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Influence Of Auditor Switching, Audit Fee, Tenure Audit and Company Size To Audit Quality

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Abstract

Audit quality is a function of the auditor's independence and competence of the company's management in examining and providing opinions on the company's financial statements so that the auditor can report violations in a financial statement. This study aims to determine the effect of auditor switching, audit fees, audit tenure and company size on audit quality in food and beverage companies listed on the Indonesia Stock Exchange for the period 2015-2018 This research is an Ex-Post Facto research with data collection methods using secondary data. The population in this study are food and beverage companies listed on the Indonesia Stock Exchange. The sampling technique used was purposive. The sample of companies amounted to 12 companies. Data analysis techniques in this study used a logistic regression test. The results shows: (1) Auditor switching has no effect on audit quality, with the significance value of 0.177> 0.05 (2) Audit fee has no effect on audit quality with a significance value of 0.046 <0.05 (3) audit tenure has no effect on audit quality with a significance value of 0.229> 0.045 (4) Firm size has no effect on audit quality with a significance value of F of 0.031 <0.05.

I. INTRODUCTION

Qualified financial statements have a very important role and function in a company for making business decisions that need for stakeholders. The information presented in the financial statements expects to reflect the true financial condition of the company. Therefore the financial statements must be examined by competent and independent auditors. The auditor must be able to maintain his mental attitude (independence) to be able to create quality audit results (Aqmarina, 2018).

Audit quality is the ability of an auditor to detect errors in financial statements. Besides, audit quality is the likelihood of an auditor finding and reporting on a breach in a client's accounting system. Therefore, audit quality is a function of independence and competence in company management so that the auditor can report violations in a financial statement (Handiko, 2018)

The decrease in audit quality can influence by auditor switching conducted by the company/client. The auditor must face the new company as his client so that more auditor time will be needed to conduct the audit. The longer the audit tenure period of an auditor in auditing his clients, the auditor's competence will be better because the auditor has understood more deeply about the business that is run by his client. The audit engagement period became a debate after the issuance of regulations regarding Minister of Finance Decree No. 17 / PMK.01 / 2008 concerning public accountant services, and there are also sanctions for the prohibition of public accountant services in chapter VII articles 62-76. Regarding the regulation, the company is starting to face a dilemma in making a decision whether to replace the auditor or keep maintaining, considering there are also rules regarding the number of audit fees that must pay to the auditor. The Indonesian Institute of Certified Public Accountants (IAPI) issued Decree No. KEP.024 / IAPI / IAPI / VII / 2008 concerning determining the number of audit fees. The guideline issue for all IAPI members who have or do public accounting practices regarding the number of audit fees that are reasonable and appropriate for the auditor to receive professional services by applicable public accounting standards. The greater the size of the company, the higher the level of complexity of its business activities. It requires good supervision by placing auditors who are professional, independent, and well-equipped to ensure the provision of better audit quality. So that the company needs a good understanding of determining the auditor that will use to audit the financial statements by considering the change of auditors, audit fees to be paid, the length of the engagement, and the size of the company.

II. RELATED WORKS/LITERATURE REVIEW (OPTIONAL)

Audit Quality

The auditing standard set by IAPI requires the auditor to state whether in his opinion, the financial statements are presented by Indonesian Financial Accounting Standards and if any, indicate inconsistencies in the application of accounting principles in the preparation of the current period's financial statements compared to the application of the accounting principles in the previous period. Audit quality is the tendency of auditors to detect and disclose fraud (fraud) contained in the client's financial statements. A good audit quality will produce information that is very useful in making decisions (Tandiotong, 2015, p. 5). Quality audits will be able to reduce the uncertainty factors associated with financial statements presented by management. Continuous improvement or quality of the audit must do because it is natural that the quality of the audit will be a topic that always receives deep attention from the profession of accountants, government, the public, and investors. There are 12 attributes of quality audit services, namely:

1. Experience of the audit team and CPA firm with clients.
2. Experience in the client industry.
3. The auditor's responsive level (CPA firm) to the client's needs.
4. Level of need for CPA firm with SPAP - technical competence.
5. CPA firm's level of compliance with general standards (general audit standard) -independence.
6. The level of the CPA firm's requirements with general standards (general audit standard due care).
7. CPA firm's commitment to quality.
8. Involvement (involvement) chief executive (executive).
9. Implementation of fieldwork.
10. Engagement with the audit committee.
11. Code of ethics for the public accounting profession and auditing knowledge.
12. CPA firm staff who maintain skepticism.

Auditor Switching

Auditor switching can be mandatory and voluntary. Mandatory auditor switching is a change of auditors by the company because of regulations that require the company to change its auditor within a certain period. Meanwhile, Voluntary Auditor switching is an action taken by a company to replace its auditor when there are no regulations that require it to replace the auditor. Auditor switching can influence by factors from the client or factors from the auditor. Factors from clients include client size, company growth, and financial distress. While the auditor's factors are KAP size and audit opinion (Lee & Sukartha, 2017)

Audit Fee

Audit fees represent the income received by the auditor after providing audit services to clients. Decree of the Chairperson of the Indonesian Institute of Certified Public Accountants Number: KEP.024 / IAPI / VII / 2008 concerning the policy for determining audit fees, namely in determining audit fees, Public Accountants must consider the following matters: client needs; duties and responsibilities according to law (statutory duties); independence; the level of expertise and the responsibilities inherent in the work performed (Yanti & Oktari, 2018), and the level of complexity of the work; much time is needed and is effectively used by the Public Accountant and his staff to complete the work; and agreed fee basis. Lowballing costs are closely related to audit fees because of the amount of a fee received by the auditor at the beginning of the audit assignment it can see whether there is a practice of lowballing costs or not (Sinaga & Rachmawati, 2018, p. 20).

Tenure Audit

Tenure Audit is the period of engagement that exists between auditors from public accounting firms and the same company. Audit tenure can also affect audit quality in terms of the period of the auditor's engagement with the company. A long tenure audit can consider as an income auditor, but a long tenure can also cause an emotional relationship between the client and the auditor so that it can reduce auditor independence, which can affect audit quality.

Company Size

Company Size can see from the amount of revenue, total assets, number of employees, and total capital. The greater the size of the income, the number of employees, and total capital, it will reflect the company's situation that is getting stronger. (Tantama & Yanti, 2018). Company Size can affect high audit quality can be found in large companies rather than small companies, because media or public attention is more easily obtained by large companies, compared to small companies that do not get the attention of stakeholders.

III. METHODS

This study uses quantitative methods, namely research methods based on the positivism philosophy, used to examine populations or specific samples, data collection using research instruments, statistical data analysis, with the aim of testing hypotheses that have set (Sugiyono, 2011, p. 6).

The type of data used is secondary data that is the source of research data indirectly through intermediary media (Sujarweni, 2014, p. 224). The population is all food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange for the 2015-2018 period of 23 companies, with sample criteria: the company has an independent auditor's report on the financial statements, and there is complete information related to the research variables and the financial statements using Rupiah currency. Measurement of each variable as follows:

Table 1 Operationalization of Research Variables

No.	Variable	Indicator	Scale
1	Auditor Switching (X1) (Ghozali, 2016)	Value 1 = KAP Substitution Value 0 = No KAP Substitution	Nominal
2	Fee Audit (X2) (Lee & Sukartha, 2017)	Fee audit = Ln(Professional fees)	Ratio
3	Tenure Audit (X3) (Handiko, 2018)	The number of years in which the auditor of the same KAP performed the audit on the auditee.	Interval
4	Audit Quality (Y)	1. Measured with ROE (Return on Equities): Net Income / Equity 2. The benchmark is $\mu - \sigma <$ ROE $< \mu + \sigma$, μ is the average ROE of all sample firms, and σ is the deviation. 3. ROE included in the benchmark = Good audit quality = 1 ROE outside the benchmark = Poor audit quality = 0	Nominal

Technical Analysis of Data

1. Statistic Descriptif

Descriptive statistical test results are usually in the form of a table that at least contains the name of the observed variable, mean, standard deviation, maximum and minimum, which is then followed by an explanation in the form of a narrative explaining the interpretation of the contents of the table (Sugiyono, 2011, p. 29).

2. Logistic Regression Analysis

To known the effect between the independent variable and the dependent variable with the measurement scale or ratio in a linear equation, logistic regression analysis is used (the dependent variable is dummy) (Ghozali, 2016, p. 321) :

a. Overall Model Fit

Compare the values between 2 Log Likelihood (-2LL) at the beginning (Block Number = 0) and the -2 Likelihood Log (-2LL) value at the end (Block Number = 1). When there is a decrease in the likelihood value, this represents a good regression model or, in other words, a model that hypothesizes to fit the data.

b. Determination Coefficient Test (R2)

The purpose of this analysis is to calculate the effect of the independent variable on the dependent variable. The value of R2 shows how large the explanatory variables can explain the proportion of the total variation of the dependent variable. Nagelkerke R Square values vary between 1 and 0. If the value is getting closer to 1, then the model is considered to be more goodness of fit, while if it is getting closer to 0, then the model is considered to be not goodness of fit.

c. Test the Feasibility of the Regression Model

The feasibility of the regression model assesses using the Hosmer And Lemeshow's Goodness of Fet Test to test the null hypothesis that empirical data matches or matches the model.

1. If Fit is <0.05, then H0 is rejected
2. If the fit value> 0.05, then H0 is accepted

d. Clarification Matrix

Shows the value of the regression model to predict the likelihood of the dependent variable expressed in percent.

e. Equation of the Logistic Regression Model and Hypothesis Test
   1. Output Variable in the Equation shows the value of the regression coefficient and its level of significance. The regression coefficient of each of the variables tested shows the form of the relationship between the variables.
   2. Test the hypothesis by comparing the level of significance (sig) with an error rate (α) = 5%.
      If sig <α, it can be said that the independent variable has a significant effect on the dependent variable.
      If sig> α, it can be said that the independent variable has no significant effect on the dependent variable.

The equation of logistic regression is as follows:

$$LnQuality/(1-Quality)=a+\beta 1Switch+\beta 2Lnfee+\beta 3tenure+\epsilon$$

IV. RESULTS

Based on the sample selection process, a sample of 12 companies obtain, as follows:

Table 2 List of Sample Companies

No.	Code	Company Name
1	ADES	Akasha Wira International Tbk
2	BTEK	Bumi Teknokultura Unggul Tbk
3	CEKA	Wilmar Cahaya Indonesia Tbk
4	DLTA	Delta Djakarta Tbk
5	ICBP	Indofood CBP Sukses Makmur Tbk
6	INDF	Indofood Sukses Makmur Tbk
7	MLBI	Multi Bintang Indonesia Tbk
8	MYOR	Mayora Indah Tbk
9	PSDN	Prashida Aneka Niaga Tbk
10	ROTI	Nippon Indosari Corporindo Tbk
11	SKBM	Sekar Bumi Tbk
12	STTP	Siantar Top Tbk

1. Descriptive Statistics Test Results

Table 3 Descriptive Statistics Test Results

	N	Minimum	Maximum	Mean	Std. Deviation	Variance
AS	48	0	1	.10	.309	.095
FA	48	15.67	23.83	20.5485	2.25542	5.087
AT	48	1	4	2.31	1.133	1.283
KA	48	0	1	.85	.357	.127
Valid N (listwise)	48					

2. Research Hypothesis Test Results

a. Overall Model Fit Result

Table 4 Table Iteration History 0

Iteration History[b,c]

Iteration		-2 Log likelihood	Coefficients Constant
Step 0	1	40.679	1.417
	2	39.888	1.731
	3	39.880	1.767
	4	39.880	1.768

a. Constant include in the model.
b. Initial -2 Log-Likelihood: 39.880
c. Estimation terminated at iteration number 4 because parameter estimates changed by less than .001.

Table 4 Table Iteration History 1

Iteration		-2 Log likelihood	Coefficients Constant	x1	x2	x3
Step 1	1	40.318	.549	-.303	.050	-.053
	2	39.376	.224	-.518	.087	-.094
	3	39.358	.093	-.572	.098	-.107
	4	39.358	.088	-.574	.098	-.107
	5	39.358	.088	-.574	.098	-.107

a. Method: Enter
b. Constant include in the model.
c. Initial -2 Log-Likelihood: 39.880
d. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

Table 4 shows the initial Log Likelihood value (Table Iteration History 0) is 39,880. Mathematically, the number is significant at alpha 5% and means that the null hypothesis (H0) rejected. It means that only constants are not compatible with the data (before the independent variables enter into the regression model). The next step is to compare the initial Log Likelihood value (Iteration History table 0) with the final Log-Likelihood (table Iteration History 1). In table 5, there was a decrease in value between the initial and final Log Likelihoods of 0.522. The reduction can interpret that the addition of independent variables into the regression model improves the model fit, or in other words, the model fit with data.

b. Determination Coefficient Test Results

Table 6 Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	39.358[a]	.011	.019

a. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

In this table, the Nagelkerke R Square value shows the value of 0.019. It means that the variability of the dependent variable that can be explained by the independent variables in this study is 1.9%. The remaining 98.1% explained by other independent variables outside the research model.

c. Model Feasibility Test Results (Hosmer and Lemeshow Test)
In table 7, Hosmer and Lemeshow Goodness of Fit shows whether the model can predict the value of observation:

Table 7 Model Summary

Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	4.758	7	.689

The significance value of 0.689 meets the requirements with values above 0.05 (α) 5%, which means the model is accepted, so it can conclude that the model can predict the value of its observations and can use for further analysis.

d. Matrix Classification Test Results
The predictive power of the regression model to predict the possibility of manufacturing companies in the food and beverage sub-sector that has good quality audit is 100%, seen from Table 8 below:

Table 8 Classification Table [a]

Observed			Predicted Y: Poor audit quality	Predicted Y: Good Audit Quality	Percentage Correct
Step 1	Y	Poor	0	7	.0
		Good	0	41	100.0
	Overall Percentage				85.4

a. The cut value is .500

f. Logistic Regression Significance Test Results

Table 9 Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	x1	-.574	1.231	.217	1	.641	.563
	x2	.098	.182	.291	1	.590	1.103
	x3	-.107	.372	.083	1	.773	.898
	Constant	.088	3.867	.001	1	.982	1.092

Based on Table IV.9, the regression model formed is as follows:

$$\text{Ln}\frac{Quality}{1-Quality} = 0.088 - 0.574Switch + 0.98Lnfee - 0.107tenure + \epsilon$$

V. CONCLUSION

1. Auditor Switching does not affect audit quality. These results are consistent with research conducted by (Lee & Sukartha, 2017) and (Mustari, 2018). The reluctance of the market behavior to explore further whether the auditor who issued an opinion on the audited financial statements has experienced rotation or not. It has resulted in no influence between auditor switching and audit quality.
2. Audit fees do not affect audit quality. These results are consistent with the research conducted (Radona, 2017). The granting of audit fees cannot predict whether or not the quality audit is good, because the audit quality is seen from the auditor whether he has an independent attitude or not. So the quality of the audit does not affect how much the fee that given.
3. Audit tenure does not affect audit quality. These results are consistent with research conducted by (Handiko, 2018) and (Radona, 2017). The closeness between the auditor and the auditee raises the perception that audit assignments are merely routine without being accompanied by innovative innovations in developing their assignments.

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