

THE EFFECT OF AUDIT TENURE AND CLIENT COMPANY SIZE ON AUDIT QUALITY

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ABSTRACT

The purpose of this study is to find empirical evidence regarding the factors that influence audit quality in companies in Indonesia. The population in this study are 26 food and beverage companies listed on the Indonesia Stock Exchange (IDX) for 2017-2021. The sample selection method used purposive sampling, with a total sample of 11 companies. The data analysis method in this study uses multiple linear regression. The results of this study prove that audit tenure has no significant effect on audit quality, and the size of the client company has a significant effect on audit quality. Simultaneously audit tenure and firm size affect audit quality.

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1. INTRODUCTION

Companies in Indonesia are in an increasing condition because they cannot be separated from technological advances, this has caused the growth of companies that are established in Indonesia to also grow rapidly, one of which is the food and beverage sub-sector industry. The development of the food and beverage industry sector does not only focus on large corporations, but up to the Micro, Small and Medium Enterprises level. Based on data from the Central Bureau of Statistics (2022) the food and beverage sub-sector industry has experienced an increase in its contribution to Gross Domestic Product as follows.

Table 1 Contribution of Food and Beverage Companies to GDP

Year	Contribution
2014	29,95%
2015	30,48%
2016	31,40%
2017	34,33%
2018	34,00%
2019	36,40%
2020	38,29%
2021	38,42%

The consumer goods industry has a higher growth rate compared to other sectors which can be seen from the increasing number of companies listed on the Indonesia Stock Exchange to date. As stipulated in Law No. 40 of 2007 Article 68 paragraph (1) concerning Limited Liability Companies, the directors are required to provide financial information to a public accountant for examination with the intention of maximizing client trust by expressing their opinions.

It is still found that weak audit quality in food and beverage companies is either due to fraud or certain problems. Such as the case that happened to PT FKS Food Sejahtera Tbk, which had to restate its financial statements, due to the discovery of inflated funds in several accounts for the 2017 financial statements, the act of disbursing funds for parties affiliated with AISA through banks, long-term deposits disclosed by KAP Ernst & Young through an investigative report conducted in 2019. This violated Bapepam-LK regulation No. KEP-412/BL/2009 regarding Transactions with Affiliated Parties and Transactions Conflict of Interest.

In [1] Big Four KAPs are considered to have a higher reputation than Small KAPs (Non-Big Four). Based on its size, the Big Four KAP is able to describe the auditor's expertise on how to act independently, professionally, and take full responsibility for his work. Factors that can affect audit quality such as audit tenure and client company size.

Tenure is the length of the auditor's engagement with the client in providing audit services that has been agreed upon by [2]. If the tenure audit is carried out too short, it can lead to limited knowledge of the auditor regarding the client company because little information is known so that audit quality is weak. However, if the tenure audit is carried out too long it can also cause a decrease in independence and professionalism between the two parties. In [3] proved the tenure audit variable has an effect on audit quality. Unlike the research by [4] it proves that tenure audits have no effect on audit quality.

Total assets serve as a measuring tool for the client company size variable. Large companies have more complex operations than small companies. Companies that have many assets can be sure to be able to face financial problems, because more resources and experience can run and develop internal control systems in their operational activities compared to small companies [5]. In [5], [6] research it proves that the size of the client company has an effect on audit quality. Meanwhile, [5] proves that the size of the client company has no effect on audit quality.

2. LITERATURE REVIEW

The Effect of Tenure Audit on Audit Quality

The audit engagement is the time limit for the engagement between the auditor and the client or company according to the agreement of both parties. In the Financial Services Authority Regulation POJK13/POJK.03/2017 concerning the Use of Public Accountant Services and Public Accounting Firms in Financial Services Activities, article 16 (1) financial service providers are required to limit the use of annual historical financial services from the same AP for a maximum of 3 years books and in paragraph (2) can reuse audit services from AP after 2 reporting years not using the same AP audit services. A prolonged engagement can make the auditor fully understand the condition of the company being audited. These results are supported by the research of [3] [7].

H1: Tenure audits have an effect on audit quality.

The Effect of Client Company Size on Audit Quality

The size of the client company is a measure that can be calculated from the total assets of the company at the end of the period. Company size is measured using the natural logarithm of the company's total assets. The larger the company will improve or increase the quality of the audit produced by the auditor because the internal control system of large companies is better and more effective than small companies. Research by [1], [4]–[6] proves that client company size affects audit quality, because large companies are considered capable of maintaining their position and operations so that the resulting reports are of high quality.

H2: The size of the client company has an effect on audit quality.

The Effect of Tenure Audit and Client Company Size on Audit Quality

Tenure is the time limit for audit work between the auditor and the audited client continuously without experiencing a change of auditor from another KAP. Tenure is calculated from the number of years of engagement during which the auditor and client work together. An engagement that has been established for a long time is able to make the auditor understand the condition of the company as a whole. While the size of the client company is a measure that can be calculated from the total assets of the company at the end of the period. The bigger the company, the easier it is for the company to maximize the value of the company. Large companies use the services of auditors from the Big Four KAP because they are considered more independent and experienced so they can produce quality audits. In [8], [9] it proves that simultaneously audit tenure and client company size affect audit quality.

H3: Audit tenure and client company size affect audit quality.

The research paradigm can be seen in Figure 2 below:

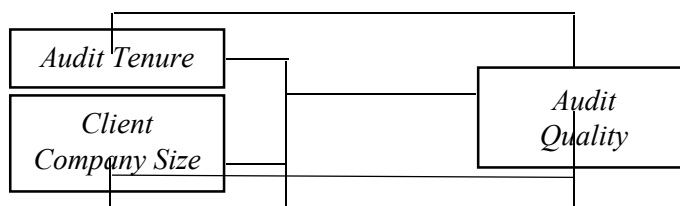


Figure 2 Research paradigm

3. METHOD

This research is a quantitative study with a population of the food and beverage sub-sector industry listed on the Indonesia Stock Exchange in 2017-2021 with a new classification, namely Industrial Classification (IDX-IC). The research population consisted of 26 companies with a sample of 11 companies. The technique used is purposive sampling with predetermined criteria.

Type and Data Source

This study uses secondary data as a data source. The definition of secondary data is data that exists and is designed by a special field in the document, data regarding other variables is contained in reports available at the company [10], [11]. The subject from which the information in this study can be obtained is the source of the data [10]. This type of research is quantitative with hypothesis testing. The purpose of this research is to find out how the effect of audit tenure and company size on audit quality. Secondary data in the form of financial and annual information issued by the Indonesia Stock Exchange (IDX) with a new classification, namely Industrial Classification (IDX-IC) for the 2017-2021 period obtained from the IDX website (www.idx.co.id) as well as company information -food and beverage sub-sector companies from 2017-2021 sourced on the official website (www.sahamok.com)."

Analysis Method

After determining and collecting research evidence, research data analysis techniques are part of data testing. "Descriptive statistics, basic assumption tests, and logistic regression analysis are used in the analysis" of this research data. In [12] said that logistic regression is similar to discriminant analysis which tries to find out whether the independent variable can predict the possibility of the dependent variable occurring. In this study, the dummy variable is the dependent variable.

4. RESULT AND DISCUSSION

Descriptive Statistics Test

Table 1. Descriptive statistics

	N	Minimum	Maksimum	Mean	Std. Deviation
Audit Tenure	55	1.00	5.00	2.8182	1.41540
Client Company Size	55	13.36	19.00	15.3771	1.63210
Audit Quality	55	.00	1.00	.4000	.49441
Valid N (listwise)	55				

Based on the descriptive analysis shown in the table above, the average score (mean) of the audit quality of companies in the food and beverage sub-sector from 2017 to 2021 is 0.40 with a standard deviation of 0.494. Based on the average score above, 40% of companies use the Big Four KAP. The standard deviation value of 0.494 concludes that the data transfer stage of the audit quality variable is worth 0.494. Tenure audits get a minimum score of 1 and a maximum of 5. This means that the shortest engagement between the KAP and the client is 1 year and the longest is 5 years. Company size gets a minimum value of 13.36 PT. Sekar Laut (SKLT) in 2017 while the maximum value is 19.00 PT. Indofood Sukses Makmur Tbk (INDF) in 2021.

Hosmer and Lemeshow Test results

Table 2 Hosmer and Lemeshow Test

Step	Chi-square	Df	Sig.
1	16.121	7	.024

The significance value on hosmer and lemeshow is 0.240 and the Chi-Square value of 16.121 the value is accepted because the model is able to predict research data and a significance value of more than 0.05 (Ghozali, 2018).

Overall Model Fit Test

Table 3 Overall Model Fit Test Results

-2 Log Likelihood Block Number = 0	-2 Log Likelihood Block Number = 1
74.031	62.328

According to table 4.8, the score of -2 log likelihood (Block Number = 0) is 74,031 with a score of -2 log likelihood (Block Number = 1) is 62,328. Thus, the alternative hypothesis (H_a) is accepted because the score at -2 Log Likelihood (Block Number = 0) is greater than the score at -2 Log Likelihood (Block Number = 1) The addition of two independent variables in the regression model results in a model that is assumed to be fit or suitable with better data or regression models, as indicated by a decrease in the value of -2 Log Likelihood.

Classification Table

Table 4 Classification Table Test Results

Observed		Predicted		Percentage Correct	
		Audit Quality			
		Non-Big Four	Big Four		
Step 1	Audit Quality	Non-Big Four (0)	28	5	84.4
		Big Four (1)	12	10	45.5
		Overall Percentage			69.1

The classification table in table 4.9 proves that the regression model has a predictive power of 45.5% to take into account the probability of audit quality in companies audited by large KAPs. Based on these results, out of a total of 22 financial reports, 10 financial statements are expected to receive a high quality audit by the Big Four KAP using the regression model used. The regression model used to calculate the audit quality of non-big four KAP firms has a predictive power of 84.4%. Thus, of the 33 financial information examined by the Non-Big Four KAP, 28 financial information did not receive a quality audit. Thus, it is concluded that the regression model has an estimated capacity of 69.1%.

Determination Coefficient Test

Table 5 Determination Coefficient Test Results

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	62.328 ^a	.192	.259

The Nagelkerke R Square result for the summary model is 0.259 as shown in table 4.13. This shows that only 25.9% of the heterogeneity of the dependent variable can be described through the heterogeneity of the independent variable, and the remaining 74.1% can be described by variables not used in this study.

Hypothesis Testing

Table 8 Hypothesis Testing Results

		<i>B</i>	<i>S.E.</i>	<i>Wald</i>	<i>Df</i>	<i>Sig.</i>	<i>Exp (B)</i>
Step 1	Audit Tenure	-.080	.224	.127	1	.722	.923
	Client Company Size	.645	.211	9.311	1	.002	1.905
	Constant	-10.131	3.230	9.837	1	.002	.000

The Effect of Tenure Audit on Audit Quality

The significance of the tenure audit factor regression coefficient was examined to test the first assumption. The first assumption of this research is that audit tenure has no significant effect on audit quality. The audit tenure variable has a regression coefficient score of -0.080 which proves that this variable has a negative effect on audit quality. The significance value is 0.722 for the significance level = 5%, indicating that the regression coefficient is not significant. That is, it is concluded that the value of -0.080 indicates $\beta < 0$ and $0.722 > 0.05$ explains that H_{a1} is rejected. Tenure audit has a negative and insignificant effect or there is no significant effect on audit quality so that the alternative hypothesis 1 is not accepted.

The Effect of Client Company Size on Audit Quality

The significance of the regression coefficient of the client firm size variable was examined for the purpose of testing the second hypothesis. Based on the second hypothesis of this study, audit quality is positively and significantly influenced by the size of the client company. The client company size variable has a positive effect on audit quality because the regression coefficient is 0.645, it can be concluded that the β value > 0 . The significance value is $0.002 < 0.05$ which indicates that the p-value < 0.05 has an effect on client company size positive and significant on audit quality so that H_{a2} is accepted in this study.

Omnibus Test of Model Coefficients

Table 9 Omnibus Test Results of Model Coefficients

		Chi-Square	Df	Sig.
Step 1	Step	11.703	2	.003
	Block	11.703	2	.003
	Model	11.703	2	.003

The Effect of Audit Tenure and Company Size on Audit Quality

The Chi-Square value of Audit Tenure (X_1) and Client Company Size (X_2) can be concluded from table 4.11 with the Model Coefficient Omnibus Test. The significant value for both variables is 0.003 in simultaneous statistical tests, which indicates that audit quality is simultaneously influenced by audit tenure and client company size. That is, a significant number of $0.003 < 0.05$ indicates that H_a is accepted and H_o is rejected so that the independent variables have a significant effect on the dependent variable simultaneously.

5. CONCLUSION

So the results of this study are tenure audits have no influence on audit quality. While the size of the client company has an influence on audit quality. There are several limitations that may affect the research results, namely food and beverage sub-sector companies do not provide the data needed in research in 2017-2021. The measurement of the tenure audit variable uses the addition of 1 for the first year and plus one for the following year if using the same KAP, but returns to number 1 if using a different KAP. The measurement of the company size variable uses the natural logarithm of total assets. All sample companies, including large companies, because they have total assets of more than Rp. 10 Billion.

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