A4	30
		A5	30
Follow-up interview		A4	40
Walkthrough session		A1, A3	20+25
Kick-off meeting		A1, A2	25
Close-out meeting		A3, A4, A5	60

Notes : To maintain participant anonymity, we use two categories: 1) Partner and Manager, 2) Senior Staff.
Source: Table courtesy of (Kastrup et al., 2025)

Based on Table 2, data were collected through primary interviews with five informants (A1–A5), consisting of a Partner, a Manager, and Senior Staff, each lasting approximately 30 minutes. In addition, follow-up interviews, walkthrough sessions, a kick-off meeting, and a close-out meeting were conducted as part of further data exploration and clarification. This series of activities reflects both process and source triangulation, which enhances the depth and validity of the data. The interview data were coded and categorized based on themes derived from the indicators of the Theory of Planned Behavior. The validity of the findings was maintained through cross-informant comparisons and iterative stages of interaction, thereby ensuring the accuracy and accountability of the analysis.

RESULTS AND DISCUSSION

RESULT

Based on interviews conducted at the Public Accounting Firm (KAP) Budiandru & Partners involving five auditors as informants, this study presents an overview of the role of external auditors in ensuring client tax compliance. External auditors provide independent evaluations of clients' tax practices and offer constructive recommendations when potential noncompliance is identified. KAP Budiandru & Partners consistently delivers financial audit services to various types of entities, including private companies, regionally owned enterprises (BUMD), cooperatives, and foundations. The primary objective of these audits is to provide an independent opinion on the fairness of financial statement presentations, prepared in accordance with the applicable accounting standards in Indonesia.

To understand client tax compliance, this study adopts a behavioral theoretical approach proposed by Ajzen (1991), namely the Theory of Planned Behavior (TPB). Several previous studies have identified key indicators that influence tax compliance behavior based on this behavioral framework. Putri & Wibowo (2021) identified six main factors influencing tax compliance: tax service quality, the tax system, taxpayer honesty, tax knowledge, tax socialization, and taxpayer awareness. Meanwhile, research by Liviawati & Syofyan (2023) expanded these indicators by including tax sanctions, tax transparency, and the modernization of the tax system.

Tax Service Quality

Tax service quality refers to the extent to which clients receive adequate explanations and assistance regarding their tax obligations, thereby enhancing their understanding and compliance. External auditors from the Public Accounting Firm (KAP) Budiandru & Partners demonstrate high service quality through the implementation of professional, systematic audits conducted in accordance with applicable standards. The audit procedures are carried out based on the Public Accountant Professional Standards (SPAP) and the regulations set by the Indonesian Institute of Certified Public Accountants (IAPI), ensuring that each stage of the audit is performed carefully and comprehensively.

> A4 stated, *"By conducting audits in accordance with applicable standards, our clients benefit from financial statements that are more credible, relevant, and consistent, with presentation errors remaining within acceptable limits."*
>
> A3 stated, *"External audits provide significant benefits to clients, particularly in enhancing the credibility, relevance, and consistency of financial statements. In addition, audits ensure that any potential misstatements in the reports remain within professionally acceptable limits."*

Based on the above statements, high-quality audit services assist clients in preparing credible and accurate financial statements, thereby enabling them to better understand and fulfill their tax obligations appropriately.

In terms of taxation, auditors examine tax documents, conduct fiscal reconciliations, and verify tax withholding and payment evidence. These services reflect the auditor's commitment to helping clients meet their tax obligations accurately. Clients feel supported by the quality of service provided, as they receive objective evaluations and professional input regarding tax risks that they may not have previously identified. This condition encourages improved compliance in both tax reporting and payment.

The Tax System

The tax system encompasses the entire mechanism that regulates the implementation of tax obligations, including the processes of reporting and payment. External auditors play a vital role in helping clients understand how this system operates, particularly in relation to financial reporting and tax compliance, thereby fostering more optimal adherence to tax regulations.

> A5 explained, *"Ongoing changes in tax regulations, coupled with technical issues such as difficulties in accessing tax reporting applications, often lead to delays in reporting. To address this, auditors advise clients to submit their tax reports earlier as a precautionary measure against potential obstacles. Additionally, auditors assist clients in understanding the latest tax regulations."*
>
> *A4 stated, "The main challenge is usually the frequent changes in tax regulations. To address this, we continuously study and stay updated with the evolving tax rules."*

Based on the above statements, frequent changes in tax regulations and technical challenges must be carefully anticipated. In this regard, auditors assist clients by advising them to file their tax reports early to ensure compliance with tax obligations.

During the audit process, auditors assess whether clients have properly fulfilled their tax obligations, including the submission of periodic and annual tax returns (SPT Masa and SPT Tahunan). They also review whether tax-related transactions—such as those involving Income Tax Article 21, Article 23, and Value Added Tax (VAT)—have been recorded in accordance with prevailing regulations. Thus, external audits play a role in helping clients adapt to the complexities of the tax system in order to maintain compliance.

Taxpayer Honesty

Taxpayer honesty reflects a client's openness and integrity in reporting all tax obligations by providing accurate information without concealment or manipulation. External audits play a crucial role in fostering integrity and encouraging honest tax reporting by conducting objective examinations and offering recommendations based on findings related to compliance.

> A2 stated, *"Although clients do not always fully understand tax regulations, they generally show a willingness to be honest and provide open explanations to us regarding tax-related matters."*
>
> A1 stated, *"In audit practice, there are clients who have not yet fully grasped the entirety of tax regulations. Nevertheless, they remain open to feedback and recommendations provided by the auditors."*

Based on the above statements, external audits encourage clients to be more open and honest in disclosing tax-related information. Clients are no longer inclined to withhold documents related to their tax obligations. This indicates that the audit process contributes to shaping clients' honesty in tax reporting. This honesty is reflected in the clients' willingness to submit all necessary data and explain, in detail, the tax procedures they follow.

To assess the level of honesty, auditors examine all documents and transactions to ensure their accuracy and fairness. This procedure aims to minimize the possibility of concealed tax liabilities or financial statements prepared inconsistently with tax regulations. For instance, auditors will trace whether there are any unreasonable reductions in profit intended to lower corporate income tax (PPh Badan) or delays in issuing Value Added Tax (VAT) invoices that could affect the recognition of input taxes. Through comprehensive examinations, clients are more likely to be motivated to disclose data honestly and transparently. Even when indications of non-compliance are identified, auditors respond professionally—by clarifying findings with management, conducting further examinations, and providing corrective recommendations. This process also educates clients to take greater responsibility in preparing tax reports ethically and in accordance with applicable regulations.

Tax Knowledge

Tax knowledge reflects the extent to which clients understand applicable tax regulations, including types of taxes, reporting procedures, payment deadlines, and their implications for financial statement preparation. Based on field findings, clients' levels of understanding regarding taxation vary. Some clients demonstrate a reasonably good grasp of tax matters, while others have yet to fully comprehend the tax regulations in their entirety.

> A5 stated, *"The implementation of external audits provides benefits to clients, as it helps them better understand tax regulations and minimizes the risk of underpayments or overpayments.*
>
> A2 stated, *"Clients gain a better understanding of tax regulations and are able to reduce the likelihood of underpayment and overpayment."*

Based on the above statements, following the audit process, clients demonstrate an improved understanding of tax regulations and are better able to minimize the risk of underpayment (KB) or overpayment (LB). This reflects an increase in clients' knowledge of key aspects related to fulfilling tax obligations. Accordingly, external audits contribute to enhancing clients' understanding of correct tax reporting procedures and appropriate payment timelines.

In addition, external auditors play a significant role in increasing clients' tax knowledge, particularly through discussions of audit findings. Although auditors do not serve as formal tax consultants, they nonetheless provide technical explanations regarding tax provisions that have been violated or are at risk of being violated by the client. For instance, auditors may clarify the tax treatment of employee benefits under Article 21 Income Tax (PPh Pasal 21) or the applicable rates under Article 23 Income Tax (PPh Pasal 23). Auditors also frequently encourage clients to participate in tax training programs to improve their understanding of tax obligations. As a result, clients become more aware of prevailing regulations and are better equipped to avoid similar mistakes in the future. In other words, external audits function as a learning mechanism that indirectly enhances clients' tax competence.

Tax socialization

Tax socialization refers to the dissemination of information or education to taxpayers regarding tax regulations, obligations, and changes within the tax system. In general, the primary responsibility for conducting tax socialization lies with the Directorate General of Taxes (DJP) or licensed tax consultants who hold formal authority in this domain. Although it is not the main responsibility of external auditors to conduct tax outreach in the same manner as tax authorities, in practice, auditors still play a role in delivering tax-related information to clients through communication during the audit process.

This typically occurs when auditors explain the tax implications of certain transactions or inform clients about newly enacted regulations related to audit findings. Auditors also emphasize the importance of clients staying updated with ever-evolving tax rules. Through these interactions, auditors contribute to enhancing clients' understanding of tax matters and, albeit indirectly, perform a form of tax socialization—limited in scale but with tangible impact.

> A1 stated, *"I can only provide clients with a basic understanding that taxation is not merely a formality, but a legal obligation that must be reported and paid in accordance with applicable regulations."*
>
> A3 explained, *"We provide limited input and education through the communication of audit findings. However, it is important to note that we maintain our independence by refraining from offering direct tax consulting services."*

Based on the statements above, although external auditors are not directly responsible for conducting tax socialization, they still provide explanations to clients during the audit process, particularly when errors are found in tax-related accounts. This indicates that the auditor's role in tax socialization is indirect, yet it still contributes meaningfully to helping clients better understand their tax obligations.

Tax awareness

Tax awareness refers to the client's attitude and understanding that paying taxes is a civic duty that must be fulfilled as part of their responsibility as citizens. The role of external auditors is reflected in their efforts to enhance clients' awareness as taxpayers, even though all auditors interviewed stated that they had never encountered significant tax violations during the audit process. This is evident in how auditors ensure that clients fulfill their tax obligations in a timely, accurate, and compliant manner.

> A3 stated, *"Based on my experience, we have never encountered any significant tax violations committed by clients. In general, our clients have well-established tax compliance systems and submit their tax reports in accordance with applicable regulations."*

> A2 noted, *"In my experience, I have never come across a client who is non-compliant with tax obligations. However, audits are still conducted using procedures that ensure adherence to tax regulations."*

Based on the statements above, clients are considered to have a high level of awareness regarding their tax obligations, as reflected in their orderly compliance and accurate reporting in accordance with prevailing regulations. This suggests that external audits play a role in encouraging clients to act more cautiously and responsibly in reporting, withholding, and paying taxes in a timely manner.

Moreover, interviews with several auditors indicate that clients generally respond positively to audit findings, particularly those related to tax obligations. Clients are quick to undertake administrative corrections, such as adjusting their tax reports in the event of overpayment or underpayment, and revising inaccurate tax documents. These findings indicate that the audit process functions not only as a control mechanism but also as a means to foster clients' internal awareness of the long-term importance of fiscal compliance.

Tax Sanctions

Tax sanctions serve as a critical instrument in promoting taxpayer compliance. In this context, the role of external auditors is to encourage clients to be more vigilant regarding the potential imposition of sanctions in cases of non-compliance in tax reporting. This is because auditors conduct a thorough examination of the tax-related aspects of a client's financial statements and are obligated to report any violations or discrepancies found in relation to prevailing regulations. As a result of this oversight, clients tend to exercise greater caution and are more likely to fulfill their tax obligations accurately and in a timely manner.

> A3 stated, *"Although we have not encountered any cases of non-compliance thus far, we still conduct audit procedures aimed at detecting potential discrepancies, such as verifying tax payment receipts, checking the validity of tax invoices, and reviewing the recorded tax amounts. Our clients have been quite responsive; even minor administrative findings are promptly corrected and adjusted in accordance with applicable regulations due to their concern about being audited by tax authorities."*

> A4 stated, *"So far, no tax violations have been found among clients, but auditors continue to perform audit procedures that include checking tax payment receipts, invoice validity, and tax balances. Clients also demonstrate a cooperative attitude, promptly adjusting even minor findings to comply with tax regulations."*

Based on the statements above, although no significant tax violations have been found, audit procedures are still carried out thoroughly to detect potential discrepancies, such as delayed reporting or errors in tax withholding that may result in sanctions. Clients also demonstrate a positive response to audit findings, including undertaking administrative corrections. This reflects clients' awareness of the risks of sanctions that may be imposed by tax authorities in cases of discrepancies in tax administration. Therefore, the presence of external auditors contributes to encouraging clients to be more cautious and compliant with applicable tax regulations.

Tax Transparency

Tax transparency involves the openness of information in tax reporting and the clarity of documentation related to tax-related transactions. External audits can promote transparency in clients' tax reporting. By ensuring that all relevant information is accurately disclosed and properly documented, audits help build trust between clients and tax authorities.

> A1 stated, *"Clients always provide full access to financial statements, invoices, and tax documents. This demonstrates that clients are transparent with their documents and cooperate well."*

> A4 stated, *"We reconcile the client's general ledger with paid tax invoices and annual tax returns, and we also perform manual calculations to obtain sufficiently valid evidence."*

Based on the statements above, where clients consistently provide full access to financial statements, invoices, and tax documents, and auditors obtain direct access to important documents such as the general ledger, invoices, and annual tax returns, it can be concluded that external audits play a role in promoting clients' tax transparency through information openness and adequate data access.

Audit procedures include reconciliation between financial statements, the general ledger, and tax documents such as tax invoices and payment receipts to ensure the accuracy and integrity of reporting. The independent nature of audit reports serves as evidence that clients' tax information has been objectively examined by an external party, thereby enhancing public and tax authority trust and reaffirming clients' commitment to tax transparency.

Tax System Modernization

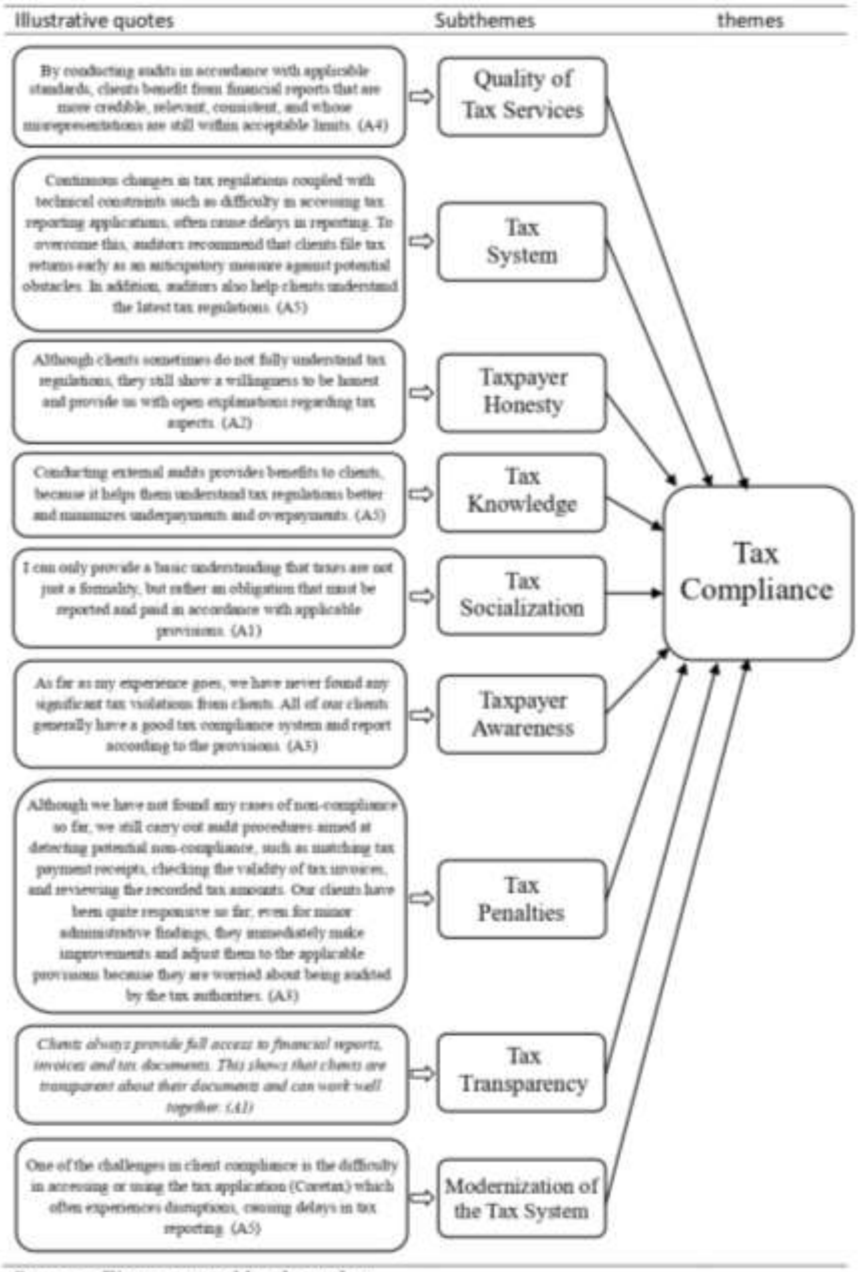
Tax modernization refers to the utilization of information technology and digital systems, such as e-Invoice, e-Withholding Tax, e-Filing, and the Online Tax Service (DJP Online), to enhance efficiency in tax reporting, payment, and monitoring processes.

> A5 mentioned, *"One of the challenges in client compliance is difficulty accessing or using the tax application (Coretax), which frequently experiences disruptions, causing delays in tax reporting."*
>
> A2 stated, *"The main challenge we face in assessing client tax compliance is the clients' limited understanding of the digital tax system, including the use of reporting applications such as Coretax."*

Based on the explanations above, it can be concluded that although the modernization of the tax system through Coretax aims to improve efficiency and compliance, technical obstacles still hinder the tax reporting process in practice, even though clients generally have the intention to comply. Access disruptions and system errors pose significant challenges for taxpayers, which ultimately may affect their level of compliance. This indicates that the success of modernization is not solely determined by the availability of technology but also by system stability and users' ability to operate it effectively.

In the context of tax system modernization, the role of auditors in client tax compliance is as supervisors and independent evaluators who ensure that tax reporting and payments through digital systems (such as Coretax) comply with applicable regulations. Furthermore, auditors provide clients with recommendations regarding the importance of understanding digital tax systems and administrative readiness, thereby encouraging better compliance despite existing technological challenges.

Figure 1. Tax Compliance Indicators



Source : Figure created by the author

DISCUSSION

Based on interviews with auditors at KAP Budiandru & Rekan, it was found that the quality of tax services provided by external auditors reflects professionalism and adherence to the Public Accountant Professional Standards (SPAP), which positively impacts the preparation of credible and relevant financial statements for fulfilling tax obligations (Wibowo, 2024). These findings reinforce the view that high-quality audit services can encourage client compliance by delivering accurate and objective information.

Furthermore, the complexity of the tax system and frequent regulatory changes pose distinct challenges for taxpayers. In this context, external auditors act as intermediaries between policy changes and clients' understanding, particularly in addressing technical issues related to the tax system (Pahala et al., 2024). Clients' tax knowledge has also been shown to improve through auditors' technical explanations of reporting errors, which help prevent similar mistakes in the future (Dewi et al., 2024). Although auditors do not formally conduct socialization, audit interactions indirectly convey tax information to clients, thereby enhancing their understanding and awareness of fiscal obligations (Ziliwu et al., 2021).

Taxpayer honesty is also fostered through a transparent and accountable audit process. Clients demonstrate openness of information during examinations, indicating that external audits are capable of creating an environment of trust and fiscal responsibility (Dewi et al., 2024). This aligns with the increasing client awareness of the importance of accurate reporting, reflected in their prompt responses to audit findings, whether administrative or substantive. Furthermore, the existence of potential tax sanctions in cases of violations further strengthens client compliance, with auditors acting as reminders of fiscal risks (Payamta et al., 2024).

Tax transparency is also promoted through auditors' comprehensive access to client documents, which demonstrates clients' openness and commitment to providing honest and verifiable tax information (Xu et al., 2022). In the context of tax system modernization, auditors play an important role in educating clients about the use of digital tax systems and identifying technical obstacles that may hinder compliance (Wibowo, 2024). Although tax technologies such as Coretax are designed to facilitate reporting, system weaknesses and low digital literacy remain significant barriers.

CONCLUSION AND SUGGESTIONS

Conclusion

This study demonstrates that external auditors play a strategic role in promoting client tax compliance through various aspects reflected in the indicators of the Theory of Planned Behavior (TPB) and empirical findings from interviews with auditors at KAP Budiandru & Rekan. External audits not only function as a verification tool for financial statements but also serve as an educational and preventive medium that helps clients understand tax regulations, improve reporting quality, and encourage compliant behavior. This role is realized through enhancing service quality, delivering tax information, objectively assessing client honesty, and providing recommendations for correcting potential discrepancies.

Furthermore, audits also strengthen clients' awareness of tax obligations, particularly in responding to sanction risks, as well as promoting transparency and the utilization of tax technology. Thus, external auditors are not merely independent examiners but also agents of behavioral change in client tax compliance within the context of an evolving tax system.

Based on the interview results, it can be concluded that external audits have an important role in improving client tax compliance. Audits contribute to assisting clients in preparing credible financial statements, understanding the tax system, and promoting honesty and openness in tax reporting. Additionally, the audit process strengthens clients' tax knowledge and indirectly plays a role in socializing tax regulations. Audits also foster clients' awareness and responsibility toward tax obligations, increase vigilance against sanctions, and create transparency through information openness. In facing tax system modernization, auditors also help clients adapt to the use of digital systems, despite ongoing technical challenges

Suggestions

Based on the research findings, it is recommended that external auditors continue to enhance their understanding of tax regulations and digital systems to support their educational role in the audit process. Clients are also expected to be more open and proactive in responding to audit findings to strengthen their compliance. In addition, tax authorities are encouraged to collaborate with external auditors as partners in supporting tax education and outreach efforts. Future research is recommended to explore this relationship quantitatively to obtain broader and more generalizable findings.

REFERENCES

Ajzen, I. (1991). The theory of planned behavior. *Organizational Behavior and Human Decision Processes*, *50*(2), 179–211. https://doi.org/10.1016/0749-5978(91)90020-T

Alkautsar, M., Hanifah, H., & Basit, A. A. (2023). How Attitudes, Subjective Norms, and Perceived Behavioral Control Influence Taxpayer Compliance: The Moderating Role of Intention to Comply in Garut District among Individual Taxpayers. *Khazanah Sosial*, *5*, 717–725. https://doi.org/10.15575/ks.v5i4.33157

Allingham, M. G., & Sandmo, A. (1972). Income tax evasion: a theoretical analysis. *Journal of Public Economics*, *1*(3–4), 323–338. https://doi.org/10.1016/0047-2727(72)90010-2

Chyz, J. A., Gal-Or, R., Naiker, V., & Sharma, D. S. (2021). The Association between Auditor Provided Tax Planning and Tax Compliance Services and Tax Avoidance and Tax Risk. *Journal of the American Taxation Association*, *43*(2), 1–6. https://doi.org/10.2308/atax-10766

Dewi, S., Paskaris, Hashim, H. I. C., & Halim, J. (2024). An Empirical Investigation of the Relationship between Tax Audit and Taxpayer Compliance: The Mediating Role of Voluntary Disclosure Program. *International Journal Of Academic Research In Business And Social Sciences*, *14*(12), 2253–2266. https://doi.org/10.6007/IJARBSS/v14-i12/24187

Fathelbab, O. E. A., & Abu Quba', H. Y. (2024). The Role of Board Independence in Enhancing External Auditor Independence. *Journal of Risk and Financial Management*, *18*(1), 13. https://doi.org/10.3390/jrfm18010013

IKPI Jakarta. (2025, March 1). Penerimaan Pajak Indonesia Terus Menurun, Tax Ratio 2024 Capai 10,07% PDB. *Ikatan Konsultan Pajak Indonesia (IKPI)*. https://ikpi.or.id/en/penerimaan-pajak-indonesia-terus-menurun-tax-ratio-2024-capai-1007-pdb/

Kaharuddin. (2021). Kualitatif : Ciri dan Karakter Sebagai Metodologi. *J. Equilibrium*, *9*(1), 1–8. http://journal.unismuh.ac.id/index.php/equilibrium

Kastrup, T., Grant, M., & Nilsson, F. (2025). Data analytics use in financial due diligence: the influence of accounting and commercial logic. *Qualitative Research in Accounting & Management*, *22*(2), 158–185. https://doi.org/10.1108/QRAM-10-2023-0188

Kesuma, N., Patmawati, Sari, R., & Khamisah, N. (2023). Improving Taxpayer Compliance Through Behavioral Approach. *AKUNTABILITAS*, *17*(2), 171–184. https://doi.org/https://doi.org/10.29259/ja.v17i2.21371

Khoirunnisa', L. O., & Suwardi, E. (2024). Kemampuan Manajerial dan Kompensasi Manajemen terhadap Penghindaran Pajak dengan Kualitas Audit sebagai Moderasi. *ABIS: Accounting and Business Information Systems Journal*, *12*(3), 156. https://doi.org/10.22146/abis.v12i3.93343

Khristy, B. F., Baridwan, Z., & Khoiru Rusydi, M. (2022). Determinants Of Tax Compliance for Business Actors and Independent Workers in The Perspective of Theory of Planned Behavior and Theory of Fiscal Psychology. *The International Journal of Accounting and Business Society*, *30*(2), 222–239. https://doi.org/10.21776/ijabs.2022.30.2.668

Lukovszki, L., Sipos, N., Rideg, A., & Vörös, Z. (2025). Personality aspects of tax compliance. *European Journal of Law and Economics*, *59*(2), 488–515. https://doi.org/10.1007/s10657-025-09841-3

Mebratu, A. A. (2024). Theoretical foundations of voluntary tax compliance: evidence from a developing country. *Humanities and Social Sciences Communications*, *11*(1). https://doi.org/10.1057/s41599-024-02903-y

Nurfajriani, W. V., Ilhami, M. W., Mahendra, A., Sirodj, R. A., & Afgani, M. W. (2024). Triangulasi Data Dalam Analisis Data Kualitatif. *Jurnal Ilmiah Wahana Pendidikan*, *10*(17), 826–833. https://doi.org/10.5281/zenodo.13929272

Pahala, I., Hafifah, N., Angganis, R., Mediawati, E., & Anugrah, S. (2024). Determinants of Tax Audit Quality: Evidence from Tax Auditors in the North Jakarta Tax Office. *Jurnal Ilmiah Akuntansi Dan Bisnis*, *19*(2). https://doi.org/10.24843/JIAB.2024.v19.i02.p12

Payamta, P., Sulistio, E. J. S., & Ardianingsih, A. (2024). The Analysis Of The Characteristics Of External Auditor And Audit Committees: Tax Avoidance. *Risk Governance and Control: Financial Markets and Institutions*, *14*(2), 8–14. https://doi.org/10.22495/rgcv14i2p1

Pekanbaru.go.id. (2025, May 9). *Capaian PAD Pajak Pekanbaru Terus Meningkat Setiap Tahun* . Portal Resmi Pemerintah Kota Pekanbaru Provinsi Riau . https://www.pekanbaru.go.id/p/news/capaian-pad-pajak-pekanbaru-terus-meningkat-setiap-tahun#

Putri, A., & Wibowo, D. (2021). Faktor-Faktor Yang Mempengaruhi Kepatuhan Wajib Pajak Umkm. *Jurnal Ilmu Dan Riset Akuntansi*, *10*(2), 1–23.

Qomaruddin, & Sa'diyah, H. (2024). Kajian Teoritis tentang Teknik Analisis Data dalam Penelitian Kualitatif: Perspektif Spradley, Miles dan Huberman. *Journal of Management, Accounting, and Administration*, *1*(2), 77–84. https://doi.org/10.52620/jomaa.v1i2.93

Rashid, C. A., & Fatah, N. A. (2022). The Roles of External Auditors on Financial Information Quality. *Eurasian Journal of Management & Social Sciences*, *3*(2), 1–13. https://doi.org/10.23918/ejmss.V3i2p1

S. Arikunto. (2013). *Prosedur penelitian (suatu pendekatan praktik)*. PT. Rineka Cipta.

Saputra, G. R. (2017). Peran Auditor Eksternal Dalam Meningkatkan Kepatuhan Pembayaran Pajak Daerah. *Assets: Jurnal Akuntansi Dan Pendidikan*, *6*(2), 117–129. https://doi.org/10.25273/jap.v6i2.1535

Sumaryanto, S., & Witanto, A. C. (2024). Peran Dan Tanggung Jawab Auditor Eksternal Deteksi Dini Kecurangan Akuntansi Berdasarkan Laporan Keuangan Auditee. *COMPETITIVE Jurnal Akuntansi Dan Keuangan*, *8*(2), 148. https://doi.org/10.31000/competitive.v8i2.11717

Timothy, J., & Abbas, Y. (2021). Tax morale, perception of justice, trust in public authorities, tax knowledge, and tax compliance: a study of Indonesian SMEs. *EJournal of Tax Research*, *19*(1), 168–184.

Viriany, V., & Wirianata, H. (2022). Faktor-Faktor Pemilihan Karir Sebagai Akuntan Publik. *Jurnal Bina Akuntansi*, *9*(1), 1–21. https://doi.org/10.52859/jba.v9i1.165

Wahyuni, N. N. T., Smara, I. B. Y., & Ferreira, P. D. M. (2025). The Impact of Tax Digitalization and Tax Awareness on Compliance Among Taxpayers: a Study of Individual Taxpayers at KPP Pratama Badung Utara. *Formosa Journal of Applied Sciences*, *4*(1), 1–12. https://doi.org/10.55927/fjas.v4i1.10791

Waluyo. (2017). *Perpajakan Indonesia*. Salemba Empat.

Wibowo, R. (2024). Auditors Role in Ensuring Tax Compliance: Insights into Tax Audits and Regulatory Adherence. *Researcher Academy Innovation Data Analysis*, *1*(2), 172–182. https://doi.org/10.69725/raida.v1i2.165

Wijaya, S., Daryatinnisa, N., Romadon, R. S., Zikri, R. N., Amelia, S. N., Quinnita, V. P., & Usman, F. (2025). The compliance ecosystem: Integrating personal, social, and institutional factors in income tax compliance. *Educoretax*, *5*(3), 325–335. https://doi.org/10.54957/educoretax.v5i3.1426

Xu, S., Wang, F., Cullinan, C. P., & Dong, N. (2022). Corporate Tax Avoidance and Corporate Social Responsibility Disclosure Readability: Evidence from China. *Australian Accounting Review*, *32*(2), 267–289. https://doi.org/10.1111/auar.12372

Ziliwu, D. B., Surbakti, L. P., & Mashuri, A. A. S. (2021). Pengaruh Karakteristik Komite Audit terhadap Penghindaran Pajak dengan Kualitas Audit Eksternal sebagai Variabel Moderasi. *EQUITY*, *24*(1), 101–122. https://doi.org/10.34209/equ.v24i1.2258

Zulaikhah, S. (2025). Transforming Tax Compliance in Optimizing State Revenue: Innovation and Challenges in the Digital Era. *International Journal of Economics (IJEC)*, *4*(1), 22–31. https://doi.org/10.55299/ijec.v4i1.1109

Jurnal Akuntansi ISSN 2303-0356
Vol. 15, No.2, June 2025 Hal. 171-185

Profitability as Mediator in Tax avoidance: Evidence from Indonesian Financial Sector

Andora[1], Fahmi Poernamawatie[2], Dwi Orbaningsih[3], Ronny Hendra Hertanto[4], Nurfilaili Diah Pitalokasari[5]
Universitas Gajayana Malang[1,2,3,4,5]

ARTICLE INFO

Article history:
Received: June,28th 2025
Revised: June 29th , 2025
Accepted: June 30th , 2025

Keywords:
CFO Academic Qualification
Independent Commissioner
Tax Avoidance
Profitability

Correspondence:
Andora
Sandoradora429@gmail.com

ABSTRACT

This study aims to empirically test whether profitability can mediate the influence of academic qualifications of CFOs and independent commissioners on tax avoidance. The research sample was 62 with a purposive sampling technique in financial sector companies listed on the IDX in 2023. The research method applied is Partial Least Square (PLS) modeling using smartPLS 4.0 software assistance to analyze the data. The results found that H1 was rejected, CFO academic qualifications had no significant effect on tax avoidance. H2 accepted, independent commissioners have a significant effect on tax avoidance. H3 is accepted, CFO academic qualifications have a significant effect on profitability. H4 is accepted, independent commissioners have a significant effect on profitability. H5 accepted, profitability affects tax avoidance. H6 accepted, profitability can mediate the effect of CFO academic qualifications on tax avoidance. H7 accepted, profitability can mediate the effect of independent commissioners on tax avoidance. Firm size as a control variable has no significant effect on profitability and tax avoidance.

How to cite :
Andora, dkk. (2025) Profitability as Mediator in Tax avoidance: Evidence from Indonesian Financial Sector.*Jurnal Akuntansi Vol 15 No 2 June 2025 page*,171-185. https://doi.org/10.33369/jakuntansi.15.2.171-185

INTRODUCTION

Taxes function as a means of generating revenue for a nation. Conversely, for corporate entities, taxes act as a factor that reduces profit. Consequently, management will endeavor to minimize the taxes paid (Azizah, 2023). The strategic decisions regarding tax avoidance made by companies are derived from policies established and endorsed by company executives (Putri & Damayanti, 2021). According to agency theory, the emergence of problems between agents (managers) and principals can be attributed to discrepancies in their objectives. The fundamental purpose of principals is to augment the assets and financial prosperity of capital owners. Conversely, managers are driven by the pursuit of managerial welfare. This dynamic has the potential to give rise to conflicts of interest within the company, with one particular concern being the practice of tax avoidance.

The Chief Financial Officer (CFO) is the executive who is charged with the oversight of financial management (Kuswara & Sari, 2022). The academic qualifications of Chief Financial Officers (CFO) have the ability to influence the strategies employed in tax avoidance (Simamora & Sari, 2025). Academic qualifications are demonstrated by formal education and analytical skills (Kurnianto & Pramana, 2023). Academic qualifications represent a component of an individual's demographic characteristics (Wicaksono & Oktaviani, 2021). It is evident that Chief Financial Officers (CFOs) who possess strong academic qualifications will assume a pivotal role in the formulation of the company's tax avoidance scheme (Putri & Damayanti, 2021). The upper echelons theory offers further support for this assertion. According to this theory, the demographic characteristics of company leaders, including CFOs, have the capacity to influence the strategic decision-making process within the organization. This encompasses financial and tax policies.

The findings indicated that academic qualifications, as indicated by educational background, exhibited a substantial positive impact on tax avoidance strategies (Ernawati & Suryarini, 2024;

Fahira et al., 2024; Pratiwi, 2023). Nevertheless, additional studies have show that the academic qualifications of the Chief Executive Officer exert a substantial adverse impact (Anggara & Salman, 2023; Huang & Zhang, 2020; Kurnianto & Pramana, 2023).

The academic qualifications of Chief Financial Officers (CFOs) are a significant factor in the pursuit of an executive board career, as they influence the company's mindset and policy-making processes. The upper echelons theory posits that the specific characteristics of a leader, including their educational background, can influence the strategic decision-making process in the company, including in taxation.

Tax avoidance in the banking sector in Indonesia is exemplified by the revelation of a tax bribery case involving PT Bank Pan Indonesia (Bank Panin). The company was indicted on charges of bribery against officials from the Directorate General of Taxes, amounting to Sin$500 thousand (approximately Rp 5 billion), with the aim of manipulating its 2016 tax liabilities (Fauzi, 2023).

The phenomenon of tax compliance in the non-bank sector also involved fiduciary tax evasion addressed to PT Adira Dinamika Multi Finance Tbk branch in 2011. This alleged tax evasion suggests a potential vulnerability in the mechanisms of tax collection and supervision in the financing sector, which could potentially lead to a reduction in state revenue.

Tax avoidance can also result from inadequate internal company supervision. Therefore, the establishment of a system that directs and regulates the relationship between interested parties in formulating company policies is imperative (Alvenina, 2021). The system in question pertains to the system known as Good Corporate Governance (GCG).

Independent commissioners are thought to oversee decision-making within a company, including matters related to taxation (Dewi & Oktaviani, 2021). The findings indicated that the presence auziof independent commissioners has a favorable impact on the occurrence of tax avoidance strategies (Masrurroch et al., 2021; Sari et al., 2020; Tahar & Rachmawati, 2020). The findings of other studies demonstfrate that independent commissioners exert a detrimental influence on tax avoidance strategies (Ariska et al., 2021; Purbowati, 2021; Putra, 2021).

It is a common practice among company executives is the engagement in tax avoidance strategies as a means of reducing the tax liability that the company is obligated to bear (Fadhila & Andayani, 2022). This suggests that corporations often prioritize profit maximization over fulfilling their financial obligations in an optimal manner. This phenomenon is further substantiated by the findings of recent research studies (Niandari & Novelia, 2022; Riawan & Putri, 2023) which reveal that profitability exerts a substantial influence on tax avoidance activies.

It has been demonstrated that companies with Chief Financial Officers (CFOs) who hold advanced academic qualifications are more adept at managing their financial resources, thereby enabling them to achieve high levels of profitability. This assertion is corroborated by extant research see (Abimanyu & Nugraha, 2024; Alfianto et al., 2024; Ghardallou et al., 2020).

The efficacy of independent commissioners in enhancing corporate performance has been evidenced, particularly in enterprises that employ more substantial boards. The presence of a board of commissioners has been demonstrated to enhance profitability through effective decision-making and governance. This assertion is corroborated by extant research (Dewi & Oktaviani, 2021; Mahaputra et al., 2024; Puspa et al., 2021).

Profitability is a pivotal corporate performance indicator that exerts a direct influence on a company's tax liability. The present study aims to elucidate the intricate interplay among CFO academic qualifications, independent commissioners, profitability, and tax avoidance. This investigation is pertinent to comprehending corporate tax management within the financial sector.

This study examines the direct effects of CFOs' academic qualifications and the role of independent commissioners on tax avoidance practices, as well as the role of profitability as a mediating variable. By examining how profitability mediates the relationship between CFOs' and independent commissioners' academic qualifications and tax avoidance, this research addresses a gap in the literature that has not been discussed in depth. This distinguishes it from previous studies.

Upper Echelon Theory

The Upper Echelon theory was first developed by Hambrick and Mason in 1984. The aforementioned theory posits the notion that the characteristics exhibited by leaders within an organization possess the capability to function as a predictor of strategic choices and the level of organizational performance. The interpretations developed by executives are likely to be influenced by their individual experiences, personal values, and unique personalities. This interpretation will then affect the choice of strategy to be determined (Hambrick & Mason, 1984).

According to the upper echelons theory, the CFO's educational background in economics, management, business, and other relevant fields is indicative of a potential influence on management decisions concerning the determination of tax strategy. The academic qualification of the Chief Financial Officer (CFO) is one important aspect of these characteristics that can reflect the way of thinking, level of competence, and tendency to choose the company's financial strategy. CFOs with higher and relevant educational backgrounds in accounting, finance, or taxation tend to have a deeper understanding of financial regulations and risks. This can affect the company's tendency to implement tax avoidance strategies.

Agency Theory

Agency theory explains the relationship between agent and principal. Agency theory is a problem that occurs between managers and company owners due to differences in objectives, while managers tend to pursue personal interests. The relationship between principal and agent is contractual, shareholders expect management to act in accordance with the interests of shareholders(Jensen & Meckling, 1976).

In this study, tax avoidance is one of the financial policy areas that can lead to conflicts of interest between principals and agents. independent commissioners act as a supervisory mechanism aimed at reducing information asymmetry and ensuring management acts in accordance with the interests of the owner. Principals (shareholders) hope that management can make decisions and act in accordance with the interests of the principal (Masrurroch et al., 2021). Meanwhile, managers tend to pursue personal interests in compensation and job security (Rahmadani et al., 2020).

Effect of CFO Academic qualifications on Tax Avoidance

It has been demonstrated that Chief Financial Officers (CFOs) of companies who possess advanced academic qualifications are more prone to engage in tax avoidance behaviors. The role of the CFO, or Chief Financial Officer, is that of a senior executive, entrusted with the oversight of the company's financial and business operations. It is assumed that the majority of Chief Financial Officers possess a comprehensive understanding of tax regulations, with the objective of minimizing the tax liability of the company. Research findings (Bivianti et al., 2022; Suharto et al., 2022; Ulfa et al., 2021) demonstrate that CFO academic qualifications exert a substantial influence on the extent of tax avoidance.

H1. CFO academic qualifications have a significant effect on tax avoidance.

Effect of Independent Commissioner on Tax Avoidance

As posited by the agency theory, there is a possibility of the emergence of potential conflicts of interest in the relationship corporate magemend and stockholders. These conflicts can result in decisions made on behalf of the company that may not align with the shareholders' best interests (Asih & Darmawati, 2022). Independent commissioners, operating as impartial overseers, have the capacity to ameliorate agency issues by ensuring that organizational management decisions are consistent with the interests of the owners. It is anticipated that their presence will result in a reduction of tax avoidance activities. This oversight has been demonstrated to facilitate the protection of minority shareholders and to encourage compliance with tax regulations, thereby

contributing to long-term sustainability and ethical corporate practices (Deviansyah et al., 2024). The extant research (Cristan & Poniman, 2023; Masrurroch et al., 2021; Oktaviana & Kholis, 2021; Sari et al., 2020; Tahar & Rachmawati, 2020) however, has indicated a significant impact on tax avoidance by independent commissioners.
H2. Independent commissioners have a significant effect on tax avoidance.

Effect of CFO Academic Qualification on Profitability

The upper echelon theory posits that the education held by the Chief Financial Officer (CFO) constitutes a measurable attribute that can be leveraged to predict the strategic actions undertaken by the CFO in formulating a company's strategy. According to the aforementioned theory, the propensity of highly educated Chief Financial Officers (CFOs) to embrace novel concepts, transformative shifts, and investment prospects is predicted to be elevated. As demonstrated in the seminal works of (Abimanyu & Nugraha, 2024; Alfianto et al., 2024; Ghardallou et al., 2020) previous research has yielded substantial findings regarding the impact of education on Return on Assets (ROA).
H3. CFO academic qualifications have a significant effect on profitability.

The Effect of Independent Commissioners on Profitability

The inclusion of independent commissioners within the firm can serve as a favorable indicator for investors, as it suggests the potential for the company to enhance its performance in the future. The presence of a greater number of independent commissioners is associated with enhanced oversight of company operations. However, an excess of independent commissioners can impede decision-making efficiency and performance (Soedarman et al., 2023). According to agency theory, independent supervision can increase accountability and transparency, which can ultimately lead to increased profitability through betters decision-making and stakeholder trust. As (Dewi & Oktaviani, 2021) have demonstrated, the independent board of commissioners exerts a partial influence on profitability (ROA). This assertion is consistent with the findings of recent research (Islami, 2018; Mahaputra et al., 2024; Puspa et al., 2021), which demonstrates that the independent board of commissioners exerts a substantial impact on profitability.
H4. Independent commissioners have a significant effect on profitability.

Effect of Profitability on Tax Avoidance

The term "profitability" is a quantitative metric of a firm's financial performance, defined as the degree to which a company is generating profit from its asset management strategy, as measured by the profit margin the firm generates from its assets (Hidayat, 2018). A rise in corporate profits is associated with an escalation in tax obligations. Consequently, corporations are motivated to adopt tax avoidance strategies (Rahmadani et al., 2020). The presence of strong profitability in a firm is associated with an increased likelihood of leveraging its financial resources for purposes that include the exploitation of loopholes and engagement in practices that reduce taxable income. This phenomenon aligns with the agency theory perspective, wherein company leaders (agents) are driven to maximize profits while minimizing tax liabilities for the benefit of shareholders (principals). The validity of this assertion is reinforced by the findings of recent research endeavors. Specifically, the studies conducted by (Mariadi & Dewi, 2022; Rahmadani et al., 2020; Widyastuti et al., 2022) have demonstrated a substantial impact of profitability on the phenomenon of tax avoidance.
H5. Profitability has a significant effect on tax avoidance.

Profitability Mediates the Effect of CFO Academic Qualifications on Tax Avoidance

According to (Zunianto et al., 2024), a correlation has been demonstrated between the possession of academic qualifications and a propensity towards rational and cautious risk-taking behavior, including in the context of taxation. The correlation between CFO academic qualifications and tax avoidance is a subject of scholarly debate (Ernawati & Suryarini, 2024; Suharto et al., 2022). Academic qualifications, as indicated by education, are a cognitive characteristic that has the potential to influence an individual's abilities, modify their cognitive patterns, and become a significant contributing factor to the enhancement of profitability disclosure efforts.

Research conducted by (Bivianti et al., 2022; Suharto et al., 2022; Ulfa et al., 2021) has demonstrated a substantial impact of CFO academic qualifications on the extent of tax avoidance strategies employed. The academic qualifications of the CFO have been demonstrated to facilitate enhanced financial management, thereby increasing profitability. Consequently, higher profitability offers companies greater incentives and capacity to explore tax avoidance strategies (Mariadi & Dewi, 2022; Rahmadani et al., 2020).
H6. Profitability mediates the effect of CFO academic qualifications on tax avoidance.

Profitability Mediates the Effect of Independent Commissioners on Tax Avoidance

The capacity of the board of commissioners to influence company management to produce quality financial reports is an inherent aspect of the board's supervisory function (Roviqoh & Khafid, 2021). The fundamental mission of these independent commissioners is to ensure the effective implementation of the company's strategy, without any actions that might result in the abuse of power for the purpose of increasing profitability.

As (Dewi & Oktaviani, 2021) have demonstrated, the independent board of commissioners has a significant impact on profitability (ROA). This assertion is consistent with the findings of recent research (Islami, 2018; Mahaputra et al., 2024; Puspa et al., 2021); which demonstrates that the independent board of commissioners exerts a substantial positive influence on profitability. The findings of research conducted by (Mariadi & Dewi, 2022; Rahmadani et al., 2020; Widyastuti et al., 2022), in the study demonstrate that profitability exerts a positive influence on tax avoidance.
H7. Profitability mediates the effect of independent commissioners on tax avoidance.

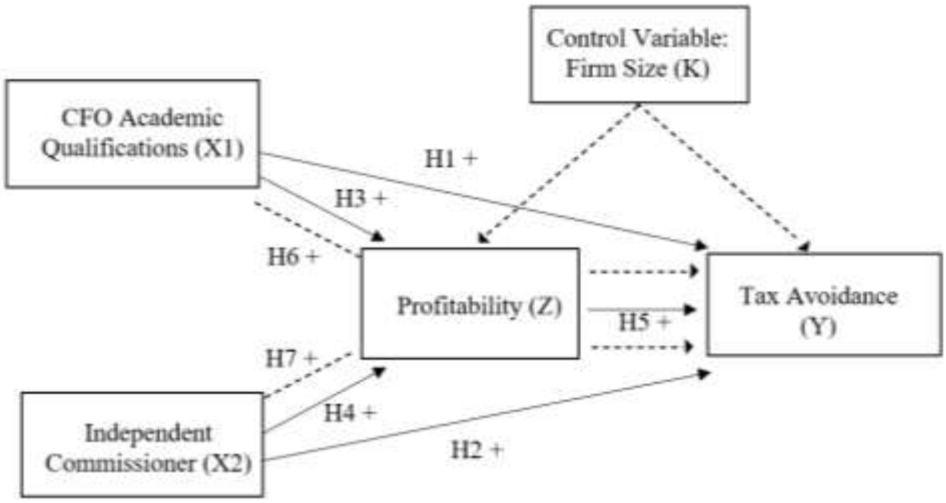


Figure 1. Conceptual Framework

RESEARCH METHODS

The present research employs a descriptive quantitative research design. The second data set employed in this study has been derived from the annual reports of financial sector entities publicly traded on the Indonesia Stock Exchange (IDX) in 2023. The data was retrieved from two sources: the official IDX website (www.idx.co.id) and the company's own website. Both sources are available online.

The study's population consists of all companies operating within the financial sector that are listed on the Indonesia Stock Exchange (IDX) during the 2023 period, amounting to 105 companies. The present study's sample comprised 62 subjects who were selected via a purposive sampling method, and the following criteria were employed in the subject selection procedure: 1) The company publishes the Annual Report and Financial Statements in full, 2) Financial statements use rupiah currency, 3) Profit before tax of the company is positive, 4) Companies that pay taxes. 5) Companies that present complete research variable data in the Annual Report and Financial Statements.

Table 1. Operational Definition and Measurement of Variables

Variable	Variable Definition	Measurement	Scale
CFO Academic Qualifications (X1)	Educational background is an experience or formal/specialized education that is owned from the learning process and training that affects attitudes and knowledge.	0 = Senior high shcool 1 = Bachlor (S1) 2 = Master (S2) 3 = Doctor (S3) (Fahira et al., 2024; Krisnata, 2023)	Ordinal
Independent Commissioner (X2)	Independent commissioners are individuals devoid of affiliations with the board of directors, do not serve as company directors, and lack relationships with controlling shareholders.	Independent Commissioner= $\frac{\text{Number of independent commissioners}}{\text{Total Board of Commissioners}}$ (Oktaviana & Kholis, 2021; Ubaidillah, 2021)	Ratio
Tax Avoidance (Y)	Tax avoidance is a legally permissible strategy employed by taxpayers that adheres to tax regulations.	Cerrent ETR = $\frac{\text{Tax burden}}{\text{Profit before tax}}$ (Rahmadani et al., 2020)	Ratio
Profitability (Z)	Profitability is the return on assets possessed by the company.	ROA = $\frac{\text{Profit after tax}}{\text{Total Assets}}$ X 100% (Rahmadani et al., 2020)	Ratio
Firm Size (K)	Firm size serves as a metric that delineates the scale of a company's operations.	Firm Size = LN (Total assets) (Mariadi & Dewi, 2022)	Ratio

The present study employs PLS (Partial Least Squares) analysis. The methodology employed in the analysis of the research data under consideration involves a path analysis approach. The implementation of path analysis in this study by SmartPLS version 4.0 application. This particular analysis approach was selected due to its capacity to process data types with disparate data scales (Hair et al., 2021).

RESULTS AND DISCUSSION

Table 2. Descriptive Statistics

Name	Mean	Median	Scale min	Scale max	Standard deviation
X1 (EDU)	1.548	2.000	1.000	3.000	0.529
X2 (COMS)	0.491	0.500	0.000	0.750	0.140
Z (ROA)	1.729	1.411	0.014	6.064	1.383
Y (TAX)	0.234	0.214	0.002	0.981	0.172
K (SIZE)	30.806	31.000	27.000	35.000	2.039

Source: Secondary data processed, 2025

Based on Table 2, the study analyzes 62 cases using descriptive statistics. The CFO academic qualification variable (X1) has a mean of 1.548, with values ranging from 1.000 to 3.000 and a standard deviation of 0.529, indicating moderate qualifications and notable variance. The independent commissioner variable (X2) has a maximum value of 0.750 and a mean of 0.491, reflecting a moderate level of independent commissioner presence across companies. The profitability variable (Z), measured by ROA, ranges from 0.014 to 6.064, with a mean of 1.729 and a standard deviation of 1.383, indicating considerable variability in asset utilization efficiency. The tax avoidance variable (Y) has a mean of 0.234, with values ranging from 0.002 to 0.981 and a standard deviation of 0.172, suggesting substantial variability in tax avoidance practices. Firm size shows a mean of 30.806, a median of 31.000, and a standard deviation of 2.039, indicating a relatively symmetrical distribution with notable differences in company size within the sample.

Table 3. Multicollinearity

	VIF
X1 (EDU)	1.000
X2 (COMS)	1.000
Z (ROA)	1.000
Y (TAX)	1.000
K (SIZE)	1.000

Source: Secondary data processed, 2025

As illustrated in Table 3, the inner VIF value is less than 5, indicating the absence of multicollinearity among the variables of CFO academic qualification (X1), independent commissioner (X2), profitability (Z), firm size (K) and tax avoidance (Y). This strengthens the parameter estimation in SEM-PLS is robust (unbiased).

Table 4. Determination R-Square (R2)

	R-square	*R-square adjusted*
Y (TAX)	0.120	0.058
Z (ROA)	0.258	0.219

Source: Secondary data processed, 2025

As illustrated in table 4, the R-squared for the profitability variable is 0.258, or 25.8% (indicating a weak model). This finding indicates that the contribution of CFO academic qualifications and independent commissioners to profitability is 25.8%. The remaining 74.2% of the variance is attributable to other variables that were not addressed in this study.

Table 5. Path Coefisien

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
X1 (EDU) -> Y (TAX)	-0.063	-0.073	0.125	0.505	0.307
X2 (COMS) -> Y (TAX)	-0.294	-0.288	0.133	2.220	0.013
X1 (EDU) -> Z (ROA)	-0.255	-0.258	0.103	2.483	0.007
X2 (COMS) -> Z (ROA)	-0.394	-0.384	0.144	2.737	0.003
Z (ROA) -> Y (TAX)	-0.336	-0.325	0.129	2.610	0.005
K (SIZE) > Z (ROA)	0.033	0.038	0.122	0275	0.392
K (SIZE) > Y (TAX)	-0.087	-0.073	0.188	0.743	0.229

Source: Secondary data processed, 2025

The results of the path coefficient analysis, as presented in Table 5, indicate that Hypothesis 1 (H-1) is rejected, as CFO academic qualifications (X1) do not significantly affect tax avoidance (Y) (path coefficient = -0.063; p = 0.307). Hypotheses 2 to 5 (H-2 to H-5) are accepted. Independent commissioners (X2) have a significant negative impact on tax avoidance (Y) (path coefficient = -0.294; p = 0.013) and a significant negative effect on profitability (Z) (path coefficient = -0.394; p = 0.003). CFO academic qualifications (X1) significantly influence profitability (Z) (path coefficient = -0.255; p = 0.007). Furthermore, profitability (Z) significantly and negatively affects tax avoidance (Y) (path coefficient = -0.336; p = 0.005). Firm size (K), however, does not significantly influence either profitability (Z) or tax avoidance (Y), with path coefficients of 0.33 and -0.087, and p-values of 0.392 and 0.229, respectively.

Table 6. Specific Indirect Effect

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
X1 (EDU) -> Z (ROA) -> Y (TAX)	0.086	0.085	0.051	1.676	0.047
X2 (COMS) -> Z (ROA) -> Y (TAX)	0.132	0.128	0.080	1.659	0.049

Source: Secondary data processed, 2025

As presented in Table 6, the evaluation of the specific indirect effect supports the acceptance of Hypotheses 6 (H-6) and 7 (H-7). The results indicate that CFO academic qualifications (X1) significantly influence tax avoidance (Y) through a mediating effect, with a path coefficient of 0.086 and a p-value of 0.047. Additionally, profitability is shown to mediate the connection among independent commissioners (X2) and tax avoidance (Y), as evidenced by a significant path coefficient of 0.132 and p-value of 0.049.

Effect of CFO Academic Qualification on Tax Avoidance

The test of the first hypothesis (H1) was rejected. Tax avoidance in this study is measured using the Current Effective Tax Rate (CETR), which is the ratio of tax expense to pre-tax profit. A low CETR value indicates a higher level of tax evasion practices. The academic qualifications of the CFO can influence tax avoidance practices because the education obtained reflects knowledge, expertise, and mindset in making accounting or business decisions. CFOs with academic qualifications in the field of EMBAN have a better understanding of tax regulations, tax planning, and legal loopholes that can be utilized to legally reduce tax liabilities.

This result is not in line with the upper echlons theory because the characteristics of a top management, such as educational background, work experience and personal values cannot influence the strategic decision-making process in the company including in taxation. Based on the upper echlons, CFOs who have higher academic qualifications in the field of emban have more experience regarding tax regulations and potential loopholes in the tax system, so they are better able to utilize aggressive tax avoidance strategies.

Currently, regulations and supervision in the banking sector in Indonesia are getting tighter. This will certainly limit the CFO's room for maneuver in implementing tax avoidance strategies, regardless of the academic qualifications held by the CFO. Compliance making in companies is generally collective and involves many parties, including audit committees, directors and supervision from external authorities, so the role of CFOs becomes less dominant.

While previous studies have focused on the CEO, the results and implications can be attributed to the role of the CFO, given that the CFO also has a position in financial design and control. The CFO is also part of the top management who is actively involved in the Company's strategy. The results of this study are in line with previous research (Anggara & Salman, 2023; Oktaviani et al., 2022).

Effect of Independent Commissioner on Tax Avoidance

The results of testing the second hypothesis (H2) are accepted, namely independent commissioners have a positive influence on tax avoidance. This shows that the higher the proportion of independent commissioners in the board of commissioner structure, the lower the level of tax avoidance carried out by the company. Commissioners in this study are measured by the ratio of the number of independent commissioners to the total number of commissioners. The higher the ratio, the greater the role of independent supervision of company management. Tax avoidance in this study is measured using the Current Effective Rate (CETR) with tax expense divided by profit before tax.

This shows that the presence of independent commissioners effectively reduces tax avoidance practices. Theoretically, independent commissioners are tasked with providing oversight of managerial policies, but the existence of independent commissioners does not necessarily function properly and even approves tax avoidance which is considered to benefit the company in the short term.

These results are in line with agency theory due to conflicts of interest between managers and company owners. In this study, independent function as a commissioner corporate governance mechanism to reduce this conflict of interest. In agency theory, tax avoidance is seen as a form of manager's beneficial action taken to increase profit after tax.

Based on the results of this study, supervision from independent commissioners is not effective in suppressing profitable managerial actions, including tax avoidance. Independent commissioners may have limited information, do not have more competence in taxation or have an interest relationship with management, so they are open to tax avoidance strategies. The results of this study are in line with (Cristan & Poniman, 2023; Masrurroch et al., 2021; Oktaviana & Kholis, 2021; Tahar & Rachmawati, 2020).

Effect of CFO Academic Qualification on Profitability

The third test result (H3) is accepted, this indicates that the higher the CFO's academic qualifications in the field of EMBAN, the greater the company's profitability. Profitability is measured using Return on Assets (ROA). ROA is a measure that reflects how efficient the company is in generating profits from its assets. CFO as a high-ranking official who is responsible for financial planning, management and corporate financial decision making in optimizing company performance. Supporting academic qualifications, especially in the field of EMBAN, have a qualified knowledge and technical capacity in preparing financial strategies.

Academic qualifications provide an understanding of financial principles, accounting reporting and risk and investment analysis. Such capabilities can ensure CFOs make the right decisions in resource allocation, cost efficiency, debt management and budget control that have a direct impact on profitability levels. A CFO's education not only reflects academic capacity but is also an indicator of potential success in corporate financial management.

These results are in line with the upper echelon theory because the personal characteristics of executives such as academic qualifications (education) affect the way they interpret information and make decisions that ultimately have an impact on the company. CFOs have an important role in financial planning and supervision in increasing profitability.

Previous studies focus on the CEO, the results and implications can be attributed to the role of the CFO, considering that the CFO also has a position in financial planning and control. CFOs are also part of top management who are actively involved in corporate strategy. The results of the study are also in line with research (Abimanyu & Nugraha, 2024; Alfianto et al., 2024; Ghardallou et al., 2020) the positive impact of CFO education on profitability is well-documented.

The Effect of Independent Commissioners on Profitability

The effect of independent commissioners (X2) on profitability (Z) results in a path coefficient value of -0.393 with a p-value of 0.002. The p-value of 0.002 <0.05 indicates that independent commissioners (X2) have a positive effect on profitability (Z). This shows that the higher the proportion of independent commissioners in the board of commissioners, the higher the level of company profitability. This study indicates that the existence of independent commissioners can function as an effective control and supervision tool for management. Commissioners have an important role in overseeing the running of the company in accordance with corporate governance.

In this study, independent commissioners were measured by comparing the number of independent commissioners to the total number of commissioners in a company. Profitability is measured using Return on Assets (ROA). The high proportion of independent commissioners reflects the stronger supervisory function in the company. In agency theory this relationship is very related. This result is in line with agency theory because of the conflict of interest between managers and shareholders. Managers as company managers can act inconsistently with the interests of shareholders. The existence of independent commissioners is an external control tool that can minimize conflicts and ensure that management acts in the interests of the owners of capital. Strong supervision from unaffiliated parties can suppress irregularities by the management.

This research is in line with research (Novarialdi, 2022) and (Merawati et al., 2025) which state that the proportion of independent commissioners has a positive effect on profitability. Research (Puspa et al., 2021) also states that the more the number of independent commissioners who oversee company performance, the profitability will increase in ensuring the creation of good GCG, independent commissioners are required to have good credibility, professionalism and integrity.

Independent commissioners will proactively encourage management to run the company in accordance with the wishes of shareholders and applicable regulations. Management will always be encouraged by shareholders through the independent board of commissioners to always optimize company assets in improving company performance.

Effect of Profitability on Tax Avoidance

The result of H5 which states that profitability has a positive influence on tax avoidance is accepted. This can be interpreted that the higher the profitability of the company, the higher the tendency of the company to do tax avoidance. The results indicate that companies that have good financial performance can take advantage of tax loopholes to minimize the tax burden. This can happen because the company is more profitable. Companies with high profits have a larger tax burden. Management has a strong opportunity to do tax avoidance to reduce the tax burden that must be paid, so that the net profit earned remains high.

These results are in line with agency theory because managers as agents have a responsibility to maximize net profit after tax. In carrying out their obligations, managers make strategic corporate decisions, including tax avoidance, to reduce tax liabilities and increase reported net income. The findings of this study are in line with research (Manja & Saleh, 2024; Nurtanto & Wulandari, 2024; Rahmadani et al., 2020) that profitability has a positive effect on tax avoidance.

Mediating Effect of Profitability CFO Education Qualification on Tax Avoidance

The results of testing the fourth hypothesis are accepted. This indicates that profitability can positively mediate the effect of CFO academic qualifications on tax avoidance. This means that the CFO's academic qualifications contribute to an increase in the company's profitability, which also increases the company's tendency to engage in tax avoidance. CFO academic qualifications are a reflection of the capacity and knowledge of management in the company. CFOs with academic qualifications in EMBAN have higher analytical skills in strategizing financial and tax efficiency.

Good education supports quality decision-making, including in optimizing company performance through increased profitability. High profitability, measured using ROA, shows the company's ability to generate profits from all assets owned. With high profitability has a greater incentive to do tax avoidance. The greater the profit, the greater the tax burden that must be paid. To reduce the tax burden, companies with high profits are more motivated to find legal ways to minimize their tax liabilities.

This result is in line with the upper-echelon theory because individual characteristics at the top management level, including academic qualifications, will influence organizational strategy and performance. In this study, CFOs with strong academic qualifications will significantly influence the direction of the company's financial policies, including strategies to increase profitability and tax management.

CFO education is a reflection of perspective, values and ability to read financial efficiency opportunities. A competent CFO is better able to direct the company towards achieving optimal profit and tax avoidance strategies that are in accordance with applicable regulations. Therefore, one of the characteristics of CFO, namely educational background, not only has a direct effect, but also has an indirect effect, namely through profitability.

This is in line with agency theory because the CFO as an agent is responsible for managing company finances with efficiency and maximizing company value, including by reducing the tax burden.

With high profitability as a result of the CFO's financial policies and strategies, the company has an incentive to legally avoid taxes. This strategy is considered as an effort to maintain net worth stability, maintain the company's image in the eyes of investors and meet shareholder expectations. Profitability is proven to positively mediate the effect of CFO educational background on tax avoidance. Research (Abimanyu & Nugraha, 2024; Alfianto et al., 2024; Ghardallou et al., 2020) show that CFOs can positively increase profitability. Research (Manja & Saleh, 2024; Nurtanto & Wulandari, 2024; Rahmadani et al., 2020), which states that the higher the ROA, the greater the tendency of companies to do tax avoidance.

Mediating Effect of Independent Commissioner Profitability on Tax Avoidance

The results in this study indicate that profitability can positively mediate the effect of independent commissioners on tax avoidance. This shows that the presence of independent commissioners not only has a direct impact on tax avoidance, but also indirectly through the company's financial performance as reflected in profitability (ROA). Independent commissioners are one of the important components in the corporate governance structure. His main task is to carry out the supervisory function of management, ensuring that the company's strategic decisions continue to run according to the principles of transparency, accountability and compliance with regulations, including in financial and tax aspects. The existence of independent commissioners and not having an interest relationship with management, theoretically can improve the quality of supervision of operational and financial strategies, which then has an impact on the efficient use of company assets and an increase in net profit (profitability).

These results are in line with agency theory to minimize conflicts, one of which is the use of corporate governance mechanisms through the appointment of independent commissioners who act as supervisors of management actions. The link in this study is that independent commissioners play a role in ensuring operational efficiency and optimizing the company's lab. However, the impact of the supervisory function does not always have an impact on strict tax compliance. Conversely, when profitability increases, agents (management) have a greater opportunity to maintain net income through legal tax avoidance.

Previous research states that profitability acts as a mediating variable in the relationship between independent commissioners and tax avoidance. Profitability is not only influenced by the effectiveness of supervision of independent commissioners, but also becomes a path that bridges the influence of independent commissioners on tax avoidance practices, so profitability is proven to positively mediate the influence of independent commissioners on tax avoidance.

Previous research (Puspa et al., 2021) and (Novarialdi, 2022)shows that the presence of independent commissioners is able to increase company profitability through a strong, professional and objective supervisory mechanism on management performance. This increase in profitability is then related to the company's tendency to carry out tax avoidance, also explained by (Rahmadani et al., 2020) and (Nurtanto & Wulandari, 2024), companies that have high profits are more likely to develop tax avoidance strategies for fiscal burden efficiency.

CONCLUSIONS AND SUGGESTION

This study shows that the academic qualifications of CFOs have no significant effect on tax avoidance (CETR), thus not supporting the upper echelons theory. This is due to the strong supervisory system and collective decisions in the financial sector that reduce the dominance of the CFO role. In contrast, independent commissioners have a significant effect, where the higher their presence, the lower the tax avoidance, in accordance with agency theory. Profitability is shown to mediate the effect of CFO academic qualifications on tax avoidance; CFOs with an accounting or finance educational background drive efficiency and profitability, which leads to tax avoidance strategies. Profitability also mediates the effect of independent commissioners, which not only suppresses tax avoidance directly, but also increases firm profitability. These findings are consistent with agency theory and upper echelons, and support previous research.

This research contributes to the development of tax policy theory and practice, particularly in Indonesia's financial sector. Theoretically, these findings enrich the literature examining the influence of individual characteristics within corporate governance structures—such as the academic qualifications of CFOs and the presence of independent commissioners—on tax avoidance behavior. Practically, the results of this research provide implications for regulators and policymakers, particularly the Directorate General of Taxes and the Financial Services Authority, to consider the qualitative dimensions of corporate governance when designing tax oversight and incentive policies. Regulations that encourage the enhancement of the academic capacity of financial officials and the strengthening of the oversight function of independent commissioners can serve as strategic instruments in curbing tax avoidance practices and improving tax compliance in the financial sector.

REFERENCES

Abimanyu, I. wayan P. S., & Nugraha, A. P. (2024). CEO Educational Background, CEO Experience and Company Performance (A Study of Companies Listed in the LQ45 Index, Indonesia). *Ekonomis: Journal of Economics and Business*, *8*(1), 343. https://doi.org/10.33087/ekonomis.v8i1.1402

Alfianto, F. I., Irianto, G., & Prihatiningtias, Y. W. (2024). The Moderating Role of Political Connections on the Influence of CEO Characteristics on Company Financial Performance. *Jurnal Reviu Akuntansi Dan Keuangan*, *14*(2), 380–397. https://doi.org/10.22219/jrak.v14i2.31389

Alvenina, F. Q. Y. (2021). The Effect of Good Corporate Governance on Tax Avoidance in Mining Companies Listed on The IDX in 2014-2019. *Media Akuntansi Dan Perpajakan Indonesia*, *2*(2), 87–105.

Anggara, O. B. D., & Salman, K. R. (2023). The Influence Chief Financial Officer, Profitabiltas, Leverage and Audit Committe on Tax Avoidance With Firm Size as a Control Variable. *JASa (Jurnal Akuntansi, Audit Dan Sistem Informasi Akuntansi)*, *7*(1), 183–189. https://doi.org/10.36555/jasa.v7i1.2102

Ariska, F., Fionasari, D., & Aristi, M. D. (2021). The Influence of Good Corporate Governance on Tax Avoidance in Health Sector Companies Listed on the Indonesia Stock Exchange (IDX) in

2016-2020. *Jurnal IAKP*, *2*(2), 183–193.

Asih, K. L., & Darmawati, D. (2022). The Role of Independend Commisioners in Moderating the Effect of Profitability, Company Size and Company Risk on Tax Avoidance. *Asia Pacific Fraud Journal*, *6*(2), 235. https://doi.org/10.21532/apfjournal.v6i2.222

Azizah, N. W. (2023). The Influence of Independent Commissioners, Profitability and Company Size on Tax Avoidance in Consumer Non-Cyclical Companies. *Jurnal Akuntansi Dan Keuangan Kontemporer (JAKK)*, *6*(1). https://doi.org/10.30596/jakk.v6i1.14898

Bivianti, V., Stefani, M. E., & Yuniarsih, N. (2022, March). The Effec Of Executive Characteristics, CEO Overconfidence, Capital Intensity ON Tax Avoidance. *International Conference of Business and Social Sciences*.

Cristan, Y., & Poniman, P. (2023). The Influence of Good Corporate Governance Structure on Tax Avoidance. *Owner*, *7*(2), 1096–1112. https://doi.org/10.33395/owner.v7i2.1408

Deviansyah, M. R., Nugroho, E., & Firmansyah, A. (2024). Does Independent Commissioner Decrease The Positive Association Between Transfer Pricing And Tax Avoidance? *Educoretax*, *4*(4), 466–475. https://doi.org/10.54957/educoretax.v4i4.770

Dewi, S. L., & Oktaviani, R. M. (2021). The Effect of Leverage, Capital Intensity, Independent Commissioners and Institutional Ownership on Tax Avoidance. *Akurasi : Jurnal Studi Akuntansi Dan Keuangan*, *4*(2), 179–194. https://doi.org/10.29303/akurasi.v4i2.122

Ernawati, I., & Suryarini, T. (2024). The Effect of CEO Education, External Auditor Quality, and CSR on Tax Aggressiveness with Company Size as a Control Variable. *Nominal Barometer Riset Akuntansi Dan Manajemen*, *13*(1), 16–27. https://doi.org/10.21831/nominal.v13i1.62105

Fadhila, N., & Andayani, S. (2022). The Influence of Financial Distress, Profitability, and Leverage on Tax Avoidance. *Owner*, *6*(4), 3489–3500. https://doi.org/10.33395/owner.v6i4.1211

Fahira, A., Hasnawati, & Hervina. (2024). The Influence of CEO Overconfidence, CEO Overconfidence, and Blockholder Ownership Characteristics on Tax Compliance. *Jurnal Informasi, Perpajakan, Akuntansi Dan Keuangan Publik*, *19*(1), 23–40. https://doi.org/10.25105/jipak.v19i1.18104

Fauzi, G. (2023, March 5). Questioning Hadi Poernomo, KPK begins to uncover BCA tax case Read CNN Indonesia’s article "Questioning Hadi Poernomo, KPK begins to uncover BCA tax case. *CNN Indonesia*.

Ghardallou, W., Borgi, H., & Alkhalifah, H. (2020). CEO Characteristics and Firm Performance: A Study of Saudi Arabia Listed Firms. *The Journal of Asian Finance, Economics and Business*, *7*(11), 291–301. https://doi.org/10.13106/jafeb.2020.vol7.no11.291

Hambrick, D. C., & Mason, P. A. (1984). Upper Echelons: The Organization as a Reflection of Its Top Managers. *The Academy of Management Review*, *9*(2), 193. https://doi.org/10.2307/258434

Hidayat, W. W. (2018). The Effect of Profitability, Leverage and Sales Growth on Tax Avoidance. *Jurnal Riset Manajemen Dan Bisnis (JRMB) Fakultas Ekonomi UNIAT*, *3*(1), 19–26. https://doi.org/10.36226/jrmb.v3i1.82

Huang, H., & Zhang, W. (2020). Financial expertise and corporate tax avoidance. *Asia-Pacific Journal of Accounting & Economics*, *27*(3), 312–326. https://doi.org/10.1080/16081625.2019.1566008

Islami, N. W. (2018). Pengaruh Corporate Governance Terhadap Profitabilitas Perusahaan. *Jurnal Ilmiah Bisnis Dan Ekonomi Asia*, *12*(1), 54–58. https://doi.org/10.32812/jibeka.v12i1.15

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, *3*(4), 305–360. https://doi.org/10.1016/0304-405X(76)90026-X

Kurnianto, S., & Pramana, G. D. (2023). The Influence of CEOs Who Have Experienced Work Abroad on Tax Avoidance. *EKUITAS (Jurnal Ekonomi Dan Keuangan)*, *7*(1), 128–149. https://doi.org/10.24034/j25485024.y2023.v7.i1.5458

Kuswara, S., & Sari, D. (2022). Penghindaran Pajak Dan Efisiensi Investasi: Sertifikasi CFO Sebagai Pemoderasi. *Jurnal Reviu Akuntansi Dan Keuangan*, *12*(2), 345–362. https://doi.org/10.22219/jrak.v12i2.20265

Mahaputra, I. N. K. A., Sudiartana, I. M., Bagiana, I. K., Primadona, I. A. L., & Murti, N. P. M. A. (2024). Foreign Commissioners' Impact On Board Characteristics and Firm Performance. *JRAK*, *16*(2), 317–326. https://doi.org/10.23969/jrak.v16i2.17006

Manja, M., & Saleh, M. (2024). Tax Avoidance Practices of Automotive Companies: Profitability, Leverage, and Company Size. *Jurnal Ilmiah Mahasiswa Ekonomi Akuntansi*, *9*(3), 199–207. https://doi.org/10.24815/jimeka.v9i3.31859

Mariadi, M. D., & Dewi, L. G. K. (2022). The Effect of Leverage, Profitability, and Fixed Asset Intensity on Tax Avoidance in Manufacturing Companies on the IDX. *JIMAT (Jurnal Ilmiah Mahasiswa Akuntansi)*, *13*(4), 1136–1140.

Masrurroch, L. R., Nurlaela, S., & Fajri, R. N. (2021). The effect of profitability, independent commissioners, leverage, company size and capital intensity on tax avoidance. *INOVASI*, *17*(1), 82–93.

Merawati, E. E., Djaddang, S., & Kristianto, A. (2025). How Human Capital Drives Independent Commissioners to Supervise Profitability in the Banking Sector. *Journal of Economics, Finance And Management Studies*, *08*(01). https://doi.org/10.47191/jefms/v8-i1-08

Niandari, N., & Novelia, F. (2022). Profitability, Leverage, Inventory Intensity Ratio and Tax Avoidance Practices. *Owner*, *6*(3), 2304–2314. https://doi.org/10.33395/owner.v6i3.911

Novarialdi, N. (2022). The Influence of Education, TNI-Polri Retirees and Independent Commissioners and Human Resources Development on Profitability. *Jurnal Akuntansi Trisakti*, *9*(1), 129–144. https://doi.org/10.25105/jat.v9i1.12979

Nurtanto, D. R., & Wulandari, S. (2024). The Influence of Corporate Social Responsibility, Leverage and Profitability on Tax Avoidance. *Jurnal Ilmiah Manajemen, Ekonomi, & Akuntansi (MEA)*, *8*(1), 734–752. https://doi.org/10.31955/mea.v8i1.3723

Oktaviana, D., & Kholis, N. (2021). Corporate Governance dan Profitabilitas Terhadap Penghindaran Pajak. Bagaimana Pengaruhnya? *Jurnal Bisnis Dan Akuntansi*, *23*(2), 217–228.

Oktaviani, R. M., Wicaksono, K., Sunarto, S., & Srimindarti, C. (2022). The CEO Characteristics Factors Toward Tax Aggressiveness of Family Companies in Indonesia. *Jurnal Akuntansi*, *26*(1), 61. https://doi.org/10.24912/ja.v26i1.817

Pratiwi, A. P. (2023). *Executive Character and Tax Avoidance Decisions: The Intervening Effect of CEO Overconfidence* (pp. 226–229). https://doi.org/10.2991/978-94-6463-346-7_42

Purbowati, R. (2021). The Influence of Good Corporate Governance on Tax Avoidance. *Jurnal Riset Akuntansi &Keuangan Dewantara*, *4*(1), 61–76.

Puspa, A. M., Sulistiyo, H., & Sam'ani, S. (2021). The Influence of the Board of Independent Commissioners and External Ownership on Internet Financial Reporting with Profitability as an Intervening Variable in Manufacturing Companies Listed on the Indonesia Stock Exchange in 2019. *Jurnal Ekonomi, Manajemen Dan Akuntansi*, *2*(1).

Putra, A. (2021). The Effect Of CEO Characteristics On Pre-Earnings Management Profitability. *Jurnal Akuntansi Dan Keuangan Indonesia*, *18*(2), 116–147. https://doi.org/10.21002/jaki.2021.07

Putri, D. B. K., & Damayanti, T. W. (2021). Tax Avoidance: The Effects of Foreign Ownership Structures and CEO & CFO Risk Preferences. *Akutansi Bisnis & Manajemen (ABM)*, *28*(1), 11. https://doi.org/10.35606/jabm.v28i1.807

Rahmadani, R., Muda, I., & Abubakar, E. (2020). The Influence of Company Size, Profitability, Leverage, and Profit Management on Tax Avoidance Moderated by Political Connection. *Jurnal Riset Akuntansi Dan Keuangan*, *8*(2), 375–392.

Riawan, S. K., & Putri, V. R. (2023). Financial Performance, Inventory Intensity and Sales Growth Affect Tax Avoidance in Retail Companies Go Public for the 2014-2018 Period. *Jurnal*

Keuangan Dan Perbankan, *18*(2), 89. https://doi.org/10.35384/jkp.v18i2.335

Roviqoh, D. I., & Khafid, M. (2021). Profitability in Mediating the Influence of Institutional Ownership, Audit Committee, and Company Size on Sustainability Report Disclosure. *Business and Economic Analysis Journal*, *1*(1), 14–26. https://doi.org/10.15294/beaj.v1i1.30142

Sari, N., Luthan, E., & Syafriyeni, N. (2020). The Effect of Profitability, Leverage, Independent Commissioners, Institutional Ownership, and Company Size on Tax Avoidance in Manufacturing Companies Listed on the Indonesia Stock Exchange in 2014-2018. *Jurnal Ilmiah Universitas Batanghari Jambi*, *20*(2), 376. https://doi.org/10.33087/jiubj.v20i2.913

Simamora, L. R., & Sari, D. (2025). Ownership, CFO Competencies, Environmental Uncertainty and Tax Avoidance. *Owner*, *9*(1), 606–622. https://doi.org/10.33395/owner.v9i1.2446

Soedarman, M., Mochtar, I., & Murtiningtyas, T. (2023). The Influence of Good Corporate Governance and Leverage on Profitability. *Measurement Jurnal Akuntansi*, *7*(2), : 262-272.

Suharto, S. R., Dhia Naufal Rafi, & Hasnawati, H. (2022). The Impact of Advertising, Capital Expenditure, CEO Education and CFO Education on Tax Avoidance in The Banking Sector in Indonesia. *Jurnal Akuntansi Trisakti*, *9*(2), 340–355. https://doi.org/10.25105/jat.v9i2.15098

Tahar, A., & Rachmawati, D. (2020). The Influence of Corporate Governance Mechanisms, Corporate Social Responsibility, Company Size and Leverage on Tax Avoidance (Study on Manufacturing Companies Listed on The Indonesia Stock Exchange in 2015-2017). *Kompartemen: Jurnal Ilmiah Akuntansi*, *18*(1). https://doi.org/10.30595/kompartemen.v18i1.6342

Ulfa, E. K., Suprapti, E., & Latifah, S. W. (2021). The Effect of CEO Tenure, Capital Intensity, and Firm Size on Tax Avoidance. *Jurnal Reviu Akuntansi Dan Keuangan*, *11*(1), 77–86. https://doi.org/10.22219/jrak.v11i1.16140

Wicaksono, K., & Oktaviani, R. M. (2021). The Influence of CEO Characteristics on Tax Aggressiveness in Family Business. *Jurnal Akuntansi*, *1*(1), 59–73. https://doi.org/10.37058/jak.v1i1.3019

Widyastuti, S. M., Meutia, I., & Candrakanta, A. B. (2022). The Effect of Leverage, Profitability, Capital Intensity and Corporate Governance on Tax Avaoidance. *Integrated Journal of Business and Economics*, *6*(1), 13. https://doi.org/10.33019/ijbe.v6i1.391

Zunianto, A. P. W., Narsa, N. P. D. R. H., & Lukita, C. (2024). CEO power and tax avoidance: An empirical study of manufacturing companies in Indonesia. *The Indonesian Accounting Review*, *14*(1), 11–23. https://doi.org/10.14414/tiar.v14i1.3700