

## Audit fees, audit quality, and auditor performance: Insights from Indonesian professionalism

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### ABSTRACT

This study aims to analyze the factors that influence audit quality, namely the audit committee, audit tenure, audit fee, PAF (Public Accounting Firm) rotation, and client company size. The population in this study were all manufacturing companies on the Indonesia Stock Exchange for the 2019-2022 period and the sample of this study was 76 manufacturing companies that met the sample criteria during the study period. The sampling technique in this study used the purposive sampling method and used logistic regression to analyze. Based on the study, it can be concluded that the audit committee, audit tenure, and PAF rotation do not have an effect on audit quality. Meanwhile, audit fees and client company size have a positive effect on audit quality. This shows that large companies are able to pay high fees to auditors will obtain quality audit results. The implications of this study indicate that there is a tendency that auditors in Indonesia will work as well as possible if they get a promising fee, so it is necessary to emphasize to auditors the importance of a professional attitude that a professional's work does not only depend on the fee they get.

### Introduction

In today's era of globalization, competition in the public accounting services business is getting tighter. In order to survive in the midst of this very tight competition, public accounting services that operate as an independent third party need a strategy to manage as many clients as possible and gain great trust in order to prevent conflicts of interest between management and shareholders. Public accounting services are also useful for providing appropriate and accurate information in decision making and ensuring the truth between financial statements and existing accounting standards (Laili, 2021).

Companies need the services of accountants to audit financial reports so that external parties are confident that the information presented by the company's management is reliable. Auditing according to Purba and Umar (2021) is a process undertaken by individuals who have expertise in collecting evidence regarding information on an entity with the aim of evaluating the extent to which the level of conformity of the information is measured with predetermined criteria and then providing a report on the results of the evaluation.

Audit quality is one of the benchmarks of public trust. The results of audit quality will later be used to increase the credibility of financial reports so as to reduce the risk of non-credible information in financial reports for users, especially investors (Fauziyyah & Praptiningsih, 2020). Audit quality can change due to various factors, both internal and external. The first factor that affects audit quality is the audit committee. The audit committee is related to audit quality because it functions as a supervisory body that follows up and ensures the quality of financial reports. The audit committee is formed by the board of commissioners who serve as supervisors and are responsible for the implementation of the company's operations. Its function is expected to minimize management actions that prioritize personal interests (Susilowati et al., 2021). However, research conducted by Yolanda et al. (2019) and Effendi and Ulhaq (2021) actually shows that the audit committee does not have a significant effect on audit quality. The existence of an audit committee and an independent committee on the company does not affect the proxy of going concern opinion and non-going concern opinion.

The second factor that affects audit quality is audit tenure. Audit quality can be analyzed from how long the tenure is between the auditor and the client. The tenure engagement period is the focus of much debate because the longer the relationship will provide closeness between the auditor and the client and will change the level of auditor independence and reduce audit quality (Karno et al., 2022). According to Nugroho (2018), the concept of

audit tenure with audit quality is interpreted as having an agreement in advance between the auditor and the client to make it easier for the auditor to understand the presentation and recording carried out by the client so that it can help the audit process and can improve audit quality. In the research of [Purnomo and Aulia \(2019\)](#) and [Laili \(2021\)](#) it was stated that audit tenure has a negative effect on audit quality. Meanwhile, in the research of [Hasanah and Putri \(2018\)](#), it was stated that audit tenure has the opportunity to influence audit quality. The audit tenure that has the opportunity can increase the closeness of the audit to the company which causes fraud.

The determination of the amount of the audit fee by the auditor with the client is considered to affect the quality of the audit. According to [Yefni and Sari \(2021\)](#), audit quality is highly dependent on the audit fee so that the higher the audit fee, the more qualitative and reliable the audit results are. In a study conducted by [Mauliana and Laksito \(2021\)](#), it was stated that audit fees had a positive and significant effect on audit quality. However, there were different results in [Laili \(2021\)](#) which stated that audit fees had a positive but not significant effect on audit quality.

Furthermore, in this study, the factor that can affect audit quality is PAF rotation. PAF rotation can prevent special relationships and fraudulent actions due to long tenure. In a study conducted by [Fauziyyah and Praptiningsih \(2020\)](#) which proved that PAF rotation had no effect on audit quality so it was rejected. Meanwhile, [Laili \(2021\)](#) in the previous study stated that PAF rotation had a positive effect and had a significant effect on audit quality because the research company used was a public company that was already listed on the stock exchange.

Then the variables that are assessed can affect audit quality, namely the size of the client company. Usually companies with large sizes will get more attention from the media. On the other hand, companies with smaller sizes are assumed to have weak information and audits ([Berikang et al., 2018](#)). Based on research by [Ayu et al. \(2019\)](#) and [Yasmin \(2022\)](#), it is proven that company size has an impact on audit quality. The size of the majority of companies experienced increasing changes and showed increasingly positive changes in audit quality when the company's total assets increased. Based on the description and the results of several previous studies which showed inconsistent results and allowed for bias in the research, the researcher conducted a replication study by taking the factors of Audit Committee, Audit Tenure, Audit Fee, PAF Rotation, and Client Company Size with audit quality measurement based on a variable dummy.

## Literature Review

### Agency Theory

The rationale for this study uses agency theory. Agency theory explains the relationship of interest between management (agent) and holders (principal). According to [Ayu et al. \(2019\)](#) explains that an agency relationship is an agreement in which one or more people assign another person to perform a service on their behalf and give some decision-making authority to the agent. In agency theory, there is a separation of control and power between the agent and the principal which results in a desire to maximize the interests of each party.

In order to fulfill their obligations and duties, agents have a responsibility to strive to optimize the sustainability of a company's owner. Meanwhile, the principal has an interest in obtaining reliable information regarding agent activities and invested funds. However, the principal cannot monitor the company's activities every day. Unlike agents who have broader access so they can obtain internal information and company developments. Due to frequent conflicts caused by the interests of the two parties that are not always aligned, an independent third party is needed to manage the company and examine the financial reports prepared by management ([Andriani & Nursiam, 2018](#)).

According to the Public Accountant Professional Standards (SPAP) in Auditing Standards (SA) 200 which regulates the overall responsibilities of independent auditors, auditors must uphold professional ethics such as independence, objectivity, and professionalism. This shows that auditors have an obligation to prioritize the public interest in carrying out their duties.

### Audit Quality

In companies, audits are very much needed because the auditor's opinion acts as an independent third party and determines the credibility of the financial statements. The term audit quality has different meanings for each individual. Users of financial statements argue that audit quality is considered achieved if the auditor can provide assurance that there are no material misstatements or fraud in the financial statements ([Purba & Umar, 2021](#)). Audit quality is the hope of users of audit services who rely on financial statements that are free from material misstatements. Therefore, auditors are expected to provide quality audits ([Sihombing & Silaban, 2023](#)).

Audit quality as the probability of the market value that the financial statements contain material errors and the auditor successfully finds and reports the material errors ([Purba & Umar, 2021](#)). According to [Andriani and Nursiam \(2018\)](#), the probability of finding violations is related to the auditor's technical ability and the probability of reporting violations depends on the auditor's independence. A comprehensive audit can be explained as a

systematic process carried out to obtain and evaluate evidence in an objective manner related to statements of economic activity. The aim is to assess the extent to which these statements are in accordance with the established criteria and the results of the evaluation are then communicated to interested parties (Hasanah & Putri, 2018).

#### Audit Committee

The audit committee is part of good corporate governance which functions to assist the board of commissioners in carrying out internal control (Pertiwi & Husaini, 2017). The existence of an audit committee that is closely related to the enforcement of good corporate governance is a benchmark for assessing whether a company has implemented good corporate governance or not. The important role of the audit committee in creating good corporate governance creates demands to maintain independence in order to carry out the supervisory function effectively. This is to continue to encourage improvement efforts for company management so that it can carry out business operations in accordance with applicable regulations (Tambunan & Tambunan, 2021).

The effectiveness of the audit committee's performance is measured through the characteristics of independence, size, and number of audit committee meetings. The independence of the audit committee is useful for important indicators that can determine the quality of the committee's oversight function itself. The independence of the audit committee is related to how much involvement the audit committee members have in the company's activities. An audit committee that works independently and competently can be said to be an audit committee that operates effectively. An effective audit committee means an audit committee that successfully achieves its goals in accordance with its duties and responsibilities in carrying out its oversight function (Pertiwi & Husaini, 2017). The size of the audit committee is related to the number of members, while the number of meetings is related to the activities of the audit committee. The more members of the audit committee are expected to increase the effectiveness of the implementation of the audit committee's duties. The number of meetings where the more frequent the audit committee meetings are held will increase the effectiveness of company monitoring and audit quality (Saepudin et al., 2018).

#### Audit Tenure

According to Hasanah and Putri (2018), the definition of audit tenure is the length of the engagement between the auditor and the client measured in years. In addition, audit tenure is also related to the level of familiarity between the auditor and the client. The involvement of the auditor with the client for a long period of time can increase the risk of losing auditor independence. The lost independence can be seen from the level of difficulty for the auditor in conveying a going concern opinion. The higher the quality of the auditor, the longer the engagement period can be continued.

However, a long-term cooperative relationship between the auditor and the client can improve the auditor's understanding of the company's condition so that the auditor is easier to detect and conduct audits and report on the independent auditor's report (Ardhiyanto, 2020). The length of the audit tenure examination is measured by taking into account the period when the same public accounting firm has carried out the audit examination task. Tenure has the potential to be controversial when the audit tenure period is carried out in the short term and is carried out in a longer period. According to Andriani and Nursiam (2018), when the tenure period is short, namely when the auditor accepts a new client, it will take more time for the auditor to understand the client and its business environment. The short tenure period causes limitations in obtaining information including data and evidence. Therefore, if there is an error or attempt to remove data by the manager, it will be difficult to find it.

#### Audit Fee

Audit fee is a reward received by a public accountant after completing an audit service, the amount depends on the risk of the assignment, the complexity of the services provided, the level of expertise required to carry out the service, and the cost structure of the relevant PAF (Andriani & Nursiam, 2018). Determination of the audit fee is generally based on a contract between the auditor and the party to be audited according to the time the audit process is carried out, the type of service, and the number of staff required during the audit (Purnomo & Aulia, 2019). The audit fee is usually determined before the audit process begins. The determination of the fee needs to be agreed between the client and the auditor to avoid a fee war that can damage the credibility of the public accountant.

#### Public Accounting Firm Rotation

The relationship between PAF rotation and audit quality related to audit reports shows that policies that support this rotation have a positive effect on the quality of audit reports because they have a new approach and restore public trust in the audit function (Laili, 2021). In Indonesia, PAF rotation is mandatory. To anticipate the recurrence of several audit cases in Indonesia, the Indonesian Institute of Accountants (IAI) issued a policy to rotate PAFs,

namely in the Regulation of the Financial Services Authority of the Republic of Indonesia Number 9 of 2023 concerning the Use of Public Accountant Services and Public Accounting Firms in Financial Services Activities which explains that the provision of audit services for financial statements of an entity can be carried out by a PAF for a maximum of 5 consecutive years.

#### Client Company Size

Companies are generally divided into three criteria, namely large firms, medium-sized, and small firms. Small firms have a limited amount of information when compared to large firms. Large companies tend to have a higher level of analysis and percentage of ownership. In addition, the media also tends to pay more attention to large firms, so that small firms often get less attention from shareholders. This shows a lack of intensive monitoring information on small firms (Berikang et al., 2018).

In general, large firms tend to have better assets than small firms, so companies choose PAF with a good reputation and offer high audit fees to obtain better audit quality. The size of a company that has large assets also illustrates the good growth and development of the company so that investors are more optimistic in investing in the company (Dahar et al., 2019). Therefore, company size is one of the influences on audit quality.

#### Hypothesis Development

##### The Influence of the Audit Committee on Audit Quality

The audit committee is a committee that is responsible to the board of commissioners and is tasked with providing recommendations to the board of commissioners regarding the selection of public accountants and public accounting firms to be submitted at the General Meeting of Shareholders (GMS) (Yolanda et al., 2019). In the Financial Services Authority regulation number 55 / POJK.04 / 2015, it is stated that the audit committee consists of a minimum of 3 (three) members who come from independent commissioners and parties from outside the public company issuer. It is expected that the greater the number of audit committees, the greater the effectiveness of the implementation of their duties because the audit committee has resources that can handle various problems faced by the company (Saepudin et al., 2018).

The audit committee is considered more effective in carrying out its duties if it holds intensive audit committee meetings. The more effective the audit committee, the less likely it is to restate the financial statements, which means that the statements are less likely to contain material misstatements (Wedari, 2016). So that frequent audit committee meetings will make the company more effective and audit quality will be good (Saepudin et al., 2018).

The study found that the committee has a positive coefficient value so that the audit committee has a positive effect on audit quality (Triyanto & Putri, 2023). The results of this study support previous research conducted by Lailatul and Yanthi (2021) which made the audit committee a means of information to reduce information asymmetry by increasing the frequency of audit committee meetings. The high frequency of audit committee meetings allows its duties and responsibilities to be carried out more effectively, thus providing the best audit quality. Based on the analysis above, the following hypothesis can be formulated:

H<sub>1</sub>: The audit committee has a positive effect on audit quality.

##### The Effect of Audit Tenure on Audit Quality

Audit tenure is the term of the engagement relationship between the auditor and his/her client (Andriani & Nursiam, 2018). The length of the cooperative relationship between the auditor and the client can help the auditor better understand the condition of the company so that it can facilitate the audit and can easily detect and report findings in the independent auditor's report. The auditor conducts inspections and supervision of management performance to ensure that the goals that have been set can be achieved (Buchori & Budiantoro, 2019). The longer the cooperative relationship between the auditor and the client, the higher the audit quality that can be achieved. This is because the auditor already understands the characteristics of the audited client so that the cooperative relationship will make it easier for the auditor to obtain the information and evidence needed during the audit process (Nabila & Hartinah, 2021).

The results of research conducted by Ndubuisi et al. (2019) and Zulyazen and Solihin (2024) show that audit tenure has a positive and significant effect on audit quality. This shows that longer cooperation between auditors and clients is believed to improve audit quality. This is because auditors who have worked with clients for a long time have a greater opportunity to understand the client's business, operational processes, and associated risks. Based on the analysis above, the following hypothesis can be formulated:

H<sub>2</sub>: Audit tenure has a positive effect on audit quality.

### The Influence of Audit Fees on Audit Quality

Quality is a component of professionalism that must be maintained by professional public accountants. Independent means that public accountants prioritize client interests over personal or management interests in preparing independent auditor reports (Laili, 2021). Independent reports prepared by auditors do not consider the size of the audit fee received. Therefore, in determining the audit fee, it is very susceptible to influencing auditor independence and the quality of the audit produced.

Research conducted by Fauziyyah and Praptiningsih (2020) states that audit fees have a positive effect on audit quality and shows that the higher the audit fee generated by the client company, the better the audit results will be. This is based on the assumption that paying auditors with higher rewards will encourage auditors to conduct audits more carefully so as to produce good audit quality. Therefore, companies will tend to spend large amounts of audit fees with the aim of hiring auditors who are able to provide accurate audit reports so as to increase the credibility of their financial statements. Based on the analysis above, the following hypothesis can be formulated:

H<sub>3</sub>: Audit fees have a positive effect on audit quality.

### The Effect of Public Accounting Firm Rotation on Audit Quality

Financial accounting firm rotation is the change of public accounting firms where public accountants in Indonesia can only audit a company's financial statements for a maximum of 3 consecutive years (Andriani & Nursiam, 2018). Regulations regarding audit rotation are regulated in the Regulation of the Minister of Finance Number 17/PMK.01/2008 Concerning Public Accounting Services which contains the provision of audit services for the financial statements of an entity carried out by a Public Accounting Firm for a maximum of 6 consecutive financial years and by a Public Accountant for a maximum of 3 consecutive financial years (Purnomo & Aulia, 2019). The regulation aims to maintain the integrity and independence of the audit and improve the quality of financial statements.

Financial accounting firm rotation is one of the external factors that will affect audit quality which is carried out to maintain public trust in the Public Accounting Firm and improve audit quality. This is due to the close relationship between auditors and management due to audit rotation which can make it difficult for auditors to convey audit results effectively and make the right decisions. While public accounting firms and their clients state that their goal is to improve audit quality, in fact the regulations governing audit rotation are based on the belief that auditor independence is influenced by the length of their relationship with the company (Maria et al., 2024).

Research conducted by Permatasari and Astuti (2019) explains that PAF rotation has a significant positive impact on audit quality. According to researchers, audit quality will increase if the PAF's reputation is higher. So that PAF rotation is expected to reduce the risk of establishing special personal relationships and be free from pressure from client companies so that it can improve audit quality. Based on the analysis above, the following hypothesis can be formulated:

H<sub>4</sub>: PAF rotation has a positive effect on audit quality.

### The Influence of Client Company Size on Audit Quality

Company size is defined as a scale to describe the size of a company expressed in total company assets (Yasmin, 2022). The greater the total assets owned, the larger the company size. When company assets increase, the company's capital also increases. In addition, the greater the market capitalization, the greater the company is known in the community (Luthfisahar, 2020).

Large companies usually have more experienced management levels and better internal control systems so that large companies tend to produce higher quality audits. According to Indriyanti and Meini (2021) the internal control system carried out by company management aims to ensure that everything done by the company is done correctly and in accordance with applicable regulations. The existence of a good control system in large companies will improve the quality of audit results because it makes it easier for auditors to obtain the information they need. The results of this study are also in line with previous research conducted by Buchori and Budiantoro (2019), the size of the client's company has a positive and significant impact on audit quality. The larger a company is, the better the internal control it has, which will improve audit quality. Based on the analysis above, the following hypothesis can be formulated:

H<sub>5</sub>: The size of the client company has a positive effect on audit quality.

### Research Method

This study uses a population of manufacturing companies listed on the Indonesia Stock Exchange in 2019-2022. In this study, sampling uses a purposive sampling method, which uses samples based on certain considerations or criteria. The criteria used in this study are as follows:

1. Manufacturing companies listed on the Indonesia Stock Exchange in 2019-2022.



2. Manufacturing companies that have published annual reports and financial statements that have been audited by public accountants.
3. Manufacturing companies that include professional fees accounts in annual financial statements.
4. Manufacturing companies that display information about total assets in audited financial statements.
5. Manufacturing companies that have not been delisted from the Indonesia Stock Exchange.

Based on the established criteria, there are 76 manufacturing companies included as samples in the study. This study is a quantitative study that uses secondary data from the audited annual financial statements of manufacturing companies in 2019-2022 that are listed on the Indonesia Stock Exchange (IDX). The data collection technique in this study uses documentation data, namely by reviewing secondary data sourced from the official website of the Indonesia Stock Exchange (IDX) ([www.idx.co.id](http://www.idx.co.id)) and the company's official website.

This study uses the logistic regression data analysis method because the dependent variable is dummy (0 and 1). Code 1 is given to companies audited by Big Four, while code 0 is given to companies audited by Non-Big Four. Hypothesis testing also uses logistic regression analysis. The stages in this logistic regression analysis include assessing the model (Overall Model Fit), testing the feasibility of the regression model (Goodness of Fit Test), testing the coefficient of determination by looking at the Nagelkerke R Square value, and testing the regression coefficient.

## Result and Discussion

### Descriptive Statistical Analysis

Descriptive statistics aim to provide descriptions, overviews and information about the data used in a study. This information is in the form of average values (mean), minimum, maximum, and standard deviation which can be seen to describe the dependent variables and independent variables used in the study as shown in Table 1.

Tabel 1. Result of Descriptive Statistics Analysis

	N	Min	Max	Mean	Std.Deviation
Audit Quality	304	0	1	.37	.482
Audit Committee	304	2	5	3.06	.340
Audit Tenure	304	0	1	.55	.498
Auditor Fee	304	17.504	23.689	20.428	1.191
Audit Rotation	304	0	1	.16	.368
Firm Size	304	6.246	14.726	10.481	2.255
Valid D (listwise)	304				

Source: Secondary data processed in SPSS, 2024

In table 1 based on descriptive statistics, it can be seen that the audit quality variable analyzed through descriptive statistics shows a minimum value of 0. This means that the company does not use the services of a Non-Big Four PAF, while the maximum audit quality value is 1, which means that the company uses the services of a Big Four PAF. Audit quality has an average value of 0.37, which means that the number of companies using Big Four PAF is 37% with a standard deviation value of 0.482.

The audit committee variable has a minimum value of 2 and a maximum of 5, which indicates the number of audit committee members in each company. The mean of the number of audit committees obtained from the descriptive statistical analysis is 3.06 with a standard deviation of 0.340.

The results of the analysis of the audit tenure variable show that the minimum value is 0, indicating that the auditor company has an engagement of less than 3 years. Meanwhile, the maximum value is 1 which indicates that the length of the engagement is more than or equal to 3. Of the 304 samples analyzed, the mean audit tenure value is 0.55 and the standard deviation is 0.498.

The audit fee variable has a minimum and maximum value of 17,504 and 23,689 obtained from the natural logarithm results that explain the audit service costs incurred by the company. The audit fee has an average value of 20,428 from the analysis results and a standard deviation value of 1,191.

The PAF rotation variable has a minimum value of 0, meaning that the company does not change PAFs. While the maximum value of PAF rotation is 1, which means that the company changes PAFs. PAF rotation has an average value of 0.16 with a standard deviation of 0.368.

The results of the analysis on the client company size variable show a minimum value of 6,246, which means that the company has the lowest company size obtained by PT FKS Food Sejahtera, while the maximum value of company size is 14,726 obtained by PT Goodyear Indonesia. The average value of company size is 10,481 with a standard deviation of 2,255.

### Logistic Regression Analysis

#### Testing the Overall Model Fit

To test the overall model in logistic regression analysis, we can compare the initial -2 Log Likelihood value (Block Number = 0) and the final -2 Log Likelihood value (Block Number = 1). The results of the analysis used to test the overall model are shown in Table 2.

Table 2. Overall Model Fit

-2 Log Likelihood	Nilai
Block Number = 0 (beginning)	399.039
Block Number = 1 (end)	258.338

Source: Secondary data processed in SPSS, 2024

The results of the analysis in Table 2 above show that the initial -2 Likelihood value (Block Number = 0) is 399,039 and the final -2 Log Likelihood (Block Number = 1) is 258,338. The decrease in value in this model can be interpreted as a better regression model or in other words the hypothesized model fits the data.

#### Testing the Feasibility of the Regression Model (Goodness of Fit Test)

In this study, the feasibility test of the regression model used the Hosmer and Lemeshow Test to determine how well the resulting model fits the data used. If the Hosmer and Lemeshow Goodness of Fit Test value is > 0.05, then the model is considered capable of predicting observations because it is in accordance with the observation data. Note the goodness of fit test value in Table 3 which is measured by the chi-square value at the bottom of the Hosmer and Lemeshow Goodness of Fit Test.

Table 3. Feasibility Test of the Regression Model

Hosmer and Lemeshow Test			
Step	Chi-square	Df	Sig.
1	14.601	8	.067

Source: Secondary data processed in SPSS, 2024

The results of the analysis in Table 3 show that the chi-square value is 14,601 with a significance of 0.067. The significance value of 0.067 > 0.05 so that the null hypothesis can be accepted. This means that the model is able to predict its observation value or the model is accepted because it fits the observation data.

#### Testing the Determination Coefficient (Nagelkerke R Square)

Nagelkerke R Square is a modification of the Cox and Snell's coefficients to ensure that their values vary from 0 to 1. This modification is done by dividing the Cox and Snell's values by their maximum values. The interpretation of the Nagelkerke R<sup>2</sup> value is similar to the R<sup>2</sup> value in multiple regression. Table 4 below shows the results of the Nagelkerke value:

Table 4. Nagelkerke R Square

Step	-2 Log Likelihood	Cox & Snell R Square	Nagelkerke R Square
1	258.338	.371	.507

Source: Secondary data processed in SPSS, 2024

The results of the analysis in Table 4 show a Nagelkerke R Square value of 0.507. This means that the variability of the independent variable is able to explain the variability of the dependent variable by 50.7% while the remaining 49.3% is explained by other variables not included in the study.

#### Obtaining a Regression Model

The next step after assessing the logit regression model is to conduct a logistic regression coefficient test to test each regression coefficient produced. The results of the logistic regression coefficient test can be seen in Table 5.

Table 5 shows the results of the logistic regression coefficient test that forms the logistic regression equation as follows:

$$KA = -44.187 + 0.180KA + 0.089T + 1.979FA - 0.496R + 0.226UP$$

The intercept value of the regression equation has a value of -44.187. This shows that if the independent variables do not change or are constant, the audit quality will decrease.

Table 5. Logistic Regression Coefficient Test Results

	B	Sig.
Audit Committee	.180	.666
Audit Tenure	.089	.795
Audit Fee	1.979	.000
Audit Rotation	-.496	.332
Firm Size	.226	.007
Constant	-44.187	.000

Source: Secondary data processed in SPSS, 2024

#### The Influence of the Audit Committee on Audit Quality

An audit committee formed by the board of commissioners serves as an internal oversight mechanism to oversee the financial reporting process and ensure management acts in the principal's best interests. Linked to agency theory, the existence of an audit committee can help bridge conflicts between principals and agents, thereby increasing principal confidence in financial reports. However, the result of this research does not support that statement. The first hypothesis (H1) in this study states that the audit committee has a positive effect on audit quality. However, the results of the analysis show that the coefficient value of the audit committee on audit quality is 0.180 with a significance level of 0.666. Given that the error rate ( $\alpha$ ) used is 5% or 0.05, the first hypothesis (H1) is rejected because the significance level is  $0.666 > 0.05$ . The results of this study indicate that the audit committee does not have a positive effect on audit quality. This means that the existence of an audit committee does not necessarily mean that the auditor will provide quality audit results.

The main purpose of the audit committee is to provide recommendations to the board of commissioners regarding the appointment of a public accountant. The comparison between the audit committee and the commissioners did not show any influence because the appointment of the public accountant did not affect the company's financial condition (Effendi & Ulhaq, 2021). Meanwhile, the number of audit committee members, which averages 3 people, is also considered unable to influence the internal control system in the company. According to Yolanda et al. (2019), the existence of an audit committee does not affect audit quality because the formation of audit committee members is only intended to comply with regulations so that it cannot affect the performance of the audit committee in maintaining the quality of financial reports.

This result is in accordance with research by Cahyati et al. (2021), Saepudin et al. (2018), Sukma and Bernawati (2019), An (2023), Handayani and Setiawan (2024), which states that the audit committee does not have a significant effect on audit quality.

#### The Effect of Audit Tenure on Audit Quality

The second hypothesis (H2) formulated from the development of the hypothesis is that audit tenure has a positive effect on audit quality. The results of the analysis of the audit tenure variable have coefficient values and significance levels of 0.089 and 0.795, respectively. This shows a significance level value that is greater than the error rate ( $\alpha$ ) or  $0.795 > 0.05$ , so (H2) is rejected. So that audit tenure has a positive effect, but audit tenure does not significantly affect audit quality.

The rejection of this hypothesis is because the length of the audit engagement period does not guarantee audit quality. This result has a contradictory with the agency theory. Agency theory highlights the long-term relationship between client and auditor that can impact auditor independence. This theory suggests that a longer engagement period has the potential to reduce auditor independence due to the proximity factor, which can lower audit quality. However, the length of the audit engagement period should make the PAF better understand the client's condition so that it is able to detect attempts to manipulate financial statements, but because the long engagement period can make the PAF too trusting of the client. As a result, the PAF may not develop an adequate audit procedure strategy which will actually reduce audit quality (Andriani & Nursiam, 2018). A relationship that is too long with a client can cause excessive satisfaction for both parties, but also results in less stringent audit procedures and dependence on management. Auditors who are overconfident in their clients tend to be unable to adjust audit procedures to reflect business changes and associated risks, thereby reducing the auditor's professionalism in gathering their audit evidence (Karno et al., 2022). It can be concluded that the obstacles to auditor independence and audit quality stem from the length of the engagement which causes excessive closeness between the auditor and the client.

These results are in accordance with the research results of Fauziyyah and Praptiningsih (2020), Mulyadi and Suryandari (2021), Effendi and Ulhaq (2021), Trianjani et al. (2023), and Helmi et al. (2024), which show that the length of the engagement period between the client and the auditor does not affect audit quality. A long audit engagement period cannot affect auditor independence and therefore cannot increase audit quality. In addition, a



short audit tenure does not always guarantee audit quality because the auditor may not have sufficient knowledge and experience to conduct a good audit.

#### The Effect of Audit Fees on Audit Quality

The third hypothesis (H3) formulated based on the development of the research hypothesis states that audit fees have a positive effect on audit quality. The results of the analysis show that the coefficient value of the audit fee variable is 1.979, which means that audit fees have a positive effect. Meanwhile, the level of significance obtained is  $0.000 < 0.005$ , so the third hypothesis (H3) is accepted. Thus, it can be concluded that audit fees have a positive effect on audit quality, namely the higher the audit fee, the better the audit quality produced.

Agency theory explains that higher audit fees received by auditors will improve audit quality. This is because the fee is seen as an incentive for the auditor, as agent, to work professionally and independently in fulfilling the interests of the client, as principal. Auditors will receive better resources to prepare their audit work. When companies expect good audit quality from auditors, this is in line with investors' expectations to get accurate audit results or opinions to assist in decision making. Therefore, companies prepare large funds to pay auditors from large PAFs. By paying higher audit fees, companies hope that auditors can audit the company's financial statements in their entirety by paying attention to applicable standards and procedures (Ayu et al., 2019). Therefore, high audit fees automatically cause the resulting audit quality to increase because the auditor's wages for one year and estimated operational costs are needed to expand audit procedures and improve services to the company so that they can detect information asymmetry (Mauliana & Laksito, 2021). Thus, when management pays high audit fees, it tends to motivate auditors to work more optimally so that the resulting audit quality is even better.

The results of this study are in line with the research of Lailatul and Yanthi (2021), Purnomo and Aulia (2019), and Andriani and Nursiam (2018), who stated that audit fees have a positive influence on audit quality so that the higher the audit fee, the higher the quality of the audit produced.

#### The Effect of PAF Rotation on Audit Quality

The fourth hypothesis (H4) formulated based on the development of the research hypothesis states that PAF rotation has a positive effect on audit quality. The results of the analysis show a coefficient value of -0.496 which indicates a negative effect. This means that the less frequently a company rotates, the better the audit quality produced. Meanwhile, the significance value is  $0.332 > 0.005$ , so the fourth hypothesis (H4) is rejected. Therefore, PAF rotation does not have a significant effect on audit quality.

Public accounting firms have complete procedures for making assessments based on conditions in the field and in accordance with the code of ethics of the profession. The rejection of this hypothesis occurs because the market does not care whether the auditor who provides the audit opinion on the company's financial statements has rotated PAF or not (Fauziyyah & Praptiningsih, 2020). The audit opinion given by the new auditor after rotation may differ from the previous auditor. New auditors may be stricter and tend to provide opinions more carefully if they find things that are considered inappropriate. This can be in the form of different opinions such as qualified opinions or adverse opinions if there are significant findings. In addition, these results support the theory that independent auditors must carry out their duties and responsibilities professionally and provide information according to the actual situation (Lailatul & Yanthi, 2021).

This result is in line with the research conducted by Ardani (2017), Mulyadi and Suryandari (2021), Trianjani et al. (2023), Salman and Setyaningrum (2023), and Handayani and Setiawan (2024), which concluded that PAF rotation does not have a significant effect on audit quality. Regulations regarding PAF rotation are made to overcome the lack of independence that can lead to fraud in the audit process. This is because auditor independence is formed not only because of these regulations.

#### The Effect of Client Company Size on Audit Quality

The fifth hypothesis (H5) in this study states that client company size has a positive effect on audit quality. The results of the analysis to test the effect of client company size on audit quality show a coefficient value of 0.226 which indicates a positive effect. While the significance value is 0.007 with the error rate ( $\alpha$ ) used is 5% or 0.05. So the fifth hypothesis (H5) is accepted because the significance level is  $0.007 < 0.05$ . This means that the size of the client company has a positive effect on audit quality. Based on this, the larger the company size, the better the internal control it has, which will improve the company's audit quality.

Related to agency theory, large companies tend to reduce agency conflicts by choosing a more qualified public accounting firm so that the quality of the financial reports presented will increase if the quality of the audit conducted by a reputable public accounting firm also increases. The amount of assets and total sales of a company can be used to determine how big or small the company is. The value of the company is proportional to its size, the greater the value, the larger the size of the company (Effendi & Ulhaq, 2021). Companies that have greater

resources and broader experience can develop better internal control systems in their operations (Putri & Pohan, 2022). The existence of an effective internal control system in large companies will improve the quality produced because a good internal control system will make it easier for auditors to obtain the information they need. Large companies tend to use the services of auditors from large PAFs who have professionalism, independence and competence to ensure better audit quality.

These results are in line with research conducted by Buchori and Budiantoro (2019), Luthfisahar (2020), and Sinaga et al. (2021), which states that the size of the client company has a positive effect on audit quality. The larger the company, the better the internal control it has so that the quality of the audit produced is better and the auditor can more easily obtain the information needed.

## Conclusion

Based on the data that has been collected and the results of the tests conducted and the discussion in the previous section, it can be concluded that the audit committee, audit tenure, and PAF rotation variables do not affect audit quality. This is because the formation of audit committee members is only to comply with regulations so that it does not affect the performance of the audit committee in maintaining the quality of financial reports. Meanwhile, audit tenure does not affect audit quality because auditors feel confident with clients because of the long-term commitment so that it will reduce audit quality. PAF rotation cannot encourage an increase in audit quality because auditors have comprehensive audit procedures and are in accordance with the professional code of ethics to provide accurate assessments according to actual conditions so that overall audit quality does not change. Meanwhile, the audit fee and client company size variables have a positive effect on audit quality. This shows that the higher the audit fee, the better the audit quality because it allows PAF to carry out audit procedures in more detail. The larger the company, the better the company's internal control system, making it easier for auditors to obtain the information they need. This research also has a weakness, namely that the research data span is only 4 years, thus it is expected that further researchers are advised to expand the research sample by not only testing manufacturing companies, but also companies in other industries so that they can compare audit quality in each industrial sector and it is suggested to increase the research period so that the research results can be generalized. In addition, further researchers are advised to use other proxies to measure audit quality such as earnings surprise benchmark, discretionary accruals or primary data research.

## Implications

The results of this study indicate that there is a unidirectional relationship between audit fees, client company size and audit quality so that this study can claim that auditors in Indonesia tend to work to meet high audit quality standards if they get a large fee. Therefore, it needs to be emphasized that the auditor profession must be carried out professionally regardless of the amount of fees that will be obtained considering that financial reports are highly relied on by interested parties. It's also important for clients to consider the fees required to achieve quality audit results. While this may not be a significant impact for larger companies, it's certainly a significant consideration for smaller companies.

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