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## The Influence of Corporate Political Connections and Family Ownership on Audit Quality

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### Abstract

**Purpose** – This study aims to examine and provide empirical evidence regarding the influence of corporate political connections and family ownership on audit quality with return on assets, leverage, and public accounting firm size as control variables.

**Design/methodology/approach** – This study uses a quantitative approach. The population in this study includes SOEs and conglomerate companies listed on the Indonesia Stock Exchange in 2021-2023. Samples were taken using a purposive sampling method. The analysis method used is multiple linear regression analysis.

**Findings** – The results of this study found that corporate political connections and family ownership have no significant effect on audit quality. Audit quality is influenced by the control variable public accounting firm size.

**Originality/value** – This study contributes to the audit quality literature in several ways. First, research that explores the variables of political connections and family ownership in the context of audit quality is still limited. Second, previous studies regarding the influence of political connections and family ownership on audit quality in Indonesia used input-based measurements, such as auditor choice as a proxy for audit quality. In this study, the audit quality measurement used is output-based, which is based on financial reporting quality measured using earnings quality (discretionary accruals) that is more relevant to be applied in Indonesia considering that Indonesia is a country with a high level of opacity of corporate earnings. Third, previous studies use dummy variables to indicate whether a company has political connections, so the variation in the strength of connections is less revealed. In this study, political connections are measured using an index score of political connections with various levels of positions in the bureaucracy.

**Research limitations/implications** – This research was only conducted on SOEs and conglomerates companies listed on the IDX, therefore the research results cannot be generalized to other sectors/types of companies. The period in this study is still relatively short, which is only limited to a span of 3 years from 2021-2023. Future research can expand the research sample size including all companies listed on the IDX and extend the observation year period to obtain more comprehensive results.

**Keywords:** Corporate Political Connections, Family Ownership, Audit Quality

**Article Type:** Research Paper



## Introduction

The increasing complexity of business transactions, accounting standards, as well as political scandals, and corruption has increased the demand for high-quality audits. High-quality audits improve resource allocation and contract efficiency and minimize the level of information asymmetry that occurs between managers and outside investors by allowing external parties to verify the validity of financial statements (Almutairi et al., 2009; Hakim & Omri, 2010). According to DeAngelo (1981), audit quality can be defined as the probability that the auditor will be able to find and report fraudulence that occurs in the client's accounting system. DeFond & Zhang (2014) expand the definition of audit quality beyond detecting violations of accounting standards, but also includes how financial statements can reflect the real economic condition of the company. Audit quality is important and necessary for public trust in financial statements, therefore audit quality is a topic that is continuously researched by the accounting researchers (Carey et al., 2024).

Previous research on audit quality has primarily focused on several aspects, including: (a) individual auditor aspects, such as auditor expertise, auditor independence, work experience, education level, gender (Gul et al., 2013; Nelson & Tan, 2005); (b) Public accounting firm aspects, such as Big-4/non Big-4 (Francis & Yu, 2009); industry specialization (Minutti-Meza, 2013); time budget pressure (Broberg et al., 2017); workload (J. Chen et al., 2020); audit tenure (Carey & Simnett, 2006); audit fee (Hoitash et al., 2007); (c) company characteristics and CG aspects, such as company size (Ayu et al., 2019); company complexity (C. Chen et al., 2024); political connections (Tantawy & Moussa, 2023); ownership structure (Sarhan et al., 2019); audit committee characteristics (Alhababsah & Yekini, 2021); board of directors characteristics (Kalia et al., 2023). Audit quality research which examines individual auditor aspects, public accounting firm aspects, as well as company characteristics and CG aspects has been widely conducted. However, the number of studies examining political connection and family ownership variables in the context of audit quality is still limited (Armadiyanti & Iswati, 2019; Sarhan et al., 2019). Previous research that addresses political connection variables so far has focused on the context of taxation such as tax aggressiveness and tax avoidance (Armadiyanti & Iswati, 2019).

Research that examines the influence of political connections has largely focused on developed countries such as the United States (Ahmed & Hussainey, 2023; Preuss & Königsgruber, 2021). Outside the United States, political connections have also been empirically investigated in Europe such as in Spain and Portugal (Amara & Khlif, 2020). Meanwhile, in developing countries, political connection research tends to focus on China (Preuss & Königsgruber, 2021). However, political connections are more common in developing countries where law enforcement is low and market support institutions are imperfect (Boubakri et al., 2008). Cheng et al. (2015) suggest that China, Malaysia, and Indonesia are typical examples of countries characterized by this phenomenon. Different corporate structures, corruption, and the significance of family ties result in a different nature of political connections in developing countries compared to developed countries such as the United States. As for family ownership literature, there is a growing number of studies on ownership concentration in Anglo-American and continental European, but a scarcity of such research in developing countries (Alhababsah, 2019).

This study is interesting to conduct given Indonesia's strong history of political connections and the high concentration of family ownership in the business sector (Claessens et al., 2000; Harymawan & Nowland, 2016). According to the findings of a study by Faccio (2006), Indonesia is the country with the highest number of political connections. During the presidency of Joko Widodo, the appointment of several politicians and volunteers as commissioners of SOEs is quite common. In reality, the competence of the appointed commissioners is sometimes not in line with the sector of the SOEs in which they are appointed. Some people who have been appointed as SOE commissioners are connected to Jokowi-Ma'ruf's national campaign team/members of supporting parties. For example, Ahok, a PDI-P politician, was appointed as the president commissioner of PT Pertamina; Rizal Malaranggeng, a Golkar Party politician, was appointed as the commissioner of PT Telkom

Indonesia; Arief Budimanta, a TKN spokesperson for Jokowi-Ma'ruf, was appointed as the commissioner of PT Bank Mandiri, and many more.

Corporate political connections have gained momentum in accounting and finance research for more than a decade. In general, accounting research hypothesizes that politically connected firms engage in more earnings management and poorer accounting quality than non-connected firms (Chaney et al., 2011). Political connections can be beneficial for the firm. However, political connections may also influence the financial position of the firm and the motivation of managers regarding financial reporting, which will ultimately lead to significant differences in the financial quality and audit quality of connected firms compared to non-politically connected ones (Khaksar et al., 2022). Guedhami et al. (2009) state that managers of politically connected companies tend to pursue political goals at the expense of shareholder interests. To hide the inefficiency of this agency problem, managers of politically connected companies may misreport accounting information (Amin et al., 2021).

Several previous studies have examined the influence of political connections on some proxies of audit quality. Cheng et al. (2015) conducted a study to determine the influence of political connections on auditor choice (top 10/non-top 10 auditors). The results show that politically connected companies have a tendency to hire non-top 10 auditors so that company managers who pursue political benefits can hide their earnings management activities. Furthermore, Wahab et al. (2009) examined 390 non-financial companies in Malaysia to see how political connections affect audit quality as measured by the audit fee proxy. This study found that audit fees are charged higher to companies with political connections. Politically connected companies are perceived by auditors as having greater inherent risk which causes them to require more audit effort, which in turn causes these companies to be charged higher audit fees.

The rise of agency conflicts is related to politically connected firms, which reduce the disclosure of important information (Rodríguez et al., 2007) and the issuance of poor quality financial statements (Al-dhamari & Ku Ismail, 2015). Compared to firms that are not politically connected, politically connected firms tend to have less motivation to report high-quality earnings (Chaney et al., 2011). Rent-seeking theory is also frequently associated with earnings management practices and politically connected firms (Liu et al., 2018). Company managers may abuse political connections and manage reported earnings to hide rent-seeking activities derived from these connections (Guedhami et al., 2014).

Another variable that will be combined with political connections is family ownership. Family ownership is expected to have an impact on the quality of the audit produced. However, there is still limited evidence in the literature regarding the relationship of corporate governance (such as family ownership) to audit quality (Sarhan et al., 2019). Family firms play an important role in the Indonesian economy. Ninety-five percent (95%) of businesses in Indonesia are family-owned according to a PricewaterhouseCoopers (PwC, 2014) survey. Family shareholders generally have direct or indirect participation in company management and have influence on most decision-making (Cascino et al., 2010; Chau & Leung, 2006; Ho & Kang, 2013). Family shareholders with higher concentrated ownership have greater control to fulfill their own objectives without fear of disciplinary action from other minority ownership (Chau & Leung, 2006). This agency conflict may encourage managers to hide private information from external shareholders, potentially leading to lower financial statement quality (Cascino et al., 2010).

The auditor's ability to conduct a quality audit depends on the freedom given by the company to the auditor (Kalia et al., 2023). The existence of agency problems (derived from political connections and ownership structure) can limit this freedom. Governance practices and the fulfillment of profit targets carried out by companies can also affect the willingness (independence) of auditors to report or correct violations found, which in turn will affect the quality of the audit produced (Diyanty et al., 2018).

This study aims to empirically examine the influence of corporate political connections and family ownership on audit quality as measured by the proxy of earnings quality (discretionary

accruals) in SOEs and conglomerate companies listed on the Indonesia Stock Exchange in 2021-2023. The selection of these companies as research samples was based on a phenomenon occurring in Indonesia, where almost all of the conglomerate companies are family-owned and many of these conglomerates are involved in politics and even become leaders of political parties, such as Hary Tanoesoedibjo, Surya Paloh, Aburizal Bakrie, etc. In state-owned enterprises (SOEs), the appointment of board of commissioners is often based on political affiliations. Those appointed as board members are connected as part of the supporters of the elected president. This indicates that corporate governance in state-owned enterprises remains intertwined with political elements. Executive officers who have political connections are usually considered powerful because they can take advantage of various privileges such as to strengthen their position and influence company profits (Khan et al., 2016). Therefore, this is a matter of concern for the public, especially shareholders, regarding the quality of the company's audit in relation to political connections and family ownership.

This study contributes to the audit quality literature in several ways. First, this study enriches the existing literature on political connections and family ownership which is still limited in the context of audit quality. Second, existing research in Indonesia on the influence of political connections and the influence of family ownership on audit quality uses an input-based measurement, such as auditor choice as a proxy for audit quality (Armadiyanti & Iswati, 2019; Diyanty et al., 2018; Restuti, 2019; Vernando & Ainy, 2021). In their research, Armadiyanti & Iswati (2019) suggested that future research could use other alternative proxies of audit quality that are more suitable and relevant to be applied in Indonesia. Therefore, this study will try to use an output-based audit quality measurement, based on financial reporting quality as measured by earnings quality (discretionary accruals) which is more relevant to be applied in Indonesia considering that Indonesia is a country with a high level of corporate earnings opacity. In addition, DeFond & Zhang (2014) suggest that financial reporting quality (discretionary accruals) is conceptually suitable for measuring audit quality, where high-quality audits can be interpreted as greater confidence that financial statements accurately reflect the true economic condition of the company. Output-based proxies measure the actual level of audit quality produced, while input-based proxies measure the level of quality based on the inputs of the audit process. Input-based proxies cannot capture auditors' errors because they are entirely based on observed auditor characteristics (DeFond & Zhang, 2014). Third, previous studies (Chaney et al., 2011; Cheng et al., 2015; Hashmi et al., 2018; Tantawy & Moussa, 2023) use dummy variables to indicate whether a company has political connections, so that variations in the strength of the connection are less revealed. In this study, political connections will be calculated using the measure proposed by Liu et al. (2017), namely using the political connection score index with various levels of positions in the bureaucracy which has been adjusted by Armadiyanti & Iswati (2019) in the context of PPATK regulations in Indonesia.

## Literature Review

### **Agency Theory**

Agency theory was first proposed by Jensen & Meckling (1976). In this theory, there are two parties involved (principal and agent) who are bound in a contract with different responsibilities. The contract results in the principal delegating its decision-making authority to the agent (Godfrey et al., 2010). The agent is obliged to manage the company and provide financial reports to the principal as a form of management accountability. Principals will use the financial statements as a basis for decision making because the financial statements provide information on the condition of the company's financial performance. However, there are two factors that arise between managers and company owners that can lead to agency conflicts and result in managers falsifying information in the company's financial statements, which are conflicts of interest and information asymmetry (Kardan et al., 2016). To resolve the agency conflict, monitoring costs are required which are designed to limit the agent's deviant activities. Monitoring costs, bonding costs, and residual costs are three types of

agency costs proposed by [Jensen & Meckling \(1976\)](#). Audit itself can be classified into monitoring cost. A high quality audit can improve the reporting and disclosure and reduce information asymmetry and agency costs.

### **Rent-Seeking Theory**

The term "rent-seeking" was introduced by [Krueger \(1974\)](#), but the basic conceptualization of rent-seeking theory was done by [Tullock \(1967\)](#) a few years earlier. Rent-seeking can be defined as a process by which an individual or a firm seeks profit through manipulation of the economic situation (politics, regulation, licensing, tariffs, etc.) rather than through trade ([Krueger, 1974](#)).

Rent-seeking theory is often associated with earnings management practices and politically connected firms because rent-seeking involves economic practices that benefit government officials either directly or indirectly ([Liu et al., 2018](#)). Company managers can abuse political connections and manage reported earnings to hide rent-seeking activities derived from these connections ([Guedhami et al., 2014](#)). Earnings management can help rent-seeking firms to hide firm-specific information from the public, and thus, rent seeking is a key factor that encourages earnings management.

### **Audit Quality**

According to [DeAngelo \(1981\)](#), audit quality can be defined as the probability that the auditor will be able to find and report fraudulence that occurs in the client's accounting system. [DeFond & Zhang \(2014\)](#) expand the definition of audit quality beyond just detecting violations of accounting standards, but also includes how financial statements can reflect the company's real economic conditions. The possibility that the auditor will be able to find violations (both errors and fraud) in the client's accounting system depends on the competence or expertise of the auditor. Meanwhile, the possibility of the auditor to report or correct the violations found depends on the willingness (independence) of the auditor. Governance practices and the fulfillment of profit targets carried out by companies can also affect the willingness (independence) of auditors to report or correct violations found ([Diyanty et al., 2018](#)).

Earnings quality in financial statements can reflect audit quality. Earnings quality measures are commonly used by audit researchers to detect opportunistic earnings management practices. [Lawrence et al. \(2011\)](#) argue that the value of discretionary accruals can show how the auditor's efforts to limit earnings management to comply with existing accounting standards. A low discretionary accrual value indicates low earnings management and high quality earnings information.

### **Corporate Political Connections**

A company is said to be politically connected if at least one of the company's executives or one of the largest shareholders with more than 10% of the voting rights has been or is serving as a member of parliament, minister, or individual with close ties to politicians or political parties ([Faccio, 2006](#)). Politically connected companies benefit from their connections, managers of these companies may have the motivation to obscure information related to the benefits received with the aim of increasing personal benefits which can certainly harm investors ([Chaney et al., 2011](#)). The emergence of agency conflicts is closely related to politically connected companies, where reduced disclosure of important information ([Rodríguez et al., 2007](#)) and the issuance of poor quality financial statements ([Al-dhamari & Ku Ismail, 2015](#)). Compared to non-politically connected firms, politically connected firms tend to have less motivation to report high-quality earnings ([Chaney et al., 2011](#)).

### **Family Ownership**

A firm can be categorized as a family firm if the total percentage of ownership of all shareholders who are classified as family owners has the largest portion of the company's share ownership ([Virgiawan & Diyanty, 2015](#)). [La Porta et al. \(1999\)](#) define family ownership as the ownership of all

individuals and companies whose ownership is listed (ownership > 5%), except for public companies, the state, financial institutions (investment institutions, mutual funds, insurance, banks, or pension funds) and the public (whose ownership is not required to be listed).

Family shareholders with higher concentrated ownership have greater control to fulfill their own objectives without fear of disciplinary action from other minority ownership (Chau & Leung, 2006). Family shareholders seek to maximize their own interests by transferring benefits to the detriment of other stakeholders (Barroso et al., 2018; Fan & Wong, 2002). This agency conflict may encourage family managers to hide private information from outside shareholders, potentially leading to lower financial statement quality (Cascino et al., 2010).

### **Corporate Political Connections and Audit Quality**

Financial statements are a joint product produced by managers and auditors (DeFond & Zhang, 2014). The auditor's ability to conduct a high-quality audit depends on the freedom given by the company to the auditor (Kalia et al., 2023). The existence of agency conflicts stemming from political connections can limit this freedom. Politically connected companies are closely related to the emergence of agency conflicts, have low earnings quality, perform more earnings management activities, and engage in rent seeking behavior (Chaney et al., 2011; Habib et al., 2017). Politically connected companies gain benefits from their connections, managers of these companies may have the motivation to obscure information related to the benefits received with the aim of increasing personal benefits which can certainly harm investors (Chaney et al., 2011). Company managers can abuse political connections and manage reported earnings to hide rent-seeking activities stemming from these connections (Guedhami et al., 2014).

Governance practices and the fulfillment of profit targets carried out by these connected companies can affect the willingness (independence) of auditors to report or correct violations found, which in turn will affect the quality of the resulting audit (Diyanty et al., 2018). Political interests can have an impact on audit failures, the possibility of company bailouts and bias arising from media coverage, thus affecting auditor judgment and independence (Widodo & Fanani, 2020). Several studies have also proven that the earnings quality of politically connected companies is lower than that of non-connected companies (Amin et al., 2021; Belghitar et al., 2019; Chaney et al., 2011; Hashmi et al., 2018). Based on the explanation above, the first hypothesis in this study is:

**H1: Corporate political connections has a negative effect on audit quality.**

### **Family Ownership and Audit Quality**

In family-owned companies, agency conflicts that occur shift from conflicts between controlling shareholders and management (Type I agency problems) to controlling shareholders and non-controlling shareholders (Type II agency problems) (Diyanty et al., 2018). Family firms are characterized by uniqueness that tends to have strong implications for accounting practices, including earnings management. Characteristics such as involvement in ownership, corporate governance and management, and the desire to maintain family control over the company are likely to affect financial reporting behavior (Paiva et al., 2016). In their research, Wanda et al. (2022) found that controlling shareholders tend to exploit the rights of non-controlling shareholders when family ownership dominates in a company.

The high dominance of family ownership encourages the motivation to expropriate. This agency conflict can encourage family managers to hide private information from outside shareholders which can potentially lead to lower quality financial statements (Cascino et al., 2010). The existence of agency conflicts originating from family ownership is feared to limit the freedom of auditors to produce high-quality audits. The company's practices in managing profits and corporate governance practices can also affect the auditor's willingness (independence) to report or correct violations found, which in turn will affect the company's audit quality (Diyanty et al., 2018). Several previous studies have also proven that earnings quality in family companies is lower than that of non-

family companies (Alheabri & Al-Duais, 2020; Chi et al., 2015; Ding et al., 2011). Based on the explanation above, the second hypothesis in this study is:

**H2:** Family ownership has a negative effect on audit quality.

## Methods

This study uses a quantitative approach to see the influence of independent variables, namely corporate political connections and family ownership on the dependent variable audit quality. The population in this study consists of all SOEs and conglomerate companies listed on the Indonesia Stock Exchange (IDX) in 2021-2023. Determination of conglomerate companies starts from information on Indonesian conglomerates published on the official Forbes "Indonesia's 50 Richest" website in 2023. We then traced the companies that are included in the group of companies owned by conglomerates listed on the IDX.

The sample was taken using purposive sampling technique, which is based on certain criteria. These criteria include: 1) SOEs and conglomerate companies listed on the IDX in 2021-2023; 2) SOEs and conglomerate companies that are not included in the financial sector; 3) SOEs and conglomerate companies that have complete annual reports from 2021-2023; 4) SOEs and conglomerates whose annual reports provide complete data for research. Based on these criteria, we managed to collect 19 SOEs and 78 conglomerates, resulting in a final sample of 97 companies or 291 observations (over three years). Financial sector companies are excluded because financial companies operate under strict regulation and supervision by the authorities so that the space for carrying out earnings management practices is very small. The data collection technique in this study is the documentation technique. Secondary data is obtained from 2 main sources, from the Indonesia Stock Exchange website and the official website of each company. The variables in the study are:

### 1. Audit Quality (Y)

Audit quality is measured through the proxy of earnings quality using discretionary accruals. Discretionary accruals in this study refer to the Modified Jones Model (Dechow et al., 1995). This model is a method for decomposing total accruals into discretionary and non-discretionary components:

a) Calculate the total accruals of the company (TAC)

$$TAC_t = NI_t - CFO_t$$

b) Determine the value of coefficients 1, 2, and 3 estimated by the following Ordinary Least Square (OLS) regression equation:

$$\frac{TAC_t}{A_{t-1}} = \beta_1 \left( \frac{1}{A_{t-1}} \right) + \beta_2 \left( \frac{\Delta Rev_t}{A_{t-1}} \right) + \beta_3 \left( \frac{PPE_t}{A_{t-1}} \right) + \varepsilon_t$$

c) Using the value of coefficients 1, 2, and 3, the value of the company's non-discretionary accruals (NDA) can be calculated by the formula:

$$\frac{TAC_t}{A_{t-1}} = \beta_1 \left( \frac{1}{A_{t-1}} \right) + \beta_2 \left( \frac{(\Delta Rev_t - \Delta Rec_t)}{A_{t-1}} \right) + \beta_3 \left( \frac{PPE_t}{A_{t-1}} \right) + \varepsilon_t$$

d) Calculating the company's discretionary accruals (DA)

$$DA_t = TAC_t - NDA_t$$

### 2. Corporate Political Connections (X1)

In this study, the measurement used to indicate whether a company has political connections is based on the measurement proposed by Liu et al. (2017) and has been adjusted by Armadiyanti

& Iswati (2019) to the context of PPATK regulations in Indonesia. Where political connections are measured using an index score with various levels of positions in the bureaucracy.

**Table 1.** CPC Measurement

No	Politically Connected Position Group	Score of Political Connection
1	State officials	5
2	Heads of government agencies at first echelon level	4
3	Officials who have strategic functions, i.e. <ul style="list-style-type: none"> <li>a) Directors, commissioners, and other structural officials in state-owned ente and/or local-owned enterprises;</li> <li>b) Presidents of state universities</li> <li>c) First echelon officials and other officials who are equal in the civilian, militar police spheres;</li> <li>d) Prosecutor;</li> <li>e) Investigator;</li> <li>f) Court clerk;</li> <li>g) Project leaders and treasures;</li> <li>h) Officials in charge of the oil and gas sector</li> </ul>	3
4	Officials who are based on ministerial provisions in charge of state apparatus affairs and bureaucratic reform	2
5	Organizers or members of political parties;	1

Source: Armadiyanti & Iswati (2019)

### 3. Family Ownership (X2)

Companies with family ownership in this study follow the definition proposed by La Porta et al. (1999), which is the ownership of all individuals and companies whose ownership is listed (ownership > 5%), except public companies, the state, financial institutions (investment institutions, mutual funds, insurance, banks, or pension funds) and the public (whose ownership is not required to be listed).

$$FO = \frac{\text{Number of shares held by family}}{\text{Total shares of the company}}$$

### 4. Control Variables

Although the focus of this research is on corporate political connections and family ownership, there are other independent variables that can affect audit quality, but are not the focus of this research.

#### a) Return on Assets

Return on Assets (ROA) is a ratio used to measure how effectively a company is able to earn a return on its investment in assets. ROA value is measured through the ratio of the company's net profit to the company's total assets (Amin et al., 2021; Sarhan et al., 2019).

#### b) Leverage

Leverage (LEV) is a ratio used to measure the company's ability to pay all its obligations. LEV value is measured through the ratio of total liabilities to total assets of the company. (Armadiyanti & Iswati, 2019; Sarhan et al., 2019).

#### c) Public Accounting Firm Size

The size of the public accounting firm (BIG4) is measured using a dummy, which is value 0 if the company is audited by a non-Big-4 public accounting firm and value 1 if the company is audited by a Big-4 public accounting firm (Amin et al., 2021).

Data analysis was carried out using SPSS 26. The multiple linear regression equation model in this study is as follows:

$$DACC_t = \alpha + \beta_1CPC_t + \beta_2FO_t + \beta_3ROA_t + \beta_4LEV_t + \beta_5BIG4_t + \epsilon$$

## Results

### Overview of Research Objects

Based on the previous purposive sampling results, a research sample of 97 companies was obtained, consisting of 19 SOEs companies and 78 conglomerate companies. However, according to the results of the box-plot diagram on SPSS, 16 companies were identified as having outlier data. Sixteen (16) companies identified have extreme values in the data of audit quality variables, corporate political connections, return on assets, and leverage in one or more years of observation. The presence of outliers in the data can bias the research results, therefore companies that have outlier data need to be removed. As a result, the number of research samples was reduced to 81 companies, consisting of 13 SOEs and 68 conglomerate companies. So that the final number of samples during the 3-year research period is 243 samples.

### Descriptive Analysis

Table 2 shows that the audit quality variable measured using discretionary accruals has the highest value of 0,2820885 and the lowest value of -0,2883391. The average value of discretionary accruals in all observed companies is -0,033795998, which means that all companies on average perform downward earnings management. The average value of discretionary accruals is smaller than the standard deviation, which is 0,0913432087, this shows that the AQ variable studied has a fairly varied data distribution. The CPC variable has a lowest value of 0 and a highest value of 20. The average value of CPC in all observed companies is 4,2995, this means that all companies on average have at least a score of 4,2995 for politically connected directors or commissioners. The average value of CPC is smaller than its standard deviation of 5.01358, which indicates that the CPC variable studied has a fairly varied data distribution. The FO variable has a lowest value of 0 and a highest value of 1. The average value of FO in all observed companies is 0,5498 or 54.98%, which means that all companies have family ownership of 54.98% on average. This shows that most of the observed companies are still dominated by family ownership. The average value of FO is greater than the standard deviation value of 0,30383, which indicates that the FO variable studied has a data distribution that does not vary too much.

**Table 2.** Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
AQ (DACC)	243	-0,2883391	0,2820885	-0,033795998	0,0913432087
CPC	243	0,00	20,00	4,2995	5,01358
FO	243	0,00	1,00	0,5498	0,30383
ROA	243	-0,28	0,34	0,0505	0,09035
LEV	243	0,10	1,57	0,4756	0,24511
BIG4	243	0	1	0,49	0,501
Valid N (listwise)	243				

Source: Data processed with SPSS 26, 2025

### Normality Test

Based on the results of the normality test using Kolmogorov-Smirnov, it can be seen that in table 3 the Asymp. Sig. (2-tailed) value obtained is 0,070 (0,070 > 0,05), which means that the data is normally distributed.

**Table 3.** Normality Test Results

		Unstandardized Residual
N		243
Normal Parameters <sup>a,b</sup>	Mean	0,000000
	Std. Deviation	0,08872613
Most Extreme Differences	Absolute	0,055
	Positive	0,036
	Negative	-0,055
Test Statistic		0,055
Asymp. Sig. (2-tailed)		0,070 <sup>c</sup>

Source: Data processed with SPSS 26, 2025

### Multiple Linear Regression Analysis

Multiple linear regression is performed to determine the direction of the relationship and the influence of the independent variables, which are corporate political connections and family ownership on the dependent variable, audit quality. The results of multiple linear regression can be seen in table 4 below:

**Table 4.** Multiple Linear Regression Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-0,019	0,029		-0,680	0,497
CPC	0,000	0,002	0,020	0,241	0,809
FO	0,011	0,025	0,038	0,451	0,652
ROA	0,139	0,080	0,138	1,742	0,083
LEV	-0,036	0,030	-0,097	-1,224	0,222
BIG4	-0,024	0,012	-0,134	-2,006	0,046

Source: Data processed with SPSS 26, 2025

Based on table 4, the results of the multiple linear regression equation are as follows:

$$DACC_t = -0,019 + 0,000CPC_t + 0,011FO_t + 0,139ROA_t - 0,036LEV_t - 0,024BIG4_t + \epsilon$$

1. The constant number of -0,019 indicates that discretionary accruals (proxy for audit quality) will be -0,019 if all independent variables are considered constant/fixed.
2. The CPC variable has a positive regression coefficient value of 0,000. This shows that if the CPC variable increases by one unit, it will increase discretionary accruals (proxy for audit quality) by 0,000 with the assumption that the value of other variables is constant/fixed.
3. The FO variable has a positive regression coefficient value of 0,011. This shows that if the FO variable increases by one unit, it will increase discretionary accruals (audit quality proxy) by 0,011, assuming the value of other variables is constant/fixed.
4. The control variable ROA has a positive regression coefficient value of 0,139. This shows that if the ROA variable increases by one unit, it will increase discretionary accruals (audit quality proxy) by 0,139, assuming the value of other variables is constant/fixed.
5. The control variable LEV has a negative regression coefficient value of 0,036. This shows that if the LEV variable increases by one unit, it will reduce discretionary accruals (proxy for audit quality) by 0,036, assuming the value of other variables is constant.
6. The control variable BIG4 has a negative regression coefficient value of 0,024. This shows that if the BIG4 variable increases by one unit, it will reduce discretionary accruals (audit quality proxy) by 0,024, assuming the value of other variables is constant.

### Coefficient of Determination Test ( $R^2$ )

Based on the results of the coefficient of determination test presented in table 5, the Adjusted  $R^2$  value obtained is 0,037, which means that the audit quality (AQ) variable measured using discretionary accruals can be explained by 3,7% by the independent variables consisting of corporate political connections (CPC), family ownership (FO), return on assets (ROA), leverage (LEV), and public accounting firm size (BIG4), while the remaining 96,3% is explained by other variables outside this research model.

**Table 5.** Coefficient of Determination Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,238 <sup>a</sup>	0,056	0,037	0,0896571766

Source: Data processed with SPSS 26, 2025

### Overall F-Test

Based on the F test results presented in table 6, the sig. level obtained is 0,016 ( $0,016 < 0,05$ ), which means that all independent variables in the research equation model simultaneously have an influence on the dependent variable audit quality (AQ) as measured using discretionary accruals.

**Table 6.** Overall F-Test Results

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	0,114	5	0,023	2,837	0,016 <sup>b</sup>
Residual	1,905	237	0,008		
Total	2,019	242			

Source: Data processed with SPSS 26, 2025

### Partial T-Test

Based on the T test results presented in table 4 above, it can be seen that the t value of the CPC variable is 0,241 with a sig. level of 0,809 ( $0,809 > 0,05$ ). The coefficient value is 0,000, which means that corporate political connections have a positive relationship direction on discretionary accruals. Because discretionary accruals are inversely related to audit quality. So, it can be concluded that corporate political connections (CPC) are negatively related to audit quality (AQ) and are not significant, so **H1 is rejected**.

Furthermore, the t value of the FO variable is 0,451 with a sig. level of 0,652 ( $0,652 > 0,05$ ). The coefficient value is 0,011, which means that family ownership has a positive relationship direction on discretionary accruals. Because discretionary accruals are inversely related to audit quality. So, it can be concluded that family ownership (FO) is negatively related to audit quality (AQ) and is not significant, so **H2 is rejected**.

### Sensitivity Analysis

To test the consistency of the result of the main test, this study conducts several sensitivity tests. First, changing the measurement of the corporate political connections variable which in the main test uses an index score of the level of position in the bureaucracy into a dummy measurement, where 1 if the company is politically connected and 0 otherwise (Chaney et al., 2011; Cheng et al., 2015; Setyawati & Apandi, 2019). The sensitivity test results show that the corporate political connections variable has a significance value of 0,579, which means that corporate political connections have no significant effect on discretionary accruals or have no significant effect on audit quality. This result is consistent with the results reported in the main test. Second, changing the measurement of the family ownership variable which in the main test uses the percentage of family shares to a dummy measurement, where 1 if the company is family owned and 0 otherwise

(Dwiyanti & Astriena, 2018). The sensitivity test results show that the family ownership variable has a significance value of 0,677, which means that family ownership have no significant effect on discretionary accruals or have no significant effect on audit quality. This result is also consistent with the results reported in the main test. Third, this study tries to use another alternative proxy of the dependent variable of audit quality, which in the main test uses the proxy of earnings quality (discretionary accruals), changed to the proxy of auditor choice (Big-4/non Big-4) (Tantawy & Moussa, 2023). The company is counted as 1 if audited by Big-4 and 0 otherwise. Logistic regression is used because the dependent variable is a dummy variable. The sensitivity test results show that the corporate political connections and family ownership variables have a significance value of 0,001 and 0,002 with a negative relationship direction. This means that the variables of corporate political connections and family ownership have a significant negative effect on audit quality as measured using Big-4/non Big-4. So it can be concluded that companies with a high number of political connections and family ownership will tend to choose non-Big-4 auditors or low quality auditors. The results of this sensitivity test differ from the main test results where the two dependent variables have no effect on audit quality. This may occur due to differences in audit quality measurement approaches (input/output based). The two measurements measure audit quality from different perspectives. In this sensitivity test of the auditor choice proxy (Big-4/non Big-4), the R<sup>2</sup> value shows a larger amount of 0,138 or 13,8%, while in the main test it is only 0,037 or 3,7%.

## Discussion

### *The Influence of Corporate Political Connections on Audit Quality*

The first hypothesis states that corporate political connections has a negative effect on audit quality (as measured by discretionary accruals). Based on the results of hypothesis testing, it is found that corporate political connections (CPC) are positively related to discretionary accruals or negatively related to audit quality (AQ) and are not significant. This proves that **H1 is rejected**. The presence or absence of political connections owned by a company cannot influence the level of discretionary accruals of the company, in other words, it also does not affect the audit quality of the company's financial statements.

The results of this study do not support agency theory which states that political connections can cause agency problems through earnings management practices. The existence of political connections cannot always direct management to carry out earnings management. The results of this study are in line with research by Auliana (2023) and Antonius & Tampubolon (2019) who found that there is no influence between companies that have political connections and the level of discretionary accruals owned by the company as a proxy for audit quality. This can occur because politically connected companies tend to be more closely monitored and vulnerable to detection by the public, causing companies to be more careful in carrying out earnings management practices (Antonius & Tampubolon, 2019; Auliana, 2023). The risks faced by the company are greater if the company engages in opportunistic earnings management which can jeopardize the company's reputation.

In some cases, political connections are only used as a tool to gain access to resources (e.g. licenses, government projects, etc.), not as a tool to influence financial reporting practices. Therefore, the presence of political connections is more symbolic and not directly involved in the company's managerial decisions, including in accounting and financial reporting practices. In addition, there are also allegations that politically connected boards of commissioners and directors only act as a form of political protection for conglomerate companies or a form of political payback for state-owned companies from the elected president, so that the presence of politically connected commissioners or directors in the company does not affect the company's decision making.

The existence of political connections also does not necessarily affect auditor independence. External auditors are still bound by professional standards, ethics, and legal responsibilities in conducting audits. This maintains auditor objectivity in detecting and reporting aggressive earnings

management practices, so the existence of political connections have no direct implications for audit quality.

The results of this study differ from the research of [Chaney et al. \(2011\)](#), [Hashmi et al. \(2018\)](#), and [Maharti & Nugrahanti, \(2022\)](#) which provide empirical evidence that political connections affect corporate earnings management practices. Politically connected companies tend to report higher discretionary accrual values and have little motivation to report quality earnings ([Chaney et al., 2011](#)).

### ***The Influence of Family Ownership on Audit Quality***

The second hypothesis states that family ownership has a negative effect on audit quality (as measured by discretionary accruals). Based on the results of hypothesis testing, it is found that family ownership (FO) is positively related to discretionary accruals or negatively related to audit quality (AQ) and is not significant. This proves that **H2 is rejected**. The presence or absence of family ownership in a company cannot affect the level of discretionary accruals owned by the company, in other words, it also does not affect the audit quality of the company's financial statements.

The results of this study do not support type 2 agency theory which states that family ownership can cause agency problems by maximizing their own interests and harming other stakeholders. The amount of family ownership does not guarantee any influence on earnings management actions in a company. The results of this study are in line with the research of [Mardianto & Khellystina \(2021\)](#) which found that there is no influence between family ownership and the level of discretionary accruals owned by the company as a proxy for audit quality. This can happen because not all family ownership sits in the top management position of the company and has managerial power to decide accounting policies that can affect the high and low value of discretionary accruals. Therefore, if family ownership is only limited as a shareholder, the family will have little control in influencing decisions made by management. In addition, companies with family ownership are oriented towards long-term company continuity, therefore they are not too concerned with earnings management which only has a short-term effect.

The results of this study do not support the research of [Alhebri & Al-Duais \(2020\)](#), [Mardianto \(2020\)](#), and [Shiwa & Karina \(2023\)](#) who found a positive relationship between family ownership and discretionary accruals. Companies with family ownership have a higher level of accrual earnings management (measured using discretionary accruals) compared to non-family companies. The presence of more family members on the board can significantly reduce efforts to mitigate accrual earnings management ([Alhebri & Al-Duais, 2020](#)).

## **Conclusion**

This study aims to test and provide empirical evidence regarding the influence of corporate political connections and family ownership on audit quality in SOEs and conglomerate companies listed on the Indonesia Stock Exchange in 2021-2023. Based on the results of research findings and hypothesis testing, it can be concluded that corporate political connections as measured using a score index with the level of positions in the bureaucracy have no significant effect on audit quality, as well as family ownership as measured using the ratio of the number of family shares to total shares which is also not proven to have a significant effect on audit quality. This shows that the presence or absence of political connections and family ownership in a company does not necessarily affect the level of discretionary accruals (proxy for audit quality) owned by the company. This study has implications in providing references or additional information for investors regarding the company's audit quality which can be considered by investors when making an investment decision.

This research was only conducted on SOEs and conglomerates companies listed on the IDX, therefore the research results cannot be generalized to other sectors/types of companies. The period in this study is still relatively short, which is only limited to a span of 3 years from 2021-2023. Future

research can expand the research sample size including all companies listed on the IDX and extend the observation year period to obtain more comprehensive results.

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