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Does Audit Tenure, Audit Firm Size, Audit Fee, and Competence Matter?

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Abstract

This study aims to investigate and discuss the effect of audit tenure, audit firm size, audit fees, and competence on audit quality in 2020. The study population includes all companies listed on the Indonesia Stock Exchange (IDX) in 2020 with a sample of 535 companies from 9 industrial sectors. This study is categorized as a type of quantitative research. It uses a combined sample collection technique as a purposive sampling technique, collecting samples with specific criteria and cross-sectional data (Cross-Section), namely data consisting of several related sub-objects at one time only. Audit quality is proxied by specialist KAP, audit tenure, audit firm size, and competency is proxied by dummy, an audit fee equal to the honorarium written in the annual report. The analytical techniques used in this study include Descriptive Statistical Analysis, Model Feasibility Test, Overall Model Feasibility Test, Determination Coefficient Test, and Hypothesis Test using Logistic Regression Analysis. This study shows that audit tenure has a negative effect, audit firm size has a positive impact, and audit fees and competence have no impact on audit quality.

Keywords: Audit Quality; Tenure Audits; Firm Size Audits; Audit Fees; Competence

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Introduction

Quality audit reports are formulated by providing accounting information with guaranteed credibility from professional and independent parties (El-Dyasty & Elamer, 2021). Audit quality improves if the auditor complies with auditing standards and provides the correct opinion on the client's financial statements to make the resulting financial reports more credible (Czerney et al., 2019). The credibility of accounting information is indicated by several factors, including comparative, adequacy of relevance, and reliability used as a consideration tool in decision-making by users, so that company management requires auditors as independent parties (Abughazaleh et al., 2015) and (Ramadhan & Arifin, 2019). In determining opinions, audit quality is determined by how the auditor applies aspects of independence, transparency, honesty, and professionalism as a form of protection for investments to avoid manipulation by management (Pham et al., 2017) and (Palmrose & Kinney, 2018). Auditors providing assurance services are guided by the Public Accountant Professional Standards (SPAP) and the Public Accountant Code of Ethics. In providing assurance services, auditors are expected to improve the audit quality of the company's financial statements and minimize information risk until the information can be recognized as a form of fair or accurate representation (Xiao & Shailer, 2021). According to (Harahap et al., 2017; Gao & Zhang, 2018), audit quality can indirectly be assessed by how much the audit conforms to auditing standards because audit conformity to auditing standards reflects credible information. Akther & Xu (2021) view that audit quality can be determined through the auditor's opinion in reducing bias and maintaining the purity (fineness) of accounting data so that the information in the company's financial statements is recognized as credible.

Lending Credibility Theory shows that the audit's central role comes from the need to increase the credibility of a company's financial statements (Kim Ittonen, 2018). Financial reports contain accounting information whose credibility is believed by independent parties and used as a management tool to maintain and increase stakeholder confidence in management's performance in operating the company (Ogiriki & Oyadonghan, 2017). Credible accounting information is characterized by several factors, one of which is compliance with auditing standards so that this information is not touched by manipulation by management and can be used as a tool for making decisions by business actors (Abughazaleh et al., 2015; Pham et al., 2017) because quality audit reports tend to be able to increase public trust in which, in this case, the community is very dependent on auditors for their involvement as a determinant of audit quality (Triani et al., 2020). In this regard, the Indonesian Institute of Certified Public Accountants (IAPI) issued guidelines on indicators that affect audit quality through the Decree of the Board of Management of the Institute of Public Accountants No.4 of 2018. This guide was issued as a response to improving the quality of assurance services provided by Public Accountants due to many cases of recent audit failure. (Prasetia & Rozali, 2016) and (Richah & Triani, 2021).

The rise of audit scandals involving auditors and company management as necessary parties in legal business activities, allegedly solely to reap greater profits for the company. That way, investors are interested in buying shares because profitable companies are considered to have a company management system and stable financial conditions (Rizki, 2020). In this regard, the public and users of financial statements are increasingly skeptical of auditors in the auditing process. Furthermore, the audit failure that occurred caused the credibility of the audit report produced by the auditor as an assurance service provider to question independence. As a provider of assurance services, under any circumstances, the auditor should maintain a mental attitude of independence so that in the auditing process, there is no fulfillment of personal interests which causes earnings management. Pham et al., (2017) explained that the elimination of earnings management could occur if the audit quality produced by an auditor is considered appropriate and under the rules so that public trust in the auditor as an independent party can be easily obtained.

Public trust has recently declined due to the many sanctions received by several KAPs in Indonesia. Based on Kontan.co.id records, the Ministry of Finance investigated two public accountants who came from different KAPs as external auditors from 2015 to 2017 at the

Jiwasraya insurance company in January 2019. In discussing the case, PricewaterhouseCoopers (PWC) partners were alleged as KAP of Jiwasraya. In addition to this case, irregularities were found in the audited financial statements of PT Tiga Pilar Sejahtera Food Tbk (AISA) for the 2017 period through the Financial Professional Development Center (P2PK) by the Ministry of Finance in April 2019. The accounting firm (KAP) for auditing AISA's 2017 financial statements is Ernst & Young (EY). In the examination carried out by the Attorney General's Office, five witnesses were brought in, two of whom were PwC public accountants for their association with Jiwasraya. On December 31, 2016, PwC auditors issued an unqualified opinion (WTP) on the financial statements of PT Asuransi Jiwasyara (Persero) and all its subsidiaries. A net profit of IDR 1.7 trillion was listed in the Jiwasraya audited financial report by PwC auditors on March 15, 2017. Meanwhile, the audited financial statements in 2015 stated that Jiwasraya's net profit was IDR 1.06 trillion. In contrast to this report, on Wednesday, 10 October 2018, Jiwasraya announced its inability to fulfill obligations for expired policy claims for IDR 802 billion. So that a week later, the Minister of State-Owned Enterprises (BUMN), namely Rini Soemarno, reported on alleged fraud in the management of Jiwasraya's investments. The engineering financial statements were uncovered and ended up at the Central Jakarta Tipikor Court on Wednesday, July 1, 2020. Cases of recent audit failures indicate low audit quality. On the other hand, there is great trust from the public and stakeholders to use these financial reports even though a quality audit process takes much work to achieve.

Factors that can increase the potential for manipulation of financial statements and impact low audit quality is the length of the audit engagement (audit tenure). Engagement audits between auditors and clients for long periods can increase the risk of audit failure, namely reduced auditor sensitivity in finding new evidence to support their opinions in the auditing process resulting in low audit quality (Nurintiati & Purwanto, 2017; Ghosh & Siriviriyakul, 2018; Yang et al., 2018; Dodgson et al., 2019; Liu et al., 2021). Furthermore, (Fitriany et al., 2016; Hasanah & Putri, 2018; Arista et al., 2018; Zulfikar & Waharini, 2020). argues that a cooperative relationship over a long period can lead to the potential for the auditor's credibility, objectivity, and professional skepticism to fade due to the auditor's tendency toward the client's interests in expressing his opinion. In this regard, the Professional Standards for Public Accountants (2020) state that the auditor is required to maintain independence which is the mental attitude of an auditor. Contrary to this explanation, in their study, Kamarudin et al., (2021) did not provide similar results; instead, long engagement terms were considered to support the creation of quality audits because they provided more relevant information.

The theory of Inspired Confidence shows that audit services support trust and management obligations between those who manage the company and those who own it. Requests for and offers of audit services stem from the need to facilitate contractual relationships between management and stakeholders, namely parties who require and demand accountability from management, such as investors, stockholders, and creditors so that the only way for management to be accountable for their actions as service providers Assurance to shareholders is through the provision of periodic financial reports taking into account the guidelines for audit quality indicators (Akinbowale et al., 2017). Guidelines are considered essential to implement as an auditor's effort to provide credible information (Harahap et al., 2017; Gao & Zhang, 2018; Czerney et al., 2019). Auditors, in carrying out their duties, must comply with all existing regulations; therefore, IAPI has issued an updated regulation regarding the length of engagement between the auditor and the client as indicated in the Indonesian Accountant Code of Ethics (2020) section P540.11 indicating the respite period set for individuals who enter into an engagement for seven cumulative years is for five consecutive years. While R540.14 indicates individuals who acted as audit and engagement partners in that capacity for four cumulative years, the hiatus is for five consecutive years. P540.16 provides an exception; namely, the hiatus period is five consecutive years if the individual has been engaged for three years or more. It is hoped that the imposition of limits on the length of service will improve audit quality (Elder et al., 2015; Akono, 2020; Jadiyappa et al., 2021).

H_1: Tenure audits affect audit quality.

Several studies suggest that the size of a Public Accounting Firm (Audit Firm Size) can affect audit quality (Beck et al., 2019; Chang & Stone, 2019; Oussii & Klibi, 2020). Big Four companies as a group, on average, provide strict requirements for the competence of their auditors through monitoring activities (quality control system) such as training, as well as periodic evaluations to maintain the competence of their staff and have more adequate resources to produce accuracy. High prediction than non-Big Four KAPs (Pertamy & Lestari, 2018), (Sultana et al., 2019), and (Syahadatina et al., 2020). Furthermore, KAPs with Big Four affiliations are considered more competent and have more experience in the number of clients and their diversity (Andriani et al., 2020). From these studies, it can be concluded that KAPs affiliated with the Big Four are considered for prioritizing audit credibility by maintaining a mental attitude of independence in order to maintain a superior reputation in the public eye so that they can provide high-quality audits compared to smaller accounting firms (Nurhayati & Dwi, 2015) and (Salehi et al., 2019). The reputation and size of KAP implicitly have a relationship with the quality of resources which will then influence the auditor in producing audit quality (Safriliana et al., 2018) and (Rizki, 2020). However, (Wicaksono & Purwanto, 2021; Amrulloh & Satyawan, 2021) contradictory explain that companies do not choose KAPs based on their size because a large KAP size (Big Four or not) does not necessarily produce high-quality audits.

The theory of Inspired Confidence shows that better audit quality is marked by fulfilling affiliate KAP standards as an effort to guarantee a quality control system (Musa & Saidu, 2018), (Sanni et al., 2021), and (Moroney et al., 2021). The KAP Quality Control System is regulated in RI Law no. 5 of 2011 concerning Public Accountants (2011), which explains that KAP affiliated in Indonesia must comply with 2 SPM (Quality Control System), namely the first if the KAP is affiliated with a foreign KAP (KAPA) then the KAP must comply with the legal provisions of the country where the KAPA is located and carry out business activities, secondly, if the KAP is affiliated with a Foreign Audit Organization (OAA), the KAP must comply with the laws and regulations in the relevant country, which includes professional service business entities and carry out business activities.

H_2: Audit Firm Size affects audit quality.

High-quality audits illustrate the need for more excellent monitoring of client companies, so that audit fees tend to be higher (Asthana et al., 2019), (Leung et al., 2019), (Wiguna et al., 2019), (Rizki, 2020), and (Yefni, 2021). An audit fee is the designation of the salary as compensation for services by the client to the auditor. Research reviewed by (Nehme & Jizi, 2018; Bhattacharya & Banerjee, 2020; Lim & Monroe, 2020) provides confirmation results of higher audit quality on average produced by accounting firms that charge higher fees (such as Big Four) due to the availability of better resources, such as strict standardization of competencies and supporting tools used. Andriani (2018) and Le & Lobo (2020) argue that a high audit fee illustrates a greater risk that requires the auditor to work extra, either through extra audit effort (more working hours) or with higher auditor expertise (billing rates the greater one). In contrast to this presentation, (Mohammed et al., 2018; Chen, 2019; Li et al., 2020; Sheikh & Siddiqui, 2020) say that client companies with good-quality employees and prioritizing a culture of integrity will choose a standard or lower audit fee. In addition, the fee amount is linear, with the chance of diminishing the independence and professionalism of the auditors in carrying out their duties.

Audit fees are determined based on Management Regulation No. 2 of 2016 concerning the Determination of Fees for Financial Statement Audit Services (2016) in the Minimum Hourly Fee Indicator section with classification levels. This nominal is used as a reference to determine the amount of compensation for services provided by the client to the auditor. The following is the Determination of Auditor Services Fee table, as shown in Table 1.

Table 1. Audit Fee

Region	Junior Auditor	Senior Auditor	Supervisor	Manager	Partner
Greater Jakarta	100.000	150.000	300.000	700.000	1.500.000
Outside Greater Jakarta	70.000	125.000	200.000	500.000	1.200.000

Sumber: Peraturan Pengurus No. 2 Tahun 2016 yang diterbitkan oleh Institut Akuntan Publik Indonesia (IAPI)

Signaling Theory shows how companies send signals to users (Tambunan et al., 2019). As an independent party, the auditor provides financial report information that reduces information asymmetry on the involvement of internal and external parties (Ittonen, 2018; El-Dyasty & Elamer, 2021). Because if the information provided by management states a good assessment, investors will perceive it as good news, which will impact the sustainability of investment in the company. Conversely, suppose the information provided shows a wrong assessment. In that case, the sustainability of the investment is considered threatened (Abughazaleh et al., 2015). This indirectly also explains the correlation of the audit fee set with the amount of the auditor's effort during the auditing process (Adiwibowo, 2017). Apart from Audit Firm Size, Audit Fee is also considered to be able to provide a signal on audit quality similar to that of large companies such as the Big Four, which charge a relatively high fee for services than non-Big Four KAPs for the more effort given by their staff in the auditing process (Hoopes et al., 2018; Huang et al., 2019; Mitra et al., 2019).

H$_3$: Audit Fee affects audit quality.

Audit quality indicators show auditor competence as one of the essential points in audit quality. Competence is a professional ability or expertise acquired by auditors through their knowledge, training, and in-depth experience with the client (Yefni, 2021). Mah'd et al., (2019) and Albersmann & Quick (2020) said that in the auditing process, the auditor's professional abilities are absolute things that a public accountant should have to create a quality audit. In line with this explanation, Cahan & Sun (2015) and Linden & Hardies, (2018) argue that auditors' characteristics, such as a higher educational degree coupled with more extended trainee experience, can produce high-quality audits. Auditors' professional abilities are obtained from education. Moreover, ongoing professional training that must be followed is actualized as an Education Credit Unit (SKP) and must be fulfilled by a Public Accountant within one year. In the Decree of the Management Board Number 4 of 2018, the Indonesian Institute of Public Accountants (IAPI) (2018) explains that public accountants must at least fulfill 40 SKPs obtained through continuous professional training within one year. The minimum credit units are grouped into two parts: thirty SKPs come from the Public Accountants Professional Association, and ten SKPs result from unstructured trainees. The Public Accountants Profession Association recognizes them. If within the stipulated period, the public accountant obtains more than 40 SKPs, then the excess SKP will only be recognized as much as 10 SKPs in a maximum for the following year. Furthermore, there is a minimum SKP exception for new public accountants who obtain permits in the current year. In contrast to the results of this study, Nugrahadi et al., (2019) stated that competence does not have an impact on audit quality because auditor competence is not the only factor in the quality of audit reports or not, besides that KAP must comply with regulations and control systems as stated by IAPI on SA 220.

According to Lending Credibility Theory, external auditors as third parties in conveying opinions to avoid manipulation by management are expected to maintain a mental attitude of independence and constantly improve competence so that the resulting audit report indicates credibility (Khurun In, 2019; Santoso et al., 2020; Fauziah & Yanthi, 2021). This presentation is relevant to the research results of (Kim et al., 2017; Alareeni, 2019; Chung & Cho, 2020; García-Blandon et al., 2020; Setyawati & Bernawati, 2020), which show that audit results are called credible if the auditor has the adequate provision of special knowledge, experience, training, and skills so that the opinion given is not based on pressure from any party. In line with this explanation, Cahan & Sun (2015) and Linden & Hardies (2018) argue that auditors' characteristics, such as a higher educational degree coupled with more extended trainee experience, can produce high-quality audits. Disagreeing with this explanation, Anggraini et al., (2019) in their study results, said that competence has a positive but not significant effect on audit quality because auditors are considered competent in carrying out their duties and obligations.

H$_4$: Competence influences Audit Quality.

The differences in the perspectives of several authors on the independent variables that may affect audit quality are interesting to review. This study's novelty element is looking at audit quality based on KAP specialization. KAP is called a specialist if the KAP has experience in auditing clients in the same industry (Anafiah et al., 2017). Sun et al., (2020) said auditors are more confident in detecting errors and financial fraud if the percentage of audits is more frequent in specific industries. Therefore, KAP specialists in auditing a company's financial statements are considered to be able to produce high-quality audits. This proxy is used based on research by Fitriany et al., (2016) which reveals a more significant percentage of producing high-quality audit reports because specialist KAPs generally have more in-depth knowledge of an industry. If a KAP audits more than 15% of companies in the same industry, it is referred to as a specialist KAP (Anafiah et al., 2017). Based on this explanation, the authors are interested in examining the effect of audit tenure, audit firm size, audit fees, and competence on audit quality

Research Design and Method

The data in this study amounted to 618 companies. Seventy-seven companies still need to upload the 2020 annual report, and six companies uploaded annual reports with different financial years, so the total sample in this study is 535 companies. They included secondary data because the authors did not get it directly. The author uses the 2020 Annual Report as a data source which the author obtained from the official website of the Indonesia Stock Exchange (www.idx.co.id). The number of samples was generated through several procedures, including digging up registered company information from the official website to obtain data on the name and code of the company listed, the company sector, the year of the company listing, and the company's annual report. Next, the author will identify the company's annual report based on the variable criteria selected in this study. The data must be eliminated if there is a data discrepancy with the research criteria.

This study utilizes a combined data collection technique as a purposive sampling technique, namely collecting samples with specific criteria and cross-section data consisting of several related sub-objects simultaneously. This occurs due to consideration of the Audit Tenure variable, which cannot be determined through an annual report with one financial year, in contrast to other variables, which can only use the yearly account of the 2020 financial year. The criteria for selecting the sample in this study were companies that were included in 9 sectors on the IDX, had uploaded Annual Reports with the 2020 financial year either through the company's official website or on the IDX, had their shares listed on the IDX, and were not delisted at the time this study took place. The dependent variable, namely audit quality, and independent variables, which include Audit Tenure, Audit Firm Size, and Competence, are measured using a dummy proxy. At the same time, the Audit Fee variable is calculated based on the nominal amount of the auditor's fee. The analytical techniques used in this study include Descriptive Statistical Analysis, Model Feasibility Test, Overall Model Feasibility Test, Determination Coefficient Test, and Hypothesis Test using Logistic Regression Analysis chosen because the authors use dummy proxies as a measure of audit quality.

Audit quality is proxied by the specialization of the auditor through a dummy variable; that is, if the auditor's frequency in carrying out auditing controls a percentage of 15% of companies in a particular sector, then it is given a value of 1. Still, if the auditor cannot reach 15% of the percentage in auditing a specific industry, it will be given a value of 0. The measurement of KAP specialization refers to research (Nugrahanti, 2014) and (Anafiah et al., 2017), where industry-specific KAPs are generally more skilled at detecting potential errors or fraud in their specialization. In this study, the Tenure Audit uses a dummy variable; if the auditor carries out the audit process at the same company for three years, it is given a value of 1. Still, if the audit engagement period between the audit and the company is more than three years, it is given a value of 0. The measurement of audit tenure refers to studies that have been implemented by (Richah & Triani, 2021). In this study, audit firm size is proxied by a dummy variable; that is, if the audit firm comes from a KAP affiliated with the Big Four, it is given a value of 1, but if it comes from a KAP not affiliated with the Big Four, it is given a value of 0. This measurement of audit firm size is based on research (Fitriany et al., 2016) and (Amrulloh & Satyawan, 2021). In this study, the audit fee is projected using the audit fee information contained in the annual report. If the company includes an audit fee, it will be recorded at the nominal value stated in its annual report; if the financial information does not have a price, then a value of 0 is given. The measurement of the audit fee refers to studies (Nurintiati & Purwanto, 2017). In this study, the authors proxied competence with a dummy variable where a value of 1 was given to auditors with CPA certification. In contrast, a value of 0 was given to auditors with CPA degrees. Competency measurement refers to studies (Richah & Triani, 2021).

Table 2. Variable Measurement

Variable	Indicator	Reference
Tenure audits (X1)	• According to POJK Number 13 (2017) the terms of the engagement period between the auditor and the company are a maximum of 3 consecutive financial years. • Audit engagements for more than 3 years are included in the Long Tenure category. • Audit engagement for 3 years is included in the Shirt Tenure category.	POJK Number 13 (2017) and the Indonesian Accountants Code of Ethics (2020).
Audit Firm Size (X2)	• The size of the Public Accounting Firm (KAP) is seen by affiliation. • KAP is affiliated with the Big Four. • KAP non-affiliated and non-Big Four affiliated.	RI Law No. 5 of 2011 concerning Public Accountants (2011)
Audit Fee (X3)	• The nominal amount of compensation for services by the company to the auditor during one financial year. • Provisions for determining fees for services agreed upon by the auditor and the client according to the Lower Limit Indicator for Hourly Services with a level classification.	Management Regulation No. 2 of 2016 concerning Determination of Fees for Financial Statement Audit Services (2016)
Competence (X4)	• Level of education, and auditor certification. • Certified auditors marked with the title of CPA (Certified Public Accountant). • Auditors without a CPA (Certified Public Accountant) degree. • Professional training and development activities are marked by the fulfillment of Education Credit Units (SKP).	Management Board Decree Number 4 of 2018 Indonesian Institute of Certified Public Accountants (IAPI) (2018).
Audit Quality (Y)	• Meet the elements of relevance, credibility, comparability, reliability. • Proxed through the specialization of Public Accounting Firm (KAP). • KAP is said to be a specialist if KAP audits more than 15% of companies in one industrial sector.	The use of KAP specialization as a proxy is guided by the research of Francis (2011).

Results and Discussion

Statistical Result

Audit Quality descriptive statistics show results where the highest value is 1, and the lowest is 0, with a mean of 0.16 which means that on average, only 16% of companies in 2020 were audited by specialist KAPs, so it can be concluded that the industry in selecting auditors is not guided by KAP specialization. Furthermore, in the Audit Tenure, the highest value is 1, the lowest is 0, with a mean of 0.99 or 99%, and it is interpreted that the average percentage of companies is 99% in 2020; the engagement between the auditor and the company is no more than three years. In the Audit Firm Size variable, it shows the highest value of 1; the lowest is 0, with a mean of 0.32 or 32%, so it can be interpreted that, on average, only 32% of companies in 2020 were audited by Big Four-affiliated KAPs, which means that companies in selecting auditors do not always refer to the size of the KAP where the auditor works. Furthermore, on the audit fee variable, the lowest value is 0, and the highest value is 783440000000, with a mean of 2558031285.32, which means that the average external auditor gets a fee by the company for the audit services that have been provided for 2558031285.32. The Competency Variable shows the highest score is 1, and the lowest is 0, with a mean of 0.57 or 57%. This value means that, on average, 57% of companies are audited by auditors with the title of CPA (Certified Accountant Public), so it is concluded that the average auditor is certified.

The author chose Hosmer and Lemeshow's Goodness of Fit as the due diligence method, as shown in table 3.

Table 3. Hosmer and Lemeshow's Goodness of Fit Test

Step	Chi-square	Df	Sig.
1	,250	7	1,000

Hosmer and Lemeshow's Goodness of Fit Test is called fit with the data if it gives results in the form of a value greater than 0.05. In this test, the results show a statistical value of 1.000, where 1.000 is more significant than 0.05. Hence, the regression model used by the writer is acceptable (fit), and the writer can determine it to predict the observed value.

Table 4. Initial Likelihood Log

Iteration History[a,b,c]

Iteration		-2 Log likelihood	Coefficients
			Constant
Step 0	1	472,338	-1,372
	2	465,161	-1,653
	3	465,105	-1,680
	4	465,105	-1,681

The test results, as shown in table 4, produce a Nagelkerke R Square value of 0.621 or 62.1%, which can be interpreted that the variable Audit Quality can be interpreted through Audit Tenure, Audit Firm Size, Audit Fee, and Competence can be used as a predictive tool for Dependent Variables with percentages by 62.1%. The remaining 37.9% can be interpreted through other variables besides this study.

This study uses logistic regression testing. The following is the SPSS output from the Variables in The Equation table:

Table 5. Logistic Regression Model

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	AT	-,395	20205,256	,000	1	1,000	,674
	AFS	21,123	2094,165	,000	1	,992	1491887560,370
	FEE	,000	,000	1,130	1	,288	1,000
	KOMP	-,903	,326	7,682	1	,006	,405
	Constant	-20,291	20096,438	,000	1	,999	,000

Based on the test results in table 5, the regression model equation and analysis can be written as follows.

$$\frac{AQ}{1-AQ} = -20{,}291 - 0{,}395AT + 21{,}123AFS + 0{,}000FEE - 0{,}903KOMP + \varepsilon$$

The constant variable in the equation has a value of -20.291 (negative value), which means that if the independent variable is considered zero, the AQ (audit quality) variable will decrease by -20.291 units. In conclusion, the lower the beta value on the independent variable, the lower the audit quality. The coefficients of the variable audit tenure and competence, respectively, are -0.395 and -0.903 (both are negative), which means that if the audit engagement occurs over more than three years. An auditor needs to have a CPA title as a sign of competence as a public accountant; audit quality may be poor. Produced is not good or low. In contrast to the variable coefficient of Audit Firm Size, which shows a value of 21.123 (positive value), KAP affiliated with the Big Four allows for better audit quality.

Discussion

The Effect of Tenure Audit on Audit Quality

The tenure audit variable produces a coefficient (β) of -0.395 with a Wald value of 0.000, where this value is <0.05, so the hypothesis is accepted. The negative beta coefficient indicates a short-tenure audit engagement (the engagement lasts for one to three years) with a Wald value <0.05, which can be interpreted as the shorter the length of the engagement, the greater the probability of audit quality, meaning that the audit quality is affected by the length of the audit engagement. Data from 535 companies support these results; four companies have a value of 0, namely, the engagement between the auditor and the client lasts for more than three years, and as many as 531 companies have a value of 1, namely the engagement between the auditor and the client lasts for one to three years. The results of this study indicate the auditor's compliance with the Indonesian Accountant Code of Ethics (2020) in paragraph P.540, explaining that the specified engagement period is three years to replace the five years with the stipulation that the active period is not more than 7 (seven) years. In addition, the results of this study comply with POJK Number 13 (2017), which states that public accountants, as executors of audit engagements in providing their services, have a maximum limit of three consecutive financial years.

Inspired Confidence theory explains that guidelines must be implemented in an auditor's effort to provide credible information (Harahap et al., 2017). This shows that the auditor in the auditing process must comply with existing regulations. Relevant to the research results carried out by the author, auditors comply with the Public Accountant Professional Standards (SPAP), Code of Ethics, POJK, and other applicable regulations. When a Public Accountant complies with regulations, audit quality will have an effect. The auditor's compliance with existing regulations illustrates the auditor's social role in suppressing and minimizing the risk of material misstatement so that the resulting audit is of high quality without worrying about the audit engagement between the auditor and the client. The results of this study are supported by research by (Hasanah & Putri, 2018; Arista et al., 2018; Zulfikar & Waharini, 2020).

The Effect of Firm Size Audit on Audit Quality

The audit firm size variable produces a coefficient value (β) of 21.123 with a Wald value of 0.000 which is <0.05, so the hypothesis is accepted. The beta coefficient is positive, indicating the probability that companies tend to side with Big Four affiliated KAPs as auditors because the Big Four are considered more competent in carrying out their duties because they have a more stringent control system, such as fulfilling 2 SPM for foreign-affiliated KAPs. Likewise, the Wald value <0.05 means that KAPs affiliated with the Big Four can increase the audit quality probability. In other words, KAPs with a large size, such as KAPs affiliated with the Big Four, affect high and low audit quality. These results are supported by the author's data, which shows that out of 535 companies, 174 have a value of 1, which means that as many as 174 companies prefer to be audited by KAPs affiliated with the Big Four. The major sectors that use the Big Four affiliated KAPs include the Basic Industry and Chemicals, Infrastructure, Utilities and Transportation, Finance, Trade, Service, and Investment.

The Theory of Inspired Confidence shows that the fulfillment of affiliated KAP standards indicates better audit quality as an effort to ensure a quality control system. This is regulated in RI Law no. 5 of 2011 concerning Public Accountants (2011), which explains that KAP affiliated in Indonesia must fulfill 2 SPM (Quality Control System); the first is that KAP must comply with the legal provisions of the country where the KAP affiliated with the Foreign Company (KAPA) is located and implements business activities, secondly, if the KAP is affiliated, it must comply with the laws and regulations of the country of origin. In addition, KAPA performance will be reviewed periodically within one year. If it is based on this control system, the affiliated KAP will not dare violate existing regulations. KAPAs tend to have better assets and resources than non-KAPAs, enabling KAPAs to have better technical support and help control the auditing process. That is, the size of the KAP can be used as one of the benchmarks for the quality of the audit that will be produced, in addition to how the KAP can develop by using existing resources and assets as well as possible. The results of this study are relevant to the research of (Pertamy & Lestari, 2018; Beck et al., 2019; Chang & Stone, 2019; Syahadatina et al., 2020), which reveal, when compared, KAPs affiliated with the Big Four are considered to prioritizing audit credibility by maintaining a mental attitude of independence in order to maintain a reputation that is already superior in the eyes of the public compared to other KAPs.

Effect of Audit Fee on Audit Quality

The audit fee variable produces a coefficient value (β) of 0.000 with a Wald value of 1.130, which is > 0.05; the hypothesis is rejected, meaning that the nominal given to the auditor as an honorarium (audit fee) with a more significant amount does not affect audit quality. Audit fees are said not to affect audit quality because many companies do not comply with existing regulations. These results are supported by the author's data which shows that out of a total sample of 535 companies, 226 companies have a value of 0, which means that the company concerned does not mention the amount of the auditor's fee in the annual report. This incident indicates auditor and company non-compliance with POJK Number 13 (2017), which states that KAP Service Provision Activity Reports to Parties Carrying out Financial Services Activities must contain some information, one of which is audit fees.

Signaling Theory explains how companies send signals to users because the amount of the Audit Fee comes from reducing total assets with total liabilities. That is, if the fee paid by the client to the auditor is small, the company is included in the small company category, and vice versa. So that the nominal cannot be used as a reference to determine audit quality, threats can occur if the fulfillment of the principles of professional ethics depends on the amount of honorarium given. Providing more significant compensation for services allows the emergence of personal interests between the auditor and the user as well as the diminishing of the attitude of independence and professional skepticism of the auditor, which causes engagement that is not by the applicable audit procedures. These results are relevant to the studies of (Novrilia et al., 2019; Agustini & Siregar, 2020; Li et al., 2020; Sheikh & Siddiqui, 2020), which state that audit fees do not affect audit quality because companies with good employee quality and prioritizing a culture of integrity will choose a standard or lower audit fee, in addition, setting a high price for audit services is considered to have the opportunity to reduce independence and increase collusion among dominant companies.

The Effect of Competence on Audit Quality

The competency variable produces a coefficient (β) of -0.903 with a Wald value of 7.682, where this value is > 0.05, so the hypothesis is rejected, which means that auditor competence does not affect audit quality. External auditors, as third parties, are expected to maintain a mental attitude of independence and constantly improve competence to produce quality audits. In this case, competence should be owned by a public accountant (Santoso et al., 2020). Public accountants with sufficient competence are marked with a public accountant certification or what is usually written on the title of a public accountant, namely Certified Public Accountant (CPA). This is supported by the author's data, which shows that an average of 57% of companies in 2020 used the services of a CPA-certified public accountant. Meanwhile, only 16% of companies use specialized KAPs, meaning that the industry believes in the competence of an auditor with a CPA degree. Competent public accountants produce quality audit reports; this is reflected through compliance with auditing standards and providing reasonable opinions on the client company's financial statements. The professional code of ethics states that if a public accountant is competent, then the public accountant is considered capable of correctly identifying risks of material misstatement through adherence to audit methods, implementation of relevant knowledge, and adequacy of audit evidence.

Lending Credibility Theory shows that auditor competence is used as one factor in forming quality audit reports. Therefore, competency is considered to have no effect because an auditor must be certified to gain public trust during the auditing process. In the Decree of the Management Board Number 4 of 2018, the Indonesian Institute of Public Accountants (IAPI) (2018) explains that public accountants must at least fulfill 40 SKPs obtained through continuous professional training within one year. The regulation is sufficient to explain that competence is one of the factors that has urgency in the auditing process. The results of this study are relevant to the studies of Anggraini et al., (2019) and Nugrahadi et al., (2019), stating that competency does not have an impact on audit quality because auditor competence is not the only factor in whether or not an audit report is a quality, in addition to KAP (Big Four or not) should have complied with the quality control system as stated by IAPI in SA 220, in other words, the auditor is competent in his field.

Conclusions

The results of this study indicate that tenure audits (engagement audits) have a negative effect on audit quality. This is because audit engagements that have been established for a long time have the potential to cause the auditor not to be fully independent so that the resulting lower audit quality Audit engagements that are more than three years indicate the auditor's non-compliance with existing regulations, namely the Indonesian Accountant Code of Ethics (2020) in paragraph P.540 and POJK Number 13 (2017) which explains the terms of the engagement period. Audit Firm Size (KAP size) positively affects audit quality. This is possible because the Big Four are considered more competent because KAPAs must comply with a reasonably strict quality control system, namely KAPs affiliated with the Big Four must comply with the KAP Quality Control System regulated in RI Law no. 5 of 2011 concerning Public Accountants (2011) which explains that KAP affiliated in Indonesia must fulfill 2 SPM (Quality Control System), including that KAP must comply with the legal provisions of the country where the KAPA is located and carry out business activities, and comply with laws and regulations country of origin invitation, In addition, KAPAs (foreign affiliated KAPs) tend to have better assets and resources than non-KAPAs, thus enabling KAPAs to have better technical support and help control the auditing process. Compensation for audit services (Audit Fee) does not affect audit quality. That is, the nominal audit fee cannot be used as a reference for determining audit quality; in other words, the amount of the audit fee does not affect audit quality because client companies with good-quality employees and a culture of integrity will choose standard or lower audit fees due to audit service pricing. A high value is considered to have the opportunity to weaken the attitude of independence and professional skepticism of the auditor, which causes engagement that is not by the applicable audit procedures. This threat can occur if the fulfillment of the principles of professional ethics depends on the amount of honorarium given. Auditor competence does not affect audit quality. This has the potential to occur because an auditor must be certified in order to gain public trust during the auditing process. This regulation is reflected in the Decision of the Board of Management Number 4 of 2018 of the Indonesian Institute of Certified Public Accountants (IAPI) (2018), which explains that public accountants must at least fulfill 40

SKPs obtained through continuous professional training within one year. In addition, KAP (Big Four and non) should comply with the quality control system as stated by IAPI in SA 220 so that an auditor is competent.

There are several limitations in this study; the first is that this study sample is only all companies listed on the Indonesia Stock Exchange in 2020 because there is a change in PSAK1 for the definition of the material adopted from the IAS 1 Amendment to Presentation of Financial Statements which came into effect in 2019 with the provision that the company must have uploaded annual report for the 2020 fiscal year when the research takes place. Second, this study only tested four variables, namely audit tenure, audit firm size, audit fees, and competence, to see the effect on audit quality. Third, to examine the tenure audit variable, the authors use the annual report for the 2017-2020 fiscal year, so apart from the tenure audit variable, the author only uses the annual report for the 2020 fiscal year. Fourth, the audit quality variable in this study is proxied through auditor specialization. Further research is recommended to expand the year of research and consider adding other variables as the dependent variable so that the discussion can be carried out more broadly and in-depth.

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