



Effect of Audit Tenure, Audit Fee, Size of Public Accounting Firm, Auditor Specialization, and Audit Rotation on Audit Quality

(Study of Transportation and Logistics Sector Service Companies Listed on the Indonesia Stock Exchange in 2017-2021)

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Abstract

Audit quality is all possibilities (probability) where the auditor when auditing the client's financial statements can find violations that occur in the client's accounting system and report them in the audited financial statements, where in carrying out their duties the auditor is guided by auditing standards and the relevant public accountant code of ethics. This study aims to examine the effect of audit tenure, audit fees, size of public accounting firm, auditor specialization, and audit rotation on audit quality. Audit quality is measured using a dummy variable by looking at going concern opinions made by independent auditors, audit fees are measured by Ln (natural logarithm), audit tenure is measured by calculating the number of years in which the same auditor has engaged the client, size of public accounting firm, specialization auditors, and rotation is measured using a dummy variable. The population in this study are Transportation and Logistics Service companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period which have been audited. The sample selection was carried out using purposive sampling method. The analytical method used to test the hypothesis is logistic regression analysis. The results of this study indicate that audit specialization has an effect on audit quality, while audit tenure, audit fees, size of a public accounting firm, and audit rotation have no effect on audit quality.

Keywords: audit tenure, audit fee, public accounting, auditor specialization, audit rotation, audit quality

Introduction

Audit quality is one of the things that underlies the quality of a company. In addition, company management has an important role in summarizing and reporting the results of operational activities and the company's financial position to shareholders. To find out the financial condition of a company, it can be seen through the company's financial reports provided by the client.

Cases regarding low audit quality conducted by an auditor become a challenge to be able to do their best. One of them that happened in Indonesia was at PT. Garuda Indonesia, in this case there was a polemic case over the financial statements that had been audited by a public accountant, Kasner Sirumapea from KAP Tanubrata, Sutanto, Fahmi, Bambang, and Partners. PT. Garuda Indonesia found receivables revenue in nominal terms that had not been received by the company and had not been properly assessed by AP. This is increasingly triggered by the treatment of two commissioners of PT. Garuda Indonesia, namely Chairul Tanjung and Dony Oskaria who were reluctant to sign approval for the results of the 2018 financial statements. From this case the KAP involved was subject to a written warning accompanied by an obligation to make improvements to the KAP quality control system (Pratiwi, 2019).

PT. Indonesian Railways also experienced cases of audit quality, in this case the cases that approached were also in the spotlight in the phenomenon regarding audit quality. Because PT. KAI is included in the list of companies with main problems of non-compliance with statutory provisions regarding SOE revenues, costs and investments. This can be seen from the report which mentions PT. KAI has not yet collected a late fee for the completion of the work of providing Jabodetabek Light Rail Transit (LRT) facilities, procuring 10 Electric Rail Train (KRL) facilities, and relocating the Al-Muhajirin Tanah Tinggi mosque in Tangerang City. It is feared that this will have an impact on the results of the audit quality of the financial statements of PT. KAI (Anwar, 2020).

Studies related to audit quality are very important to do because audit quality is a guarantee of the quality of financial reports. Issues related to audit quality have been widely discussed since the Enron Corp and WorldCom Inc scandals. The case led to the US government issuing the Sarbanes Oxley Act (Sox or Sarbox) in 2002, which prohibited the provision of non-audit services to a company being audited. The issuance of this regulation also triggered the Indonesian government to issue Ministry of Finance regulation Number 432/KMK.06/2002 concerning Public Accountant Services, which was later updated with Minister of Finance Regulation No:17/PMK.01/2008. These two rules contain limitations in the provision of general audit services for the financial statements of an entity by KAP and AP (Harymawan, 2019).

Based on the results of research that has been done before, as well as the non-uniformity of the results of the research above, this study aims to examine more deeply the effect of audit tenure, audit fees, size of public accounting firms, auditor specialization, and audit rotation on audit quality in service companies in the transportation sector and logistics listed on the Indonesia Stock Exchange for the 2017-2021 period.

Literature Review

Audit Quality

Audit quality is the possibility that the auditor when auditing the client's financial statements can find violations that occur in the client's accounting system and report them in the audited financial statements. In carrying out their duties, an auditor must be guided by auditing standards and the relevant public accountant code of ethics. Audit quality is the probability that an auditor is able to find and report that there is a violation in the client's financial statements. Based on the Public Accountant Professional Standards (SPAP) the audit conducted by the auditor can be said to be of high quality, if it meets the auditing requirements and standards. Auditing standards consist of professional quality, judgment used in conducting audits, independent auditors and preparation of audit reports (SPAP, 2011)

Audit Tenure

Audit Tenure is the length of the relationship between the auditor and the client or company audited by the auditor which can be measured by the number of years. Audit tenure is long or short tenure can be debated because tenure can have an impact on the performance of auditors and client companies such as the auditor's emotional relationship with clients, independence, and others. Short tenure when the auditor gets a new client takes a long time to get to know and understand the client and the client's business, a short relationship between the auditor and his client, can have an impact on an auditor in obtaining limited information and evidence. Because this can lead to potential misstatements that are not detected by the auditor. Therefore it takes a very long term relationship so that the auditor can better understand the client's business and client risks. However, a long tenure can result in the relationship between the auditor and the client getting closer emotionally, so that this closeness can interfere with the auditor's independence in carrying out his duties (Effendi and Ulhaq, 2021).

Audit Fee

Mulyadi (2009) says audit fees are fees received by public accountants after carrying out audit services in the form of money. An auditor works to get compensation or wages in the form of an audit fee. In his research Hoitash, et al., in Hartadi (2009) found evidence that when the auditor negotiates with management regarding the amount of the fee that must be paid by management for the work of the audited report and this is agreed based on the work contract before starting the audit process, then this is likely large reciprocity will occur which will reduce the quality of audited reports. This action will lead to actions that undermine professionalism, and will reduce audit quality.

Size of Public Accounting Firm (KAP Size)

KAP size is the size of the Public Accounting Firm used by the company. KAP sizes are divided into two groups, namely KAPs affiliated with Big 4 and KAPs that are not affiliated

with Big 4. The KAP size itself is usually associated with the quality and reputation of the auditor. Likewise, the size of the KAP is the size of the KAP which is divided into two groups, namely KAPs affiliated with the Big 4 and KAPs that are not affiliated with the Big 4 (Rinanda and Nurbaiti, 2018).

Specialist Auditors

Specialist auditors have better knowledge and understanding of the client's business characteristics compared to non-specialist auditors. Specialist auditors are also more likely to detect errors and irregularities that occur in financial statements, so they can assist companies in providing better profit information. An auditor is said to have industry specialization if the auditor has clients with a percentage of total assets greater than thirty percent (30%) of the total assets of all companies in an industry (Rinanda and Nurbaiti, 2018).

Audit Rotation

Audit rotation is a change in public accountants where public accountants in Indonesia can only audit company financial statements for a maximum of 3 consecutive years (Taufiqah Julia Wardani, Bambang dan Iman Waskito, 2022). The audit rotation policy implemented in Indonesia has not been effective, given the engagement period for audit quality at the start of the assignment, the level of independence of auditors is high, but the level of familiarity with the cases and clients encountered is still low and with higher audit fees, causing audit failures during the period engagement.

Research Method

The type of research used in this study is quantitative. Quantitative research is research that has the aim of testing or verifying theory, placing theory deductively as the basis for determining and solving research problems.

Data collected in this study using the following methods:

- a. Literature Study Method, namely by conducting a literature review, exploring and reviewing various literature such as magazines, journals and other sources related to research.
- b. Documentation method, namely by collecting, recording, and reviewing secondary data in the form of financial reports of service companies in the Transportation and Logistics sector listed on the IDX for the 2017-2021 period which are contained in www.idx.co.id.

This study uses a test model that is carried out by logistic regression analysis which is formulated as follows:

$$K_AUD = \alpha + \beta_1 Tenure + \beta_2 LN Fee + \beta_3 KAP + \beta_4 Spesialisasi + \beta_5 Rotasi + \epsilon$$

Information:

K_AUD = Audit Quality

α = Constant

β = Variable coefficient

LN Fee = Natural logarithm of public accounting services

Tenure = *Audit Tenure*

KAP = Size of Public Accounting Firm

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Spesialisasi = Spesialisasi Audit

Rotasi = Audit Rotations

€ = Error coefficient

Data Data analysis will be carried out using the logistic regression equation. Logistic regression is a type of regression that relates one or more independent variables to the dependent variable. This data analysis technique does not use the normality test and the classical assumption test on the independent variables according to Ghozali (2016).

Result and Discussion

Descriptive Statistical Analysis

Descriptive statistical analysis is a test used to see statistical description of the independent variables and the dependent variable on a study. This analysis includes the number of samples (N), minimum value, value maximum, mean (mean), and standard deviation and frequency distribution for each variable used in the study.

Descriptive Statistical Test Results Table

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Audit_Tenure	65	1	5	2.37	1.318
Audit_Fee	65	18.38	26.36	22.1781	2.02270
Uk_KAP	65	0	1	.37	.486
SP_Auditor	65	0	1	.49	.504
Rotasi_Audit	65	0	1	.42	.497
Kualitas_Audit	65	0	1	.55	.501
Valid N (listwise)	65				

Source: Data processed by SPSS 26, 2023

The table above explains the results of the descriptive statistical test with an explanation of each variable as follows:

1. The average tenure audit value for 2017-2021 is 2.37 with a standard deviation of 1.318. The average tenure audit value is 2.37. This value means that the sample company audit engagement period is 2.37 or 2 years. The standard deviation value of 1.318 is smaller than the average value, so it can be concluded that tenure audit variable data is homogeneous.
2. Audit Fee is calculated using the natural logarithm of the professional fees account paid by the company. The minimum value of the audit fee variable is 18.38 and the maximum value of the audit fee variable is 26.36. The standard deviation value of the audit fee variable is 2.02270 and the mean (average) value of the audit fee variable is 22.1781 where the mean value is greater than the standard deviation value, so these results indicate a good distribution of data.
3. 3. The average value of KAP size is 0.37 which shows that most of the sample companies in this study have a tendency to use non-big KAP services four. Value the standard deviation of 0.486 is greater than the average so it can be concluded that KAP size data is homogeneous. The minimum KAP size value is 0 which means that

the company uses Non Big Four KAP services, while the maximum KAP size value is 1 which means the company uses Big Four KAP services.

4. The average value of the company's auditor specialization for 2017-2021 is 0.49 or with a standard deviation of 0.504. The average value of auditor specialization is 0.49, this value can be interpreted that the number of companies that use KAPs that have industry specialization is 49%. The standard deviation value of 0.504 is greater than the average value, so it can be concluded that the auditor specialization variable data is heterogeneous.
5. The average value of the company's audit rotation for 2017-2021 is 0.42 or with a standard deviation of 0.497. The average value of audit rotation is 0.42, this value means that the number of companies that change auditors is 42%. The standard deviation value of 0.497 is greater than the average value, so it can be concluded that the audit rotation variable data is heterogeneous.
6. The average value of audit quality for 2017-2021 is 0.55 with a standard deviation of 0.501. The average value means that the number of companies that have good audit quality is 55%. The standard deviation value is 0.501, which means that the level of distribution of audit quality variable data is 0.501. The standard deviation value is lower than the average value, meaning that audit quality data is homogeneous.

Logistic Regression Analysis

Logistic regression analysis is a test conducted to determine whether the probability of occurrence of the dependent variable can be predicted with the independent variable. In logistic regression analysis there are simultaneous and partial tests. Simultaneous testing on logistic regression, namely following the Chi-Square distribution, using the criterion of a significance value from the omnibus test of less than 0.05.

Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	22.787	5	.000
	Block	22.787	5	.000
	Model	22.787	5	.000

Source: Data processed by SPSS 26, 2023

Above shows that the value of the difference -2 Log Likelihood before the dependent variable is entered into the model minus -2 Log Likelihood after the independent variable is entered into the model is 22.787 (89.354 – 66.567). The Chi-Square value is 22.787 > Chi-Square table at df 5 (the number of independent variables is 5) which is 11.070 or with a significance of 0.000 < 0.05. This means that the addition of independent variables can have a significant effect on the regression model, or in other words, the regression model is declared fit. Thus, the variable audit tenure (X1), audit fees (X2), size of the public accounting firm (X3), auditor specialization (X4), and audit rotation (X5) have an effect on audit quality (Y), so that H₁ is accepted.

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Variables in the Equation							
		B	S.E.	Wald	Df	Sig.	Exp(B)
Step 1 ^a	Audit_Tenure	.153	.251	.369	1	.543	1.165
	Audit_Fee	.172	.220	.612	1	.434	1.188
	Uk_KAP	-1.084	.827	1.717	1	.190	.338
	SP_Auditor	-2.488	.766	10.551	1	.001	.083
	Rotasi_Audit	.667	.640	1.089	1	.297	1.949
	Constant	-2.534	4.707	.290	1	.590	.079

Sumber: Data diolah SPSS 26, 2023

From testing the logistic regression equation, the logistic regression model is obtained as follows:

$$K_AUD = \alpha + \beta_1 Tenure + \beta_2 LNFee + \beta_3 KAP + \beta_4 Spesialisasi + \beta_5 Rotasi + \epsilon$$

$$K_AUD = -2,534 + 0,153Tenure + 0,172LNFee - 1,084KAP - 2,488Spesialisasi + 0,667Rotasi$$

The effect of each independent variable on the dependent variable can be determined by carrying out the Wald statistical test from the results of logistic regression. The logistic regression coefficient can be determined using the p-value (probability value), namely comparing the p-value with α .

1. Effect of Audit Tenure, Audit Fee, Size of Public Accounting Firm, Auditor Specialization, and Audit Rotation on Audit Quality. simultaneously (simultaneously) all independent variables can improve audit quality. The size of the public accounting firm and the specialization of the auditor is one of the indicators to assess the level of independence and auditor competence that can affect the resulting audit quality.
2. Effect of Tenure Audit on Audit Quality. The results of the study show that tenure audits have no effect on audit quality. This result is not in line with the reference research conducted by (Indriani & Hariadi, 2021), (Rizaldi, dkk, 2022), which states that tenure audits have an effect on audit quality. When the auditor performs audit procedures on financial statements on an ongoing basis, the understanding of the complexity of the company's business will increase. So that the auditor's ability to find indications of fraud and misstatement will increase.
3. Effect of Audit Fee on Audit Quality. The results of the research show that audit fees have no effect on audit quality. This result is not in line with previous research references conducted by (Ayuni & Handayani, 2023), which stated that audit fees have an effect on audit quality. According to him, the determination of the audit fee needs to be agreed between the client and the auditor before the start of the audit process.
4. The Effect of Public Accounting Firm Size on Audit Quality. The results of the study show that the size of a public accounting firm has no effect on audit quality. This

study has results that are not in line with research conducted by (Susianti, 2023), which states that KAP size affects audit quality. The larger the KAP size, the higher the audit quality, because a large KAP size has a lot of experience in auditing all types of related companies, this is what can improve audit quality.

5. Effect of Auditor Specialization on Audit Quality. The results of the study show that auditor specialization has an effect on audit quality. This research is in line with research conducted by (Amien, 2023), (Sari, dkk, 2019), (Buchori & Budiantoro, 2019), Nizar (2017), which states that auditor specialization affects audit quality. The results of this study indicate that the number of clients KAP has in the same industry will have an impact on their understanding and knowledge.
6. Effect of Audit Rotation on Audit Quality. The results of the study show that audit rotation has no effect on audit quality. Audit rotation in this study focuses on auditor turnover in the company. Both Big Four public accounting firm auditors and Non Big Four public accounting firm auditors have both rotated auditors, due to the limitation of the period of engagement between the auditor and the client (Sari, dkk, 2019).

Conclusion

Based on the data that has been collected and the results of the tests that have been carried out using the logistic regression test and the description of the discussion that has been explained previously, several conclusions can be drawn as follows:

1. Audit tenure, audit fee, size of public accounting firm, auditor specialization, and audit rotation have a simultaneous effect on audit quality;
2. Tenure audits have no effect on audit quality;
3. Audit fees have no effect on audit quality;
4. The size of the public accounting firm has no effect on audit quality;
5. Auditor specialization affects audit quality;
6. Audit rotation has no effect on audit quality.

Declaration of conflicting interest

The author hereby declares that there is no conflict of interest in writing this article.

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