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The Effect of Audit Characteristics and Audit Committee on Tax Avoidance in Malaysia

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A B S T R A C T

This research aims to examine how auditors and audit committee may make changes in CTA using several audit characteristics indicators. The dependent variable will be cash ETR which is a proxy for CTA. The research sample of this study is 400, which has been collected from annual reports of listed companies in Malaysia from the year 2015 to 2018. The means of analysis is GLS (generalized least squares) by Stata analysis software. The research outcomes show that the variables of audit fees, audit quality and audit committee significantly influence CTA in Malaysia. This information might be beneficial for tax authorities of Malaysia (IRBM), auditors and audit committee.

Keywords: Audit committee, auditor, corporate tax avoidance, cash effective tax rate, Malaysi

1. Introduction

Although the common practice to distinguish tax evasion and tax avoidance is to use legal rules (Gebhart, 2017; Lee et al., 2015), there is noglobally recognized or fixed clarification for corporate tax avoidance (CTA) because different people have different interpretations of the term (Hanlon and Heitzman, 2010). For convenience, Dyreng et al. (2008) implemented a broad definition of CTA, that is, regardless of the situation, in the long run, the company's cash ETR (effective tax rate) declines. Kasim and Saad (2019) used 2015 data to support the tax avoidance practices of Malaysian multinational companies. Profit sharing (transfer pricing), treaty shopping, abuse of tax incentives, and rent-seeking are common technologies used by companies for tax avoidance (Sulaiman et al., 2019). As an anti-tax avoidance initiative, Sections 140, 140A, and 141 of the Income Tax Law of 1967 fight the CTA ("Tax Avoidance and Tax Evasion", 2020). Although tax avoidance arrangements may be legal, deliberate or purposeful business transactions conducted by companies for the implementation of CTA may be regarded as non-compliance with rules and regulations ("Tax Avoidance and Tax Evasion", 2020). For example, the Ibraco-Peremba case in Malaysia has raised doubts about the true tax planning standards (PwC Alert, 2014).

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It is generally believed that auditors are related to the improvement of the quality of financial reports, and tax expertise is “responsible” for CTA (Christensen et al., 2015). But is there any connection between the audit profession and the tax profession? Auditors should "take care" of clients' taxation behaviors because audit quality is one of the basic audit characteristics, which can be achieved through the deterrence of CTA (Ittonen et al., 2015). In 2017, SC (Malaysian Securities Commission) issued MCCG (Malaysian Corporate Governance Code) 2017, which encouraged the improvement of corporate governance practices within the company (Allen and Gledhill, 2018). Previous researchers believe that corporate governance is the effective control of CTA (Nengzih, 2018). One of the important principles of good corporate governance is effective auditing and risk management, and this is where the audit committee comes into play (Allen and Gledhill, 2018). The role of the audit committee is to some extent similar to that of an external auditor to ensure the authenticity of the company's financial report card (Allen and Gledhill, 2018).

After the announcement of the 2019 Malaysia Budget, due to the voluntary disclosure plan to encourage taxpayers to fully disclose their income in the previous tax year under the incentive of reducing the penalty rate, tax avoidance has become the focus of attention (LHDN, 2019). In addition, there are signs that the Malaysian government is working hard to solve the tax avoidance problem by setting up a tax reform committee, aimed at solving the country's tax loopholes (LHDN, 2019). CTA is a tax selfish approach, especially for large companies to benefit from the current flawed tax system (Bao and Romeo, 2013). However, it has been claimed that small and medium enterprises (SMEs) often participate in tax aggression using tax leakage (Raak et al., 2019; Yusof et al., 2014). CTA occurs because the company wants to use tax savings for other purposes, such as investment, savings, and expenditure (Razali et al., 2019). The impact of the CTA on the Malaysian government is due to the large loss of tax revenue due to active tax avoidance, and evidence of concealed revenue was found during the tax audit (Yusof et al., 2014). Therefore, what is important in this study is the tax avoidance of enterprises.

Given the severity of the CTA, it is important to know who or which authorities can control the company's aggressive tax avoidance behavior? Since the 1967 Income Tax Law covers specific and general anti-avoidance clauses ("Malaysia's Anti-avoidance Clause", date unknown), legislation on this issue has emerged directly. Similarly, tax authorities and policy makers are clearly the right institutions to deal with CTA issues (Sulaiman et al., 2019). In the survey results collected from 84 CFOs (Chief Financial Officers) in Malaysia, tax auditors played a role in prohibiting radical tax avoidance (Zandi and Elwahi, 2016). In a regional context, Japan’s Masatsugu Asakawa, who leads the Asian Development Bank, promised to support their team of tax experts to prevent Western multinational corporations (multinational corporations) from implementing profit shifting and other radical tax avoidance in Asian countries (Kodachi, 2020).

However, apart from the aforementioned parties, are there any groups excluded from controlling the CTA? This research investigates whether auditors play a role in corporate tax avoidance. A well-known concept-the audit trinity, involving external auditors, internal auditors and audit committees. The tripartite audit function is very important to ensure corporate governance and corporate accountability (Porter, 2009). Since corporate governance has a significant impact on corporate tax evasion (Kovermann and Velte, 2019), does the role of the auditor also contribute to the CTA? Nevertheless, given that there are few studies on CTA and internal auditing, this study will not involve internal auditing. To figure out "who", our research used external auditors, audit committees, managers, and BOD (Board of Directors).

The restrictionsof the Sarbanes-Oxley Act have affected previous industry practices because accounting firms did provide many tax services for their audit clients (Maydew & Shackelford, 2005). However, auditors are not completely independent of clients' tax issues, because PCAOB (Public Company Accounting Oversight Board) allows audit clients to seek advice from auditors on the tax consequences of commercial transactions (Donohoe et al., 2014). Due to the accompanying audit risk issues, information asymmetry issues and agency costs, auditors should pay close attention to CTA (Bae, 2017). After the Sarbanes-Oxley Act, the new constituency list of the tax department added external auditors, the FASB (Financial Accounting Standards Board) and the Audit Committee (Donohoe et al., 2014). Therefore, this may suggest that both independent auditors and audit committees should take care of the CTA during the audit process.

This paper aims to examine the influence of audit attributes and audit committee towards tax avoidance practices for those companies that are listed in Malaysia. This research intends to whether audit tenure, audit opinion, audit fees, audit quality, audit committee are related to tax avoidance activitiesThe purpose of this research is to increase tax authorities' awareness of tax law revisions so that companies can legally discover loopholes and pay lower taxes. According to data from Palansky (2019), U.S. (U.S.) regulators lose approximately $125 billion in taxes each year due to corporate tax radicalization, and similar low-income countries have suffered the same situation. CTA is not a new specification, it is called one of the most severe challenges in modern times (Salihu et al., 2013). Especially in the context of the current global pandemic, a number of tax relief and tax incentives have been proposed to reduce the burden on companies (PwC, 2020). Therefore, regulators should carefully review these recommendations to prevent the development of aggressive CTAs in the futureThis research hopes to provide inspiration for the role of auditors in client CTA. The reason for saying this is because of Jones and others (2018) confirmed the connection between the four major audit functions and the tax avoidance of multinational companies. Perhaps the auditor should monitor some CTA indicators during the audit process, such as book tax differences and ETR. Bae (2017) studied the connection between CTA and audit in the Korean context. In addition, Lee and Kao (2018) and Salehi et al. (2020) discuss the impact of auditors on tax avoidance in Taiwan and Iran respectively. However, the literature on this field is limited in the Malaysian environment. Therefore, this research aims to contribute to the knowledge system and respond to Nengzih's (2018) suggestion that audit quality should be taken into consideration.

2. Literature Review

2.1 Theoretical Framework

Many scholars, including some from Malaysia, have used agency theory in CTA research (Purba, 2018; Shafai et al., 2018; You and Brahmana, 2017). Researchers revealed that agency issues (such as vision issues) are the reason managers are excited about CTA because they try to show considerable short-term after-tax benefits by reducing taxes payable (Armstrong et al., 2015). In addition, Putra et al. (2018) asserted that under the agency theory, CTA is feasible because business owners want to minimize their contribution to the country in the form of taxation for their own interests, thereby exerting pressure on managers. From a broader perspective, the difference in interest in agency theory also applies to tax authorities and taxpayers, such as companies handled by managers (Wiratmoko, 2018). Wiratmoko (2018) believes that agency theory is the origin of understanding the concept of corporate governance. In addition, audit committees are critical in corporate governance (Tjondro and Olivia, 2018). According to the research framework of Kovermann and Velte (2019), they classify audit as external corporate governance and use stakeholder agency theory to explain the impact of corporate governance on CTA. External audit is an important means of external monitoring of the

company's annual report, which can be said to be the monitoring cost in agency theory (Kovermann and Velte, 2019; Wahab et al., 2017).

2.2 Corporate Tax Avoidance

The key concept of CTA is to reduce the tax burden of the company and find loopholes in the tax law (Kurniasih et al., 2017). However, CTA will cause the company to be more exposed to multiple risks, so this is called the "risk exposure effect" (Cen et al., 2017). Since the authorities may be fined, CTA may cause the company to face greater risks or damage the company's reputation (Nengzih, 2018). Tax avoidance is one of the factors that auditors consider when assessing audit risk (Martinez and Lessa, 2014). The reason for saying this is that aggressive CTA will reduce the company's information transparency (Balakrishnan et al., 2019). Deshid and Zhang (2003) mentioned that hotels and manufacturing companies pay less taxes in Malaysia. In addition, the construction and service industries were found to be more involved in tax violation activities (Yusof et al., 2014). Mahenthiran and Jeyapalan (2011) do not clearly distinguish between tax evasion and CTA because they mean the same loss of tax revenue to the government. This concept has been further supported by other researchers in Malaysia (Palil et al., 2016). They even said that CTA may be part of the tax violation (Palil et al., 2016; Takril and Sanusi, 2014). Imitating previous studies, "tax management", "tax avoidance" and "tax radical" will be used together in the following content (Tang and Firth, 2011, cited in Gebhart, 2017, p. 44).

2.3 Audit Tenure and CTA

In the research conducted by Aggreh (2019), the tenure of auditors was classified as one of the characteristics of auditors. Previous research has portrayed the impact of audit tenure on ETR (CTA's agent) (Salehi et al., 2020). Supporting the tax planning of audit clients by minimizing tax payable is accompanied by an increase in audit tenure, which shows that there is a positive correlation between audit tenure and CTA (Jeong& Bae, 2013). Serafat&Barzegar (2015) and Khajavi&Kiamehr (2015) studied companies listed on the Tehran Stock Exchange and reached the same conclusion. Researchers believe that as company managers' contacts with auditors become more frequent, opportunistic managers who are looking to implement radical CTA methods can detect and predict auditors' procedures, making it easier to take advantage of audit weaknesses, such as audit sampling (Bae, 2017; Salehi et al., 2020).

It is found that the auditor's suspicion may decrease over time (the long-term relationship between the accounting firm and the client), thus promoting the practice of CTA auditing clients (Khan and Chen, 2017; Kovermann and Velte, 2019). When auditors are more familiar with their audit clients due to the accumulation of the duration of the audit-client relationship, this will increase the auditor's tendency to advocate active CTA for their audit clients (Jeong and Bae, 2013). Nevertheless, Goh et al. (2013) reported the negative impact of active tax avoidance on the accounting firm-client relationship measured by audit resignation.

Hypothesis 1: Audit tenure has significant relationship with corporate tax avoidance.

2.4 Audit Opinion and CTA

A qualified audit opinion will not only make people doubt the sincerity of financial status and operating performance reports, but also cause tax authorities to pay attention to potential tax violations (Chan, Luo, & Mo, 2016). In another study conducted in Iran, the authors showed a significant coefficient between audit opinions and CTA (Salehi et al., 2020). In addition, Kubick (2011) recorded

a significant negative correlation between audit opinions and ETR and CETR (Cash ETR). From the perspective of agency theory, the information asymmetry caused by radical CTA can further evolve into agency cost issues (Irani and Oesch, 2013, cited from Ji, 2019, p.54). CTA has an adverse effect on company transparency, depending on how active the company is in tax planning (Li et al., 2018). The reason for this is that managers who plan to conduct aggressive CTAs tend to create more complex tax-related transactions, making the information environment more turbid (Bae, 2017). Later, when inherent risks emerge, the auditor may issue a revised audit opinion (Bae, 2017).

Hypothesis 2: Modified audit opinion has significant relationship with corporate tax avoidance.

2.5 Audit Fees and CTA

Audit fee is considered as one of the audit characteristics (Salehi et al., 2020; Aggreh, 2019). There are two components in deciding audit fees, which are expected loss for auditors and the effort exerted by auditors (Simunic, 1980, as cited in Saremi et al., 2016, p. 7). Generally, audit fees are determined by the hours spent to perform audit work and weight of services provided to the clients (Suryanto, 2014; Saremi et al., 2016). In a study conducted by Kraft and Lopatta (2016) in Germany, audit fees exhibited negativecorrelation with tax avoidance after eliminating the non-audit service fees paid to external auditors. Based on data collected from COMPUSTAT, Audit Analytics and BoardEx databases, the regression model findings were interesting between external audit charges and CTA (Chyz et al., n.d.). It is said so because audit fees exhibited negative impact on GETR (Generally Accepted Accounting Principles ETR), but positive impact on CETR (Chyz et al., n.d.). This might provide some evidence that audit fees can impact negatively on CTA because ETR is inversely related to CTA. Besides, some scholars have claimed the negative impact of audit remuneration on CTA (Lestari and Nedya, 2019; Riguen et al., 2019; Suyadnya and Supadmi, 2017). Nevertheless, Martinez and Lessa (2014) studied the impact of CTA on audit fees and found significant positive impact regarding that relationship in Brazil. The positive linkage is because audit clients that practice aggressive CTA will be 'punished' by higher audit charges by auditors (Hu, 2018).

Hypothesis 3: Audit fees has significant relationship with corporate tax avoidance.

2.6 Audit Quality and CTA

Audit quality is listed as one of the factors related to external auditors, which can improve the credibility of financial reports and public confidence (Arrunada, 2004, cited in Sanusi et al., 2014, pages 1220 and 1222). In Indonesia, Pratama and Padjadjaran (2017) and Waluyo (2017) submitted a significant positive impact of Big 4 (audit quality) on the CTA measurement tool GETR. In addition, under the adjustment of household ownership factors, audit quality has a negative impact on aggressive CTA (Pratiwi et al., 2019). It is said that high-quality auditors are unlikely to induce them to audit clients' CTA (Chan, Luo, and Mo, 2016; Gaaya et al., 2017). This is further confirmed by the argument that the Big Four companies are more conservative in the audit process and encourage their clients to strictly abide by tax regulations instead of adopting risky tax avoidance practices (Pratama and Padjadjaran, 2017). On the other hand, the researchers separately recorded the significant negative impact of Indonesian audit quality on cash ETR and ETR, and ETR and CTA were negatively correlated (Eksandy, 2017; Lestari and Nedya, 2019). Sikka and Hampton (2005) revealed some strategies and tactics implemented by accounting firms to sell CTA plans to clients, implying the influence of accounting firms on corporate tax practices.

Hypothesis 4: Audit quality has significant relationship with corporate tax avoidance.

2.7 Audit Committee and CTA

Corporate governance is a good way to solve agency problems caused by radical CTA. Audit committees as part of corporate governance can help to check CTA induced by company managers (Handayani and Ibrani, 2019). Recently in Canada, research was conducted to look at several attributes of audit committees that reduce aggressive CTA (Deslandes et al., 2019). Previous studies have reported a significant negative relationship between audit committees and CTA (Dewi and Jati, 2014; Kalil, 2019; Maharani and Suardana, 2014). It is best for the audit committee to protect the company's taxation status so as not to bring high tax risks to the company (Chyz et al., undated). Due to the many deficiencies in tax-related internal control, accounting firms listed tax risk as a priority issue for the audit committee (Chyz et al., undated).

Fauzan et al. (2019) claimed that when the audit committee team is strengthened in number, this corporate governance function can ensure the control of the company's ETR policy. When the number of audit committees increases, aggressive tax avoidance can be better controlled because more people can improve team performance (Deslandes et al., 2019). Despite this, researchers still oppose the above-mentioned connection between the audit committee and CTA (Dewi and Sari, 2015; Kurniasih et al., 2017; Mais and Patminingih, 2017; Ratnawati et al., 2019). Several scholars used data from the Indonesian Stock Exchange to confirm the negative correlation between the Audit Committee and ETR (Fauzan et al., 2019; Prihatono et al., 2019; Wiratmoko, 2018).

Hypothesis 5: Audit committee has significant relationship with corporate tax avoidance.

3. Research Methodology

3.1 Design and sampling technique

This research aquantitative research. It uses secondary data (corporate data) collected from the Bursa Malaysia website and the financial reports of Bloomberg Terminal. The data set in this study is classified as panel data because it is a combination of cross-sectional data (different variables in this study) and time series data (2015 to 2018) (Erica, 2020). This study collected data on companies listed on the main market of Bursa Malaysia or the ACE market (Abidin et al., 2016; Aziz et al., 2018; Derashid and Zhang, 2003).

This study mimics the sample size selected by Kholbadalov (2012) and Aziz et al. (2018), 110 and 120 respectively. It is consistent with previous scholars. Their annual company observations include 4 years of company data (Agustina and Aris, 2017; Arismajayanti and Jati, 2017; Ghasemi and Razak, 2016; Listyaningsih and Tanjung, 2019; Marselawati Et al., 2018; Tandean and Winnie, 2016; Zaman et al., 2011). Among the total population of 865 companies, 732 companies are listed on the MAIN market, and the rest are listed on the ACE market. The sampling technique in this study is close to proportional stratified sampling. The sample companies for this study chose to start from the ACE market. Companies with insufficient annual reports (at least 4 annual reports) and discrepancies between the end of the fiscal year and the end of the calendar year are excluded. Due to the unique business nature, disclosure specifications and regulatory environment, the financial sector, and REITs (real estate investment trusts) are excluded from the sample of this study (Mirza et al., 2019; Rahman and Hamdan, 2017; Yaacob et al., 2018, Zaman et al. People, 2011). After selecting 35 ACE companies, the researchers selected the MAIN market sample companies according to the same selection criteria as ACE companies. Table 3.1 provides more insights on the companies selected for this study.

Table 3.1

Companies selected across different industry sectors

Industry name	Total number of firms (including ACE)	Sample firms selected (including ACE)	% of total industry
Construction	55	5	9.09
Consumer products and services	190	23	12.11
Energy	33	2	6.06
Health care	18	3	16.67
Industrial products and services	256	38	14.84
Plantation	44	4	9.09
Property	97	8	8.25
Technology	93	8	8.60
Telecommunications and media	31	3	9.68
Transportation and logistics	35	4	11.43
Utilities	13	2	15.38
Total	**865**	**100**	-

3.2 Research variables

3.2.1 Measurement of Audit Quality

There are various proxies for audit quality by scholars. Groot (2018) used 3 different proxies to measure audit quality - abnormal working capital accruals, restatements and type of audit opinion. It was argued that accruals reveal the ability of audit services to alleviate extreme managerial decisions (Groot, 2018). In a study conducted in Jordan, the authors used discretionary accruals as a measurement of audit quality (Al-Thuneibat et al., 2011). Similarly, Asthana and Boone (2012) computed the propensity to beat or meet earnings expectations and absolute discretionary accruals as proxies of audit quality.

Researchers in Canada introduced a new measurement tool of audit quality, which was excessive conservatism (Cziffra et al., 2019). Lennox (2016) applied 3 measurements for audit quality, which were going-concern audit opinion, tax-related misstatements, and occurrence of accounting misstatements. In Nigeria, Eguasa and Urhoghide (2017), the authors implemented the input-based measure which are related to audit-client contracting characteristics to measure audit quality. However, many scholars have employed Big 4 as a proxy of audit quality (Damayanti and Susanto, 2015; Gaaya et al., 2017; Hanny and Niandari, 2018; Kurniasih et al., 2017; Mais and Patminingih, 2017; Tandean and Winnie, 2016).

3.2.2 Measurement of Audit Committee

Regarding tax aggressiveness, Zheng et al. (2019) constructed 4 variables relating audit committee - establishment, independence, expertise, and size of audit committee. A few years earlier, Arismajayanti and Jati (2017) assessed theeffect of audit committee competency and independence to CTA, whereby independence was related to the number of audit committee members. Putro et al. (2018) and Wiratmoko (2018) formed the variable regarding audit committee as total audit committee members outside the firm divided by total audit committee members of the company. Nevertheless, Aisyah and Setiyawati (2019), Listyaningsih and Tanjung (2019), Marselawati et al. (2018) and Zaman et al. (2011) constructed the audit committee variable as the number of audit committee members in the firm.

3.2.3 Measures of CTA

CTA has a variety of measurement standards, such as effective tax rate (ETR), Henry and Sansing's HS measurement standards, book tax difference (BTD), tax haven scores, and unrecognized tax benefits (Gebhart, 2017). Tax avoidance measures such as ETR or BTD in the annual report can be used to examine a wide range of tax avoidance behaviors, but if they are expected to meet tax avoidance behaviors, unidentified tax incentives and tax avoidance measures will be more suitable as measurement tools (Lee et al., 2015). A previous study discussed several types of ETR, such as accounting ETR, current ETR, cash ETR, cash flow ETR, and long-term ETR, in their exploration of corporate tax avoidance (Aronmwan and Okafor, 2019). This measurement tool (ETR) is also suitable for research in Malaysia (Ariff and Hashim, 2014; Kasim and Saad, 2019; Shafai et al., 2018; Wahab et al., 2017; You and Brahmana, 2017).

The one-year cash ETR is used for analysis because it is a broad measure of CTA and prevents overstatement of current tax expenses (Hoopes et al., 2012). Various scholars have used this CTA measurement (Agustina and Aris, 2017; Arismajayanti and Jati, 2017; Hsu et al., 2018; Listyaningsih and Tanjung, 2019; Putro et al., 2018). The research done by Nengzih (2018) shows that in addition to ETR, BTD can also be used as a measure of CTA. In previous studies, a larger BTD was significantly associated with tax aggressiveness (Hsu et al., 2018; Kholbadalov, 2012). Nevertheless, Kholbadalov (2012) revealed two situations that can lead to BTD, namely earnings management and CTA.

3.2.4 Variables

The 3 types of variables used are described in Table 3.2.

Table 3.2
Definition and measurement of variables

Variables	Definition	Unit of measurement	Source
Dependent Variable			
Corporate Tax Avoidance	Proxied by Cash Effective Tax Rate, which is calculated by cash paid for income tax divided by profit before tax. Lower Cash ETR value reflects that the firm has higher corporate tax avoidance actions (Hsu et al., 2018)	Scale	(Silaban and Purba, 2020)
Independent Variables			
Audit Tenure	The number of consecutive years that an audit firm undertakes the responsibility of a company's auditing	Ordinal	(Salehi et al., 2020)
Modified Audit Opinion	It equals one if the auditor issues a qualified audit opinion and zero otherwise	Ordinal	(Hanlon et al., 2012)

Audit fees	It is the natural logarithm of the total audit fee of the external auditor	Scale	(Salehi et al., 2020)
Audit Quality	It equals one if the firm is audited by Big 4 accounting firms (Deloitte, PwC, KPMG, EY) and zero otherwise	Ordinal	(Silaban& Purba, 2020)
Audit Committee	It is the total number of audit committee members in the company	Ordinal	(Tandean and Winnie, 2016)
Control Variables			
Days to sign	It is the logarithm of lag between the signature date of the audit opinion and the date of fiscal year-end	Scale	(Salehi et al., 2020)
Accruals	It is defined as the absolute value of total accruals scaled by total assets	Scale	(Salehi et al., 2020)
Firm size	It is the natural logarithm of the total assets of a company	Scale	(Salehi et al., 2020)
ROA	Return on Asset is calculated by dividing a company's annual earnings by its total assets	Scale	(Salehi et al., 2020)
Firm age	It is the logarithm of the number of years since the company has been listed on the Bursa Malaysia stock exchange	Scale	(Salehi et al., 2020)
Leverage	It is calculated through long-term debt scaled by total assets	Scale	(Salehi et al., 2020)
Loss	It equals to one if the net income of the company is negative and zero otherwise	Ordinal	(Salehi et al., 2020)

3.3 Data Analysis Strategies

IBM SPSS Statistics software and SPSS software are chosen as analytic tools for this research. Other than basic descriptive analysis, hypothesis testing is done by inferential statistics (for instance generalized linear model) (Glen, 2014).

3.3.1 Correlation Analysis

Correlation is a measure of association among variables. The most common correlation coefficient is Pearson's correlation which is a parametric test. However, Kendall's Tau-b correlation or Spearman's correlation is a good alternative to Pearson's correlation. The output from the correlation test has a value ranging from negative 1 to positive 1. The closer the value to 1, the stronger the relationship among variables, vice versa. The sign of the correlation coefficient symbolizes the direction of the relationship among variables.

3.3.2 GLS in Stata

Generalized least squares (GLS) model is a generalization of Ordinary Least Square (OLS) regression whereby the best linear unbiased estimator does not exist in the OLS model (Taboga, 2017). The 'xtgls' function in Stata analytic tool fuses panel-data linear models by applying feasible generalized

least squares. Several 'modifications' available in this function such as heteroskedasticity, autocorrelation (AR1) and cross-sectional correlation.

4. Data Analysis

4.1 Descriptive Analysis

According to Table 4.1, the cash ETR of the 400 observations has minimum value of negative 11.8281321, maximum value of 10.33886145 and standard deviation of 1.146871813. Regarding central tendency, average and median of cash ETR of the observations are 0.2214101128 and 0.1433706291 respectively. According to Table 4.2, three-quarters of the samples have an audit committee consist of 3 members, and it is the mode of distribution. On top of that, 22 observations have audit committee size of 4 whereas 5.5% of the observations have audit committee size of 3. Only 1 of the company has 2 audit committee members.

Table 4.1

Descriptive statistics generated by SPSS software

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Variance	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
AT	400	1	20	8.44	5.922	35.068	.501	.122	-1.073	.243
AO	400	0	1	.01	.100	.010	9.886	.122	96.224	.243
AF	400	4.432969291	7.235528447	5.362114851	.4774173065	.228	1.076	.122	1.571	.243
AQ	400	0	1	.39	.488	.238	.464	.122	-1.794	.243
AC	400	2	5	3.30	.571	.326	1.682	.122	1.951	.243
Cash ETR	400	-11.8281321	10.33886145	.2214101128	1.146871813	1.315	.657	.122	57.828	.243
DTS	400	1.612783857	2.206825876	1.971136391	.0916839397	.008	-1.380	.122	1.871	.243
LACC	400	.350073846	3.263828836	1.725555427	.4570042082	.209	-.087	.122	.285	.243
FSTA	400	6.216717067	10.98291044	8.531882574	.7547557346	.570	.339	.122	.533	.243
ROA	400	-47.1800000	533.0300000	2.892358462	28.56747801	816.101	16.118	.122	298.983	.243
FA	400	.000000000	1.755874856	1.105850117	.2994395829	.090	-.229	.122	.689	.243
LEV	400	.000101801	1.767840413	.0357896077	.1427759603	.020	10.001	.122	108.348	.243
LOSS	400	0	1	.34	.476	.227	.655	.122	-1.579	.243
Valid N (listwise)	400									

Table 4.2

Descriptive statistics

Variables			Frequency	Percent	~~Valid Percent~~	Cumulative Percent
AO	Valid	0	396	99.0	~~99.0~~	99.0
		1	4	1.0	~~1.0~~	100.0
		Total	400	100.0	~~100.0~~	
AQ	Valid	0	245	61.3	~~61.3~~	61.3
		1	155	38.8	~~38.8~~	100.0
		Total	400	100.0	~~100.0~~	
AC	Valid	2	1	.3	~~.3~~	.3
		3	300	75.0	~~75.0~~	75.3
		4	77	19.3	~~19.3~~	94.5
		5	22	5.5	~~5.5~~	100.0
		Total	400	100.0	~~100.0~~	

Normality and outliers of the data

The statistical mechanisms to examine distribution of the data are skewness, kurtosis value and Shapiro-Wilk test. In terms of graphical interpretation, scatterplot, boxplot and histogram are utilized for apprehension of data.From Table 4.1, it is obvious that audit opinion does not have a normal distribution because of the extremely high values in both skewness and kurtosis. Overall, the skewness

and kurtosis value for the remaining 4 independent variables are within acceptable range (within value 2). However, for dependent variable represented by cash ETR, the kurtosis value goes beyond acceptable range (57.828). Therefore, this implies that cash ETR is not normally distributed. The histogram of audit tenure did not show a very classic normal distribution of data (Figure 4.1). For audit quality and audit committee, all the Shapiro-Wilk values are smaller than 0.05 (Table 4.3 and Table 4.4), hence the distribution of the data is normal. From Figure 4.2 and Figure 4.3, several outliers are observed from the scatterplot of audit tenure and boxplot of audit committee.

Figure 4.1

Histogram of audit tenure with normal curve

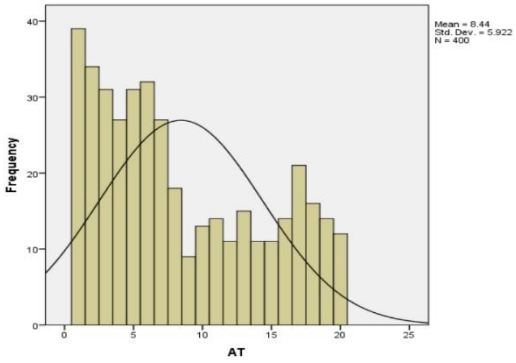

Figure 4.2

Scatterplot of audit tenure with cash ETR

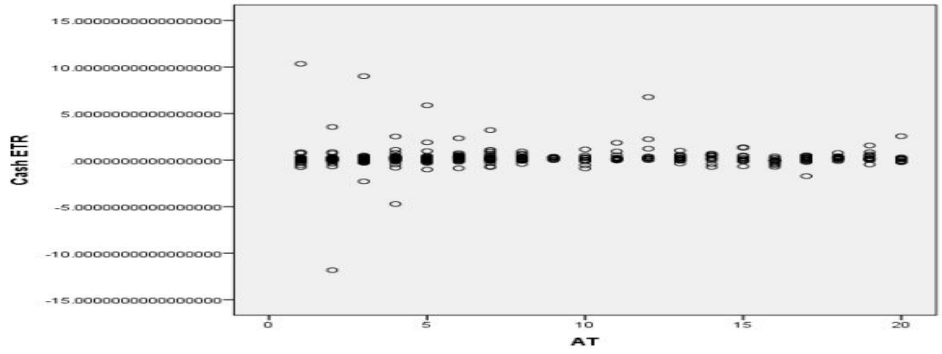

Figure 4.3

Boxplot of audit committee with cash ETR

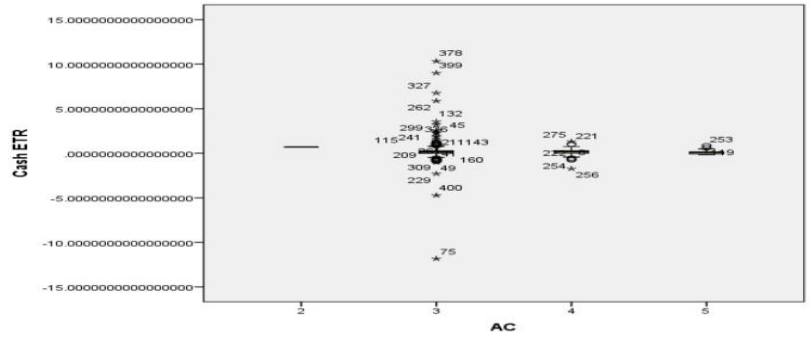

Table 4.3

Normality test for audit quality

Tests of Normality

		Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	AQ	Statistic	df	Sig.	Statistic	df	Sig.
Cash ETR	0	.282	245	.000	.405	245	.000
	1	.301	155	.000	.461	155	.000

a. Lilliefors Significance Correction

Table 4.4

Normality test for audit committee

Tests of Normality[a]

		Kolmogorov-Smirnov[b]			Shapiro-Wilk		
	AC	Statistic	df	Sig.	Statistic	df	Sig.
Cash ETR	3	.294	300	.000	.435	300	.000
	4	.154	77	.000	.850	77	.000
	5	.179	22	.064	.865	22	.006

a. Cash ETR is constant when AC = 2. It has been omitted.

b. Lilliefors Significance Correction

4.2 Correlation Analysis

4.2.1 Determination of correlation test

Throughout the assessment of the four assumptions for Pearson correlation, it seems like Pearson correlation is inapplicable in this study as most of the variables are measured in ordinal manner, the possible issues of outliers and distribution among audit fees and cash ETR. After a few considerations, Spearman's correlation is selected because it does not heavily affect by outliers and accept variables without normal distribution. Besides, it is as common as Pearson's correlation in research area compared to Kendall's tau-b correlation.

4.2.2 Spearman's coefficient and significance level

Table 4.5 displays the Spearman correlation result between dependent and independent variables. Each Spearman coefficient among each IV and DV ranges merely from 0 to 0.19, therefore it shows that there is only a weak association between the two variables.

Table 4.5

Spearman's correlation generated by SPSS

Variables	Correlation coefficient	Significant level (2-tailed)	Conclusion
Independent Variables			
AT (audit tenure)	0.123*	0.014	weak significant positive relationship with cash ETR

AO (audit opinion)	-0.070	0.165	weak insignificant negative relationship with cash ETR
AF (audit fees)	0.146**	0.003	weak significant positive relationship with cash ETR
AQ (audit quality)	0.118*	0.019	weak significant positive relationship with cash ETR
AC (audit committee)	-0.047	0.345	weak insignificant negative relationship with cash ETR
Control variables			
DTS (Days to Sign)	-0.201**	0.000	weak significant negative relationship with cash ETR
LACC (Accruals)	-0.151**	0.003	weak significant negative relationship with cash ETR
FSTA (Firm Size)	0.208**	0.000	weak significant positive relationship with cash ETR
ROA (Return on Asset)	0.388**	0.000	weak significant positive relationship with cash ETR
FA (Firm Age)	0.039	0.433	weak insignificant positive relationship with cash ETR
LEV (Leverage)	-0.158**	0.002	weak significant negative relationship with cash ETR
LOSS	-0.562**	0.000	moderate significant negative relationship with cash ETR

*Notes: ** and * indicate that correlation is significant at the 0.01 level and 0.05 level respectively (2-tailed. This is a Spearman's correlation generated by SPSS using 400 observations. If the correlation coefficient among 2 variables is significant, it signifies the higher likelihood of CTA (proxied by cash ETR) being affected by the variables.*

4.3 GLS

4.3.1 Research equation and overview

After several attempts considering the significant level of each variable (both IVs and control variables) and the characteristics of the panel (heteroskedasticity and correlation), the researcher came up with a model that consists of 3 significant control variables, 5 IVs and DV (Table 4.6). According to Table 4.6, an equation is formed as below since cash ETR is inverse measure of corporate tax avoidance.

CTA = -1.661646 + -0.0013635 (audit tenure) + -0.0090276 ((modified) audit opinion) + -0.090705 (audit fees) + 0.0788145 (audit quality) + 0.0321751 (audit committee) + 0.8710753 (days to sign) + -0.0015972 (ROA) + 0.1320588 (firm age).

Table 4.6
The result of the study

Equation	**Coefficient**	***z*-statistic**	***p*-value**
Independent variables			
AT (audit tenure)	0.0013635	0.52	0.606

AO (audit opinion)	0.0090276	0.10	0.924
AF (audit fees)	0.090705	3.22	0.001***
AQ (audit quality)	-0.0788145	-3.01	0.003***
AC (audit committee)	-0.0321751	-1.86	0.062*
Control variables and constant			
DTS (days to sign)	-0.8710753	-5.97	0.000***
ROA	0.0015972	2.57	0.010***
FA (firm age)	-0.1320588	-2.94	0.003***
constant	1.661646	5.06	0.000***
Model Summary			
Observation	400	Wald chi2 (8) = 64.51	
Time periods	4	Prob > chi2 = 0.0000	

*Notes: ***, ** and * indicate significant at 1%, 5%, and 10% significance levels, respectively. This is a cross-sectional time-series FGLS regression model that used heteroskedastic panels and common AR (1) coefficient for all panels (0.2302).*

The Wald Chi2 statistic for this model is 64.51 which is significant at 1%. Its p-value is less than 0.01, therefore it means that at least one of the predictors' regression coefficient does not equal zero. Table 4.7 will conclude the findings of this research.

Table 4.7

Summary of findings

Hypothesis	**GLS coefficient with cash ETR**	**GLS significant level**	**Decision**
Hypothesis 1: Audit tenure has significant relationship with corporate tax avoidance.	0.0013635 (expected negative sign)	0.606 (p > 0.1)	Failed to reject null hypothesis
Hypothesis 2: Modified audit opinion has significant relationship with corporate tax avoidance.	0.0090276 (expected negative sign)	0.924 (p > 0.1)	Failed to reject null hypothesis
Hypothesis 3: Audit fees has significant relationship with corporate tax avoidance.	0.090705 (expected positive sign)	0.001 (p < 0.01)	Reject null hypothesis
Hypothesis 4: Audit quality has significant relationship with corporate tax avoidance.	-0.0788145 (expected positive sign)	0.003 (p < 0.01)	Reject null hypothesis
Hypothesis 5: Audit committee has significant relationship with corporate tax avoidance.	-0.0321751 (expected positive sign)	0.062 (p < 0.1)	Reject null hypothesis

5. Discussion

5.1 Audit fees and CTA

In Section 4.3.1, audit fees and cash ETR have significant positive regression coefficients. Since cash ETR is a reverse measurement of CTA (Hoopes et al., 2012), the above regression coefficient means that audit fees and CTA are significantly negatively correlated. The statistical results of this study are the same as those of Chyz et al. (n.d.) and Salehi et al. (2020) But it is inconsistent with the results of Lestari and Nedya (2019), Riguen et al. (2019) and Suyadnya and Supadmi (2017). Since audit fees help reflect auditors' contributions to their audit courses (Kraft and Lopatta, 2016), their efforts to reduce the tax aggressiveness of client companies are reflected in audit compensation. As the aggressive CTA has led to an increase in audit fees, reflecting the auditor's efforts to reduce the company's tax risk, the company's CTA will be reduced accordingly. As evidence, due to the greater audit risk of CTA, external auditors have extended the audit time to higher-than-normal levels, and it is obvious that auditors will require additional fees for additional audit time (Bae, 2017; Castro et al., 2015).

5.2 Audit quality and CTA

In Section 4.3.1, audit quality and cash ETR have a significant negative regression coefficient. Since cash ETR is negatively correlated with tax aggressiveness (CTA) (Lestari and Nedya, 2019), the above regression coefficient means that audit quality is significantly positively correlated with CTA. This statistical result is similar toEksandy (2017) and Lestari and Nedya (2019) but is inconsistent with the results of Apandi (2019), Chyz and others. (n.d.), Hoopes et al. (2012), Kanagaretnam et al. (2016), Pratama and Padjadjaran (2017), and Suyadnya and Supadmi (2017). Yoo and Koh (2014) pointed out that the external audit company as a company's monitoring channel may be affected by the strong influence of the controlling shareholder, especially in the Asian context. In other words, due to the exclusive interests of audit clients or huge pressure from controlling shareholders, the independence of the Big Four accounting firms was abandoned (Yoo and Koh, 2014). In the end, despite the audit services provided by the Big Four, CTA is very likely to occur in the company. When audit firms provide audit and tax services to their clients, they have found that CTA has risen among their clients (McGuire et al., 2012, as cited in Kanagaretnam et al., 2016, page 110. As it is acknowledged that the Big Four Possibly with tax or overall expertise, someone asserts that they develop CTA strategies for their clients, rather than restricting the CTA of their client companies (Kanagaretnam et al., 2016).

5.3 Audit committee and CTA

In Section 4.3.1, there is a significant negative regression coefficient between the audit committee and cash ETR. Since cash ETR is negatively correlated with tax aggressiveness (CTA) (Ratnawati et al., 2019), the above regression coefficient means that there is a significant positive correlation between the audit committee and CTA. This statistical result is consistent with Fauzan et al. (2019) and Prihatono et al. (2019) But it is inconsistent with Handayani&Ibrani (2019), Marselawati and others. (2018), Prakoso and Hudiwinarsih (2018), and Pratama and Padjadjaran (2017).

Wiratmoko (2018) conducted a separate analysis of corporate governance and CTA on companies listed on the Indonesian Stock Exchange (IDX) and Bursa Malaysia (MYX). The survey results indicate that the positive relationship between the Audit Committee and CTA is significant in the context of Indonesia, but not in the case of Malaysia. Since Indonesia is a close neighbor of Malaysia, the results of this study can be explained by the results of Indonesia.

The results of this study may imply that the measurement of audit committee variables may not be perfect, and it is impossible to measure the impact of the audit committee on CTA. There are other factors that affect the performance of the committee, such as lack of cooperation between various departments of the company, restrictions on the board of directors, or "purposeful" selection of audit committee members, which undermines the independence of the committee(Kurniasih et al., 2017, as cited in Ratnawati et al., 2019, p. 112; Mais and Patminingih, 2017; Sefiana, 2009, as cited in Kurniasih et al., 2017, p. 33). Another possibility for audit committee to be positively linked to CTA is because of the strategy implemented in the corporation. It is said so because financial expert in the audit committee endorses CTA in defender-type companies, but not for prospector-type companies (Hsu et al., 2018).

5.4 Final remarks

The results of this research reveal the status of the audit committee in the CTA, where the audit committee is a part of the company's corporate governance channel. Since the audit committee measurement in this study is based on the number of audit committee members, this may mean that there is no need to be an effective audit committee team because it is positively correlated with tax aggressiveness. In addition, this may remind the company to select appropriate audit committee members to prevent audit committee failure and CTA deterioration. Furthermore, the research results may indicate that since the audit committee is positively correlated with the CTA, the audit committee does not pay enough attention to the company's tax risk.

In addition, these findings may be important to auditors because the two elements of audit (audit fee and audit quality) found in this study are related to CTA. This means that auditors should check the CTA of their clients to control the associated audit risks and charge their clients because it was found in this research that audit remuneration is a potentially useful tool for reducing tax aggressiveness. However, from the perspective of audit quality, this means that the Big Four accounting firms cannot guarantee the appropriate level of tax avoidance for their client companies. There may be other factors that exert high pressure on the Big Four’s efforts to control CTA, such as conflicts of interest.

The main objective of the Malaysian Tax Authority-Inland Revenue Board of Malaysia (IRBM) is to ensure an efficientand fair tax management system in Malaysia. Therefore, it can be reasonably expected that IRBM will crack down on aggressive CTA issues because it is unfair to other compliant taxpayers. IRBM can learn about CTA practices between companies from the descriptive statistics of cash ETR in this study. By looking at the percentile breakdown, 25% of the samples in this study contained negative cash ETR, which means they may be aggressive in CTA. In addition, the skewness and kurtosis data of cash ETR show that the bell height of cash ETR reaches its peak compared with the normal distribution

The results of this research may indicate to tax authorities that CTA involves not only company accountants, tax agents, company management, etc., but may also involve auditors and audit committees. The reason for this is that the negative correlation between audit remuneration and abuse of CTA means that the auditor's role in curbing tax avoidance because the audit fee reflects the auditor's level of work. Given that the positive correlation between the audit committee and the CTA in this research data is weak, the committee may (to a lesser extent) be responsible for the aggressive CTA in the organization.

On the other hand, IRBM can use the results of this research to incorporate audit factors into the risk analysis selection criteria for tax audits. In other words, IRBM should not believe that corporate taxpayers that have been audited by the Big Four will be “guaranteed” as compliant taxpayers, because audit quality has a slight positive correlation with CTA

5.5. Limitations

The limitation of this study is the small sample size. This study only collected data from 100 companies. According to the online sample size calculator, it is best to collect 140 samples, the overall size is 865, the confidence level is 99%, and the margin of error is 10. In this study, the sample size of 100 represents a margin of error of 9.22%, and the margin of error is 95% of the confidence level under the same population size. In addition, the research methods (secondary data collection) implemented in this research may provide limited information about the company's actual practices. In addition to the research method, the measurement of CTA in this study is another limitation because ETR may not fully reflect the CTA due to the consistency of tax planning (Lee et al., 2015).

5.6 Recommendations for future research

To obtain better research results, future scholars can make more efforts in data collection. The reason for this is that an increase in sample size can increase the likelihood of obtaining significant statistics and reveal stronger relationships between variables. In terms of research methods, future scholars may consider using interviews and other qualitative research methods to disclose the actual situation in the enterprise, although there may be honest cooperation or enterprise confidentiality issues of the interviewee. Future scholars can try to get responses from SMEs, auditors (big four or regular audit companies), audit committee members, tax authorities or company management

Future scholars can apply different measurement methods to variables in this research. For example, other CTA agents can be used, such as BTD, various ETRs, and unrecognized tax incentives. In addition, audit quality and other measurement tools of the audit committee can be implemented in future studies. In addition, future scholars can include other variables not documented in this study. For example, the non-audit services provided by auditors, the independence of audit committees and audit firms may be good variables that can be used to discover their relationship with CTA. Furthermore, future scholars can consider using intermediary variables to strengthen their research, such as the risk of auditors' litigation, the influence of shareholders, or the country's political environment.

5.7 Conclusion

The purpose of this research is to determine whether audit characteristics and audit committees have an impact on CTA. Through data collection and data analysis of listed companies in Malaysia, it is found that audit fees, audit quality and audit committees are significantly related to CTA. Other independent variables, such as audit tenure and revised audit opinions, are not statistically significant in CTA. This research will benefit tax authorities, auditors, companies, and audit committees. Future scholars can improve the research based on the suggestions made in this research.

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