

THE EFFECT OF AUDIT FEE, AUDIT TENURE, AND FIRM SIZE ON AUDIT QUALITY

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ABSTRACT

The aim of this study is to obtain empirical evidence regarding the effect of audit fee, audit tenure and firm size on audit quality in finance companies listed on the Indonesia Stock Exchange in 2018 – 2020. This study uses a purposive sampling method with 38 finance companies listed on the Indonesian Stock Exchange. The data in this study were inputted and calculated using the Microsoft Excel program and processed using the EViews 9.0 program. The result of this study indicate that audit fee has a significant negative effect on audit quality while audit tenure has no significant value on audit quality and firm size has a significant positive effect on audit quality.

Keywords: *Audit Quality, Audit Fee, Audit Tenure, Firm Size*

1. INTRODUCTION

With the development of the times, competition in the business world is also becoming increasingly fierce, seeing that many new competitors are entering the market with interesting innovations and increasingly advanced technology. Companies must continue to develop and have a competitive advantage over their competitors so their existence can continue to survive in the market. Therefore, now the management of the company must be very careful in shaping the strategy that will be carried out and making crucial decisions for the company. In order to do that, it is essential for management to have as much relevant information as possible so that they will not make the wrong decision when making strategies for the company. Both external information about competitors, market trend conditions, and internal information such as company financial reports that can describe the company's financial condition at that time are important pieces of information to know. A financial statement reflects many important information, including a company's financial condition and performance during a certain period, such as a balance sheet, an income statement, a cash flow statement, and a statement of changes in capital. Both internal and external users of financial statements need to confirm that the published financial statements contain accurate financial information and reflect the company's actual financial condition without any intentional adjustments. Transparent financial reports will undoubtedly increase the company's credibility for financial statement users. For internal parties, the information shown in the financial statements can be used to do evaluation about the company's performance during a certain period. It can also be used as a base line to make company operational decisions. For external parties, the information in the financial statements can be used as consideration for investing in the company and considering whether the company is capable or feasible to be given credit or loans. This causes the audit to have a significant role in the business world because the audit process carried out on the financial statements can assure users of financial statements that the contents of the financial statements can be used without problems and increase the credibility of the financial statements. This research is done to find out if audit fee, audit tenure and firm size have an effect on audit quality.

Our Contribution

This research benefits companies, investors, creditors, governments, and researchers. For companies, it is helpful as a source of information in assessing the performance of a good and healthy bank. For investors, it is a good basis for making investment decisions. For creditors, as a basis for decision-making in providing loans to companies. For the government, as a source of information in assessing the health condition of the company and for further researchers, it can be considered for guiding research.

Paper Structure

This paper is structured as follows. Section 1 explains the contribution of this paper. Section 2 explains research hypotheses and theories. Section 3 explains the methods and proxies used in this research. Section 4 explains the results and discussions of the research. Lastly, Section 5 concludes the research and presents directions for future researchers.

2. LITERATURE REVIEW

Agency Theory

Based on the theory explained by Jensen and Meckling (1976), an agency is an agreement in the form of a cooperation contract between shareholders as the principal and the manager as the agent, where the agent is the one that manages the company's operational activities and has to make important decisions for the company. They are responsible for the capital that the principal has deposited. Meanwhile, the principal is the party that provides resources in the form of capital, funds, and facilities to support the company's operational activities. However, this relationship is also not free from conflicts or differences in views on the agent's decisions. This conflict can be caused by differences in interests and opinions from both parties, where the agent may not act as the principal wishes. Differences in interests and opinions can arise from information asymmetry in the relationship, where there are differences in the level of information held by the two parties. To minimize the risks of this information asymmetry, the principal must present the company's financial information in a neat and easy-to-read financial report. To prevent manipulation of the financial data presented in the financial statements, the principals can use the services of an independent third party to ensure that the amounts recorded in the financial statements are accurate and proven. The principal can hire an independent auditor to perform assurance services and check the fairness of the company's financial statements prepared by the agent to ensure it is free from fraud (Arifuddin et al., 2017).

Moral Development Theory

This theory was initially researched by Piaget (1932), then redeveloped by Kohlberg (1958), who stated that logic and morality could develop through constructive stages. This theory views that moral reasoning is the basis of ethical behavior. In the auditing scope, the code of ethics is also emphasized, where an auditor performs their obligations in accordance with generally accepted codes of ethics. This theory can influence auditors to act honestly and fairly in carrying out their duties without being influenced by pressure, requests from any party, or personal interests that can affect the quality of the audit they perform (Chrisdinawidanty et al., 2016).

Audit Quality

According to the Indonesian Institute of Certified Public Accountants (2014) in Assidiqi (2019), the quality of an audit conducted by an auditor can be seen by whether the audit has met the applicable auditing requirements or standards such as the Public Accountant Professional Standards (SPAP), Generally Accepted Auditing Standards (GAAS) and quality control standards. Auditors must make these standards a reference and basis for carrying out their responsibilities in carrying out audits. Halim [6] states that if the financial statements have been audited in advance by an independent third party, such as an external auditor from a public accounting firm, users of financial statements will get assurance and be more convinced about the financial statements that will be used to make decisions. There was a case of audit failure in Indonesia that occurred in 2019, namely KAP Purwanto, Sungkoro, and Surja (Member of Ernst and Young Global Limited) which has been proven to violate capital market laws and the code of ethics for the public accounting profession. Sherly's Registered Certificate (STTD) was suspended for 1 year. The sanction is related to the overstatement of revenue at PT. Hanson International Tbk. worth Rp 613 billion for the 2016 annual financial statements. Relating to the agency theory, audit quality is an important thing to make sure that there will be no information asymmetry between firm's management and shareholders hence the reason why this research uses audit quality as a dependent variable.

Audit Fee and Audit Quality

According to Halim (2015), audit fees are important in accepting an audit assignment because it requires a mutual agreement agreed upon by both parties, namely between the client and the auditor. Public accountants are also required to consider client needs, the time necessary to carry out the audit, the level of complexity of the work, the number of personnel, the level of expertise, and the basis for determining the agreed audit fee. Agency Theory explains that a high audit fee is expected to motivate external auditors to carry out the audit process more thoroughly to produce higher audit quality so that information asymmetry between agents and principals will decrease.

Ha1: Audit fee has a significant positive effect on audit quality

Audit Tenure and Audit Quality

According to Sinaga (2012), audit tenure is the length of the external auditor's engagement period with the company, which is measured by calculating how many years the auditor has engaged with the same company in sequence. The engagement period can influence auditor independence because the relationship between the client and the auditor has an influence on the auditor's objectivity, and there is a possibility of bias in the audit process. In accordance with Agency Theory, the longer the audit tenure between the client company and its external auditor is expected to improve the quality of the audit carried out because the auditor is more familiar with the system and procedures for managing the company's management and finances. Good audit quality can reduce conflicts that occur between agents and their clients because it can minimize misunderstandings that may occur due to the lack of information owned by the principal.

Ha2: Audit tenure has a significant positive effect on audit quality

Firm Size and Audit Quality

According to Aristika et al. (2016), company size can be measured by total assets, sales, subsidiaries, and labor a company own. The better the results of these measurements, the bigger the company's presence is in the market. According to Sari and Kristanti (2015), company size can be measured by the calculation of the company's total assets. The value of total assets can reflect how rich a company is, so if the company owns the greater value of assets, the company can be classified in the large category. Agency Theory explains that good audit quality can minimize conflicts that occur between agents and principals, where agents are company management and principals are shareholders. If the company has a large firm size, it is expected to improve the quality of audits conducted by external auditors because large companies tend to have management systems and internal control systems that are more controlled and organized so that it can facilitate auditors in carrying out the audit process and the resulting audit quality is expected to be better.

Ha3: Firm size has a significant positive effect on audit quality.

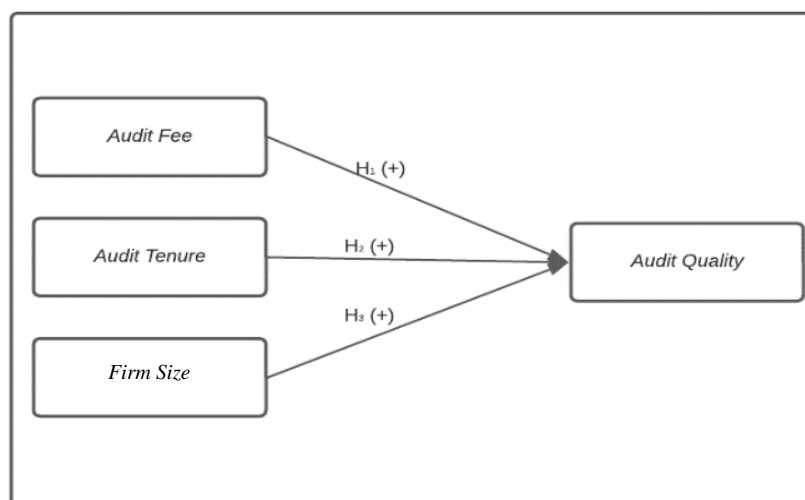


Figure 1. Research Model

3. RESEARCH METHODS

This research is based on quantitative data from all finance companies that are listed on the Indonesia Stock Exchange (IDX) from 2018 until 2020. A non-probability sampling technique is used in this research with a purposive sampling method to select the research sample based on the specified criteria. These criteria include: (1) Finance companies listed on the IDX from 2018 – 2020 consecutively; (2) Finance companies that published their financial statements that end as of December 31 during the 2018 – 2020 period; (3) Finance companies that include information about audit fee on their published financial statements.

From a total population of 105 finance companies that were consecutively listed on the IDX between 2018 and 2020, a sample of 38 finance companies were selected using the criteria described. This research used EViews 9.0 program and Microsoft Excel program to process the corporate data in annual reports. This study used a type of regression analysis which is the

logistic regression analysis to calculate the effect between the independent variables and dependent variables.

Table 1. Variables in This Research

Variable	Formula	Sources
Audit Quality	$ROA = \frac{Net\ Profit}{Total\ Assets}$	[10]
Audit Fee	Size = Ln (Total Fee)	[11]
Audit Tenure	The number of years the auditor has engaged with the same company in sequence	[11]
Firm Size	Size = Ln (Total Assets)	[9]

4. RESULT AND DISCUSSION

Test of Descriptive Statistics

Out of the 114 samples data used in this paper, the minimum value of the audit fee variable is Ln 17.82284. This figure comes from the company data of PT. Panca Global Kapital Tbk. in 2018. While the maximum value obtained from the audit fee variable is Ln 23.46564 which is obtained from the company data of PT. Bank Rakyat Indonesia (Persero) in 2020. The average value obtained from 114 samples of the audit fee variable is Ln 20.84674 with a standard deviation value of Ln 1.322927. This shows that the average audit fee variable tends to be homogeneous because the average value is bigger than the standard deviation value. Out of the 114 samples data used in this paper, the minimum value of the audit tenure variable is 1 which indicates that the company has a low engagement period with the Public Accounting Firm because it only cooperates with the relevant external auditor for one year. The maximum value obtained from the audit tenure variable is 3 which indicates that the company has had an engagement period with the Public Accounting Firm for 3 consecutive periods. The audit tenure variable's average value obtained is 1.394737 and the standard deviation value obtained is 0.618568. This shows that the average audit tenure variable tends to be homogeneous because the average value is bigger than the standard deviation value. Of the 114 samples data used in this paper, the minimum value of the company size variable is Ln 26.93298. This figure comes from the company data of PT. Buana Artha Anugerah Tbk. in 2020. While the maximum value obtained from the company size variable is Ln 34.95208 which is obtained from the company data of PT. Bank Rakyat Indonesia (Persero) in 2020. The average value obtained from 114 samples of company size variables is Ln 30.50907 with a standard deviation value of Ln 2.145141. This shows that the average company size variable tends to be homogeneous because the standard deviation value is smaller than the average value.

Multicollinearity Test

The existence of multicollinearity in data can be determined by looking at the correlation coefficient of the computer output results. This test determines whether if the independent variable has any correlation between them. If the correlation value is < 0.85, it concludes that there is no multicollinearity.

Table 2. Multicollinearity Test

	AF	AT	UK
AF	1.000000	-0.175458	0.800543
AT	-0.175458	1.000000	0.033614
UK	0.800543	0.033614	1.000000

Source: Output from EViews 9.0

Based on the test of the correlation value, each variable has a coefficient value of < 0.85 , and it can be said that the model does not experience multicollinearity problems.

Overall Model Fit-Test

According to Ghozali (2013), this test has the goal to assess the model that has been hypothesized whether it is fit or not with the data used in the study.

Table 3. Overall Model Fit Test

McFadden R-squared	0.233084	Mean dependent var	0.903509
S.D. dependent var	0.296567	S.E. of regression	0.270060
Akaike info criterion	0.556867	Sum squared resid	8.022558
Schwarz criterion	0.652874	Log likelihood	-27.74141
Hannan-Quinn criter.	0.595831	Deviance	55.48282
Restr. deviance	72.34538	Restr. log likelihood	-36.17269
LR statistic	16.86256	Avg. log likelihood	-0.243346
Prob(LR statistic)	0.000754		

Source: Output from EViews 9.0

The result of the overall model fit test above shows that the probability value (LR-Statistics) is less than 0.05, so it can be concluded that in this study, the model that has been hypothesized fits with the data used.

Hosmer and Lemeshow's Goodness of Fit Test

Hosmer and Lemeshow's Goodness of Fit Test is a test used to see the feasibility of the regression model as measured by the chi square value with a significance value of 0.05.

Table 4. Hosmer and Lemeshow Test

	Quantile of Risk		Dep=0		Dep=1		Total Obs	H-L Value
	Low	High	Actual	Expect	Actual	Expect		
1	0.2348	0.7240	3	4.53532	8	6.46468	11	0.88437
2	0.7319	0.8347	4	2.37682	7	8.62318	11	1.41405
3	0.8408	0.9055	2	1.47082	10	10.5292	12	0.21699
4	0.9096	0.9347	0	0.82553	11	10.1745	11	0.89251
5	0.9372	0.9533	1	0.62995	11	11.3701	12	0.22942
6	0.9533	0.9630	0	0.45295	11	10.5471	11	0.47240
7	0.9640	0.9748	1	0.34166	10	10.6583	11	1.30917
8	0.9761	0.9845	0	0.23661	12	11.7634	12	0.24137
9	0.9867	0.9944	0	0.10261	11	10.8974	11	0.10358
10	0.9947	0.9999	0	0.02774	12	11.9723	12	0.02780
Total			11	11.0000	103	103.000	114	5.79167
H-L Statistic			5.7917		Prob. Chi-Sq(8)		0.6706	
Andrews Statistic			56.7670		Prob. Chi-Sq(10)		0.0000	

Source: Output form EViews 9.0

The result of the Hosmer and Lemeshow’s Goodness of Fit Test above shows that the chi square value is 0.6706 which is greater than 0.05, so it can be concluded that there is no significant difference between the model and its observation value and the model is feasible to be used further.

Logistic Regression Analysis

Hypothesis testing in this research uses logistic regression analysis to test the effect of independent variables (Audit Fees, Audit Tenure and Firm Size) on their dependent variable (Audit Quality).

Table 5. Logistic Regression Analysis

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	8.267206	7.097268	1.164843	0.2441
X1	-1.694744	0.600070	-2.824245	0.0047
X2	1.112399	1.089157	1.021339	0.3071
X3	0.937861	0.298756	3.139224	0.0017

Source: Output form EViews 9.0

Based on Table 5, the regression equation model can be formulated as follows.

$$\text{Audit Quality} = 8.267206 - 1.694744 \text{ AF} + 1.112399 \text{ AT} + 0.937861 \text{ UK} + \varepsilon$$

Based on the regression model equation above, it shows that if the audit fee, audit tenure, and firm size have constant value, then the value of audit quality as the dependent variable will be 8.267206.

The coefficient of Audit Fee is -1.694744 which has the meaning that if the Audit Fee variable is increased by one unit and the independent variables (Audit Tenure and Firm Size) are constant, the value of the dependent variable (Audit Quality) will decrease in value by 1.694744 units.

The coefficient of Audit Tenure is 1.112399 which has the meaning that if the Audit Tenure variable is increased by one unit and the independent variables (Audit Fee and Firm Size) are constant, the value of the dependent variable (Audit Quality) will increase by 1.112399 units.

The coefficient of Firm Size shows a result of 0.937861 which shows that if the Firm Size variable is increased by one unit and the independent variables (Audit Fee and Audit Tenure) are constant, the value of the dependent variable (Audit Quality) will increase by 0.937861 units.

R-Squared McFadden

The coefficient of determination test is made to measure how far a model's ability to explain variations in the dependent variable [12].

Table 6. R-squared McFadden Test

McFadden R-squared	0.233084	Mean dependent var	0.903509
S.D. dependent var	0.296567	S.E. of regression	0.270060
Akaike info criterion	0.556867	Sum squared resid	8.022558
Schwarz criterion	0.652874	Log likelihood	-27.74141
Hannan-Quinn criter.	0.595831	Deviance	55.48282
Restr. deviance	72.34538	Restr. log likelihood	-36.17269
LR statistic	16.86256	Avg. log likelihood	-0.243346
Prob(LR statistic)	0.000754		

Source: Output form EViews 9.0

The R-squared McFadden number is 0.233084 which means that the percentage of the contribution of the influence of the independent variable on the dependent variable is 23.3% or it can be interpreted that the independent variable used in the model can explain 23.3% of the dependent variable so that the other 76.7% influenced by other factors outside this regression model. It can be concluded that the variables of Audit Fee, Audit Tenure and Firm Size can only explain the Audit Quality variable of 23.3.

Z-Statistics Test

The Z-statistics test is a test that has the aim of seeing the independent variable's effect on the dependent variable.

Table 7. Z-Statistics Test

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	8.267206	7.097268	1.164843	0.2441
X1	-1.694744	0.600070	-2.824245	0.0047
X2	1.112399	1.089157	1.021339	0.3071
X3	0.937861	0.298756	3.139224	0.0017

Source: Output from EViews 9.0

The Effect of Audit Fee on Audit Quality

The result of the Z-statistics test shows that the probability of the audit fee variable is 0.0047, which is less than 0.05. However, the coefficient is – 1.694744 so it can be concluded that Ha1 is rejected and it means that audit fee has a significant negative effect on audit quality.

The Effect of Audit Tenure on Audit Quality

The result of the z-statistics test shows that the probability of the audit tenure variable is 0.3071, which is greater than 0.05. The coefficient is 1.112399 so it can be concluded that Ha2 is rejected and it means that audit tenure has no significant effect on audit quality.

The Effect of Firm Size on Audit Quality

The result of the z-statistics test shows that the probability of the firm size variable is 0.0017, which is less than 0.05. The coefficient is 0.937861 so it can be concluded that Ha3 is accepted and it shows that firm size has a significant positive impact on audit quality.

5. CONCLUSION

Looking at the discussion described above, conclusions can be drawn from this study, such as:

Audit fee variable has a regression coefficient of -1.694744 and a significance value of 0.0047. This significance value is lower than the set significance level of 0.05, so it can be concluded that the audit fee variable has a significant and negative effect on the audit quality of finance companies that are listed on the IDX during the 2018-2020 period. Therefore, the first hypothesis or Ha1 is rejected. This result is in line with research from Fitriany et al (2015) and Assidiqi (2019) and not in line with research from Diyanti and Wijayanti (2019).

Audit tenure variable has a regression coefficient of 1.112399 and a significance value of 0.3071. This significance value is greater than the set significance level of 0.05, so it can be concluded that the audit tenure variable has no significant effect on the audit quality of finance companies that are listed on the IDX during the 2018-2020 period. Therefore, the second hypothesis or Ha2 is rejected. This result is similiar with research from Darmawan and Ardini (2021) and not in line with research from Diyanti and Wijayanti (2019).

Firm size variable has a regression coefficient of 0.937861 and a significance value of 0.0017. This significance value is less than the set significance level of 0.05, so it can be concluded that the firm size variable has a significant and positive effect on the audit quality of finance companies listed on the IDX for the 2018-2020 period. Therefore, the third hypothesis or Ha3 is accepted. This result is similar with research from Purnamasari and Negara (2019) and not in line with research from Indriyani and Meini (2021).

The result of R-Squared McFadden Test shows the value of 0.233084, which means independent variable used in the model can explain 23.3% of the dependent variable so that the other 76.7% influenced by other factors outside this regression model. It can be concluded that the variables of Audit Fee, Audit Tenure and Firm Size can only explain the Audit Quality variable of 23.3.

This research certainly has some limitations. The variables used in this study were only three independent variables. Future research will be expected to add other independent variables. The study data is also limited to the financial industry in a short period of time, namely only from 2018 to 2020. Further research is expected to be carried out on a wider sector and use longer period in order to reflect better conditions.

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