

AN ANALYSIS FACTOR THROUGH KAISER-MEYER- OLKIN: DISCLOSING AUDIT TENURE IN BANKING COMPANIES LISTED ON INDONESIA STOCK EXCHANGE 2019 – 2022

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ABSTRACT

The Indonesia Stock Exchange requires companies to submit annual financial reports. The purpose of this study is to reveal further the factors of a company's tenure audit on the company's financial statement reporting. Several indicators were used to assess this research, including (a) the length of relationship between companies in the banking sector and the number of years of inspection; (b) the number of years since the audit partner was audited; (c) number of partner auditor offices; (d) the period during which the audit firm changed auditors; and (e) the duration of the auditor's engagement. This study used a quantitative method with secondary data and then the data was analyzed using the Kaiser-Meyer-Olkin (KMO) dimension reduction with IBM SPSS 27 for windows.

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1. INTRODUCTION

Current financial activities are important in determining a company's success, especially in writing and evaluating company finances as outlined in financial statements. The Indonesia Stock Exchange is a forum for financial reporting in good or bad condition. This is also confirmed and strengthened in a decision, namely the Decree of the Chairman of Bapepam No.KEP-346/BL/2011 which confirms the submission of periodic financial reports of issuers or public companies.

Not only about financial reporting, but the most important thing in this case is the presence of public accountants and auditors in reporting finances clearly in financial statements. The reason is, in the Decree of the Minister of Finance No. 432/KMK, KAP can provide audit services to its clients for a maximum of 5 consecutive years, while auditors for a maximum of 3 consecutive years. Regulations regarding tenure audits were again updated with the issuance of PMK No. 17 of 2008 concerning Public Accountant Services which stipulates that the limitation on the provision of KAP services is extended to 6 consecutive years, while for auditors it remains for 3 consecutive years.

Tenure audits is still a topic of debate because it can have a major impact on auditor performance. Some people think that having a long tenure means growing emotionally strong with a client company, which can reduce independence. According to Kurniasih and Rohman (2014), audit companies audited by auditors other than the Big Four KAP tend to have longer auditor tenure, which means that the auditor's professional independence is weakened. As a result, audit quality may decrease.

Research Carey & Simnett (2006), Siregar et al. (2012), also stated a similar thing where the longer the audit tenure, the auditor sometimes audits the company for the benefit of the company, not for the public interest. If everything is according to the company's expectations, the client can keep the same auditor. This can be of great benefit to the auditor, as it can bring both reputational and financial rewards. While there are several studies showing that a longer tenure audit will increase the auditor's expertise (Geiger & Raghunandan, 2002; Johnson, Khurana & Reynolds, 2002; Carcello & Nagy, 2004), so that audits will be of higher quality and more effective.

Based on results study Angela (2019) show the audit fee variable (i.e. how much management pays the auditor to perform the audit) cannot really have a big impact on how well the audit is. In fact, if management pays a very high fee to the auditor, the quality of the audit will still be good. This is because auditors are required to have skills and independence in order to provide good audit quality, regardless of how much money is spent by management.

This study describes the condition of Indonesia from 2019 – 2022 from 27 banking companies listed on the Indonesia Stock Exchange (IDX). The importance of tenure audits in completing financial

statements in disclosing the existence of companies with the best conditions with the company's financial sustainability, things that are often associated with many things as revealed by previous research. Many studies have been conducted from several countries, both China, Spain and America or Indonesia itself, especially how tenure audits influence the quality of financial statements, then the factors of companies that choose tenure audits in completing financial reports to explain the fee provisions used as tenure selection. In contrast to this research, which only focuses on the involvement of tenure audits which is reviewed from several indicators including, (a) the length of relationship between companies in the banking sector and the number of years of inspection; (b) the number of years since the audit partner was audited; (c) number of partner auditor offices; (d) the period during which the audit firm changed auditors; and (e) the duration of the auditor's engagement. From the indicators used, factors will be analyzed using Kaiser-Meyer-Olkin, explaining in more detail the main factors of tenure through the length of time indicators, so that the research has the following specific objectives:

- a) Disclose the main factors of tenure audits to present financial statements of banking companies on the Indonesia Stock Exchange
- b) Clearly explain the scatterplot graph which is a tenure audit factor.

2. LITERATURE REVIEW

Based on these problems, the literature review in this study is:

a) Research Supporting Theory

Theories that support research that reinforce the need for companies to complete financial statements by giving trust to public accounting firms.

Normative Accounting Theory, which began to develop in the 1960s, focuses on accounting to justify certain accounting treatments and accounting objectives. Normative explanations contain statements and reasoning to assess good, bad, or relevance in relation to certain economic or social policies. Enterprise Theory focuses on accounting information that focuses on those involved with companies, formally or informally, to foster public trust. This includes information about company owners, management and employees, creditors, government officials; suppliers; policy makers, customers, and the public at large (Hery, 2017).

From the explanation of the two theories, it becomes very clear that the purpose of financial reports is to reveal the needs of the company, what is happening in the company is good and not, and to promote trust in any society. These two theories serve two purposes. Beliefs and conditions that provide determination whether the business can be continued or not.

b) Financial Statements

Financial statements are the most important thing in disclosing company operations, especially financing. Financial statements are urgent criteria that need to be examined by the auditor so that users of financial statements have confidence in the information contained in the audited financial statements. It can be said that the information contained in the annual report becomes important if it is presented on time (Wiyantoro, 2018).

c) Tenure audits

Audit tenure is how long a KAP carries out an engagement with its client, which is then confirmed by their existence Decree of the Minister of Finance of the Republic of Indonesia No. 17/PMK.01/ 2008 concerning "Public Accountant Services" Article 3 which regulates the provision of general audit services by KAP on the company's annual financial statements for a maximum of 6 (six) consecutive financial years and auditors for a maximum of 3 (three) consecutive financial periods - also (Lestari et al., 2018).

Wiyantoro (2018) emphasized that the Public Accounting Firm needs time to get to know its client's operations better and this was confirmed by Sari, et.al (2019) explains that the initial audit is less efficient than the following year. Furthermore, Yanti et.al (2020) and Dao et.al (2014) emphasized that audit tenure is defined as the engagement period that exists between auditors from public accounting firms and companies, which can affect audit quality in terms of the length of the auditor's engagement with the company. , a long tenure can cause emotional relations between the client and the auditor so that it can reduce the independence of the auditor which can affect audit quality.

3. METHODS

The research was carried out on the Indonesia Stock Exchange in 2019, 2020, 2021 and 2022, data was taken under the conditions a) the banking sector on the IDX; b) The company uploads financial

reports for four consecutive years, namely 2019, 2020, 2021 and 2022 c) The financial statements must cover the financial year ending December 31.

The research methodology used is quantitative which focuses on data processing and the data used is based on companies listed on the Indonesia Stock Exchange so that the data used is secondary data, namely company financial reports, the sampling technique for this research is purposive sampling technique, where samples are taken according to the criteria for the needs of researchers, so that the sample used focuses on banking companies with a total of 27 banking companies.

The research design is a research plan that serves as a guideline for the implementation of the research process. This research begins with data collection, collection and analysis to get a true picture of the problem at hand. The data analysis technique used is a factor analysis test using the IBM SPSS 27 for Windows program. Factor analysis is an analysis whose objective is to find, from a series of tests used as factors for a set of independent variables, the most important factor that most influences the dependent variable. In making the matrix, the Bartlett's test and the Kiser-Mayer-Olkin (KMO) test were used to determine the suitability of the sample with the range of KMO values, namely a KMO value of 0.9 is very good; 0.8 is good; 0.7 is moderate; 0.6 is sufficient; 0.5 is less and less than 0, 5 is rejected. When determining the number of factors used to represent indicators used as variables analyzed, based on the size of the eigenvalues and the percentage of aggregate variance, only factors with eigenvalues equal to or greater than one are retained, in this case the matrix, with the Varimax method changed to a simpler matrix.

4. RESULTS AND DISCUSSION

Searching for information by observing financial reports, especially when identifying the names of accounting firms and auditors employed by banking entities, the following results are obtained:

a) Research result

This study uses secondary data, analyzes observational data determining several control conditions of banking sector companies on the Indonesia Stock Exchange (IDX), and uses Kaiser-Meyer-Olkin (KMO) to analyze the data in order to identify the main determinants for the existence of determinant controls.

Table 1. KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measures of Sampling Adequacy.	,596
Bartlett's Test of Sphericity approx. Chi-Square	34,440
df	10
Sig.	,000

In Table 1, the KMO test and Bartlett's Test show the KMO sample adequacy (MSA) of 0.596, a value of 0.596 means greater than 0.5 (> 0.5). This indicates the suitability of the sample. The KMO and Bartlett test results (reporting the chi-square value) are 34.440 and the significance value is 0.000. This shows that there is a relationship between the variables and further processing is possible.

Table 2. Communalities

	Initial	Extraction
length of relationship between companies in the banking sector and the number of years of inspection	1,000	,500
the number of years since the audit partner was audited	1,000	,773
number of auditor partner offices	1,000	,915
the period during which the audit firm changed the auditor	1,000	,537
the duration of the auditor's engagement	1,000	,684
Total Score	1,000	,988

Extraction Method: Principal Component Analysis.

Table 2, explains the results that the variable duration is the relationship between banking sector companies and the number of years of inspection is 0.500 (50.0%), then the variable number of years

since the audit partner was audited is 0.773 (77.3%), the variable number of auditor partner offices is 0.915 (91.5%), then followed by the period during which the audit firm changed the auditor by 0.537 (53.7%) and finally the variable duration of the auditor's engagement was 0.684 (68.4%) of the public accountant's tenure variable.

Table 3. Total Variance Explained

Components	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variances	cumulative %	Total	% of Variances	cumulative %
1	3,012	50,202	50,202	3,012	50,202	50,202
2	1.385	23,088	73,290	1.385	23,088	73,290
3	,959	15,981	89,271			
4	,409	6,825	96,096			
5	,234	3,904	100,000			
6	-6.135E-16	-1.023E-14	100,000			

Extraction Method: Principal Component Analysis.

Table 3 shows that of the 5 variables used as factors, they are formed into 2 variables (factors) provided that each factor has an eigenvalue > 1. The first factor appears in the original eigenvalue table of 3,012 with a variance percentage of 50.202%. the second factor with an original eigenvalue of 1.385% with a variance of 23.088%. If it is stated that the results obtained have the same validity as the following calculations:

- For the first factor, it can be calculated as follows:
 $3.012/5 \times 100\% = 50.202\%$
- For the first factor, it can be calculated as follows:
 $1.385/5 \times 100\% = 23.088\%$

Thus, it can be informed that the total variance if the 5 variables are extracted into 2 factors is: $50.202\% + 23.088\% = 73.290\%$. The amount of variance that can be explained by the new factors formed is 73.290% while the remaining 26.71% is explained by other factors not examined.

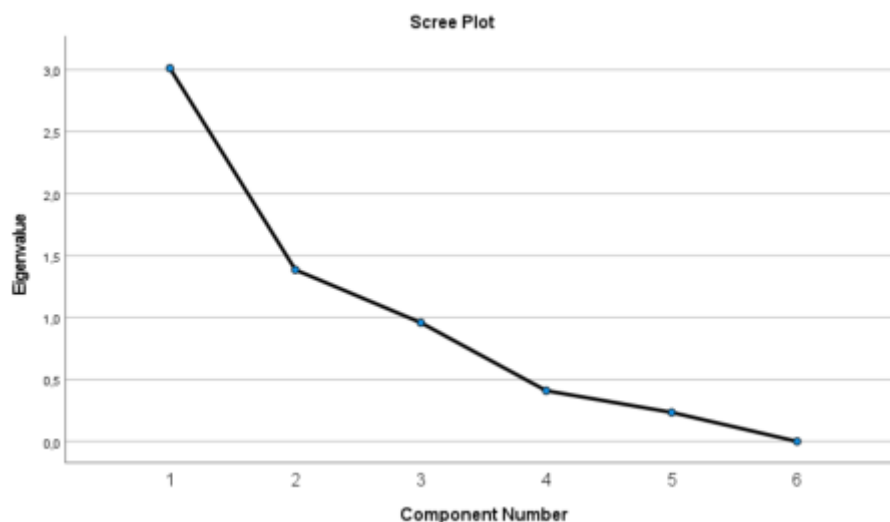


Figure 1. Scree Plot Based on Analysis Results

Figure 1 explains the relationship between the number of factors formed and the eigenvalues in graphical form. Followed by the following analysis:

Table 4. Component Matrix

	Components	
	1	2
length of relationship between companies in the banking sector and the number of years of inspection	,698	-,116

the number of years since the audit partner was audited	,693	-.542
number of auditor partner offices	,027	,956
the period during which the audit firm changed the auditor	,730	-.063
the duration of the auditor's engagement	,808	,179
Total Score	,927	,358

Extraction Method: Principal Component Analysis.

a. 2 components extracted.

Table 4 shows the results of the Varimax rotation, this variable is grouped into being distributed to each factor, namely 2 factors formed, then giving the name of the factor. The naming of the factors is adjusted to each variable group, so the explanation is as follows:

- 1) **Factor 1** named with **audit partner turnover factors with Banking Companies** which includes the length of relationship between banking sector companies and the number of years of audit, the number of years since the audit partner was audited, the period during which the audit firm changed the auditor and the duration of the auditor's engagement
- 2) **Factor 2** named with **factor number of auditor partner offices** which includes the number of auditor partner offices.

In addition to the table, it is reinforced with a component plot which confirms that 2 factors are formed that determine tenure audits, the following is a graphical image of the component plot:

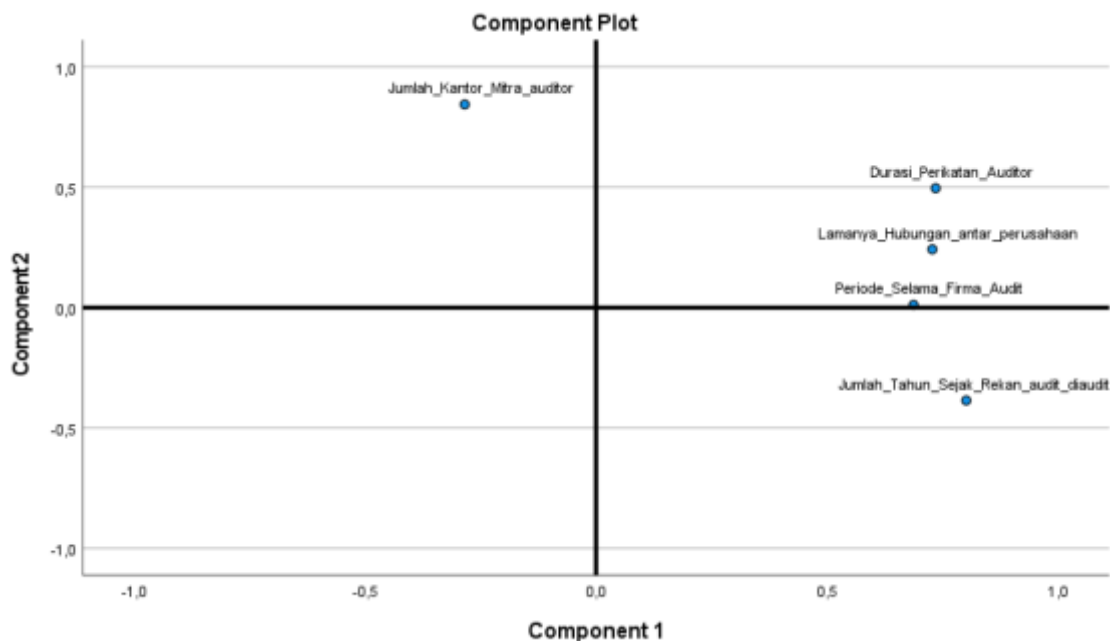


Figure 2. Tenure Audit Grouping Plot Components

From Figure 2, it can be seen in the plot elements that factor 1 is referred to as audit partner turnover with banking companies, including the length of relationship between banking sector companies and the number of years of inspection, the number of years since the audit partner was audited, the period during which the audit firm changed the auditor and the duration of the engagement auditors and the factor 2 given the name of the number of auditor partner offices includes only the number of auditor partner offices.

b) Research Discussion

Based on the results of the study it is strongly stated that audit tenure contributes to completing financial statements, there are two factors generated in this study regarding the existence of audit tenure including (a) audit partner turnover factors with banking companies which include the length of relationship between banking sector companies and the number of years of audit, the number of years

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since the audit partner was audited, the period during which the audit firm changed the auditor and the duration of the auditor's engagement and (b) the number of auditor partner offices only includes the number of auditor partner offices. These two factors are in accordance with the Decree of the Minister of Finance No.432/KMK, the stronger the companies that are on the Indonesia Stock Exchange have complied with the applicable regulations in submitting financial statements, but the difference is that there is no provision for public accountants to complete how many companies must complete their financial statements. According to the data obtained there are public accountants who hold more than 5 companies even though the auditors used are different.

The results of the study have different results expressed by Siregar, et.al (2012) which reveals that auditor rotation does not support the auditor rotation regulations, many things are caused by limitations that result in suboptimal financial report quality and other results disclosed by Simamora et.al (2019) who revealed audit client tenure had no effect on going concern audit opinion and Chan (2013) revealed that tenure with audit fees, audit fees are negatively related to the proportion of long-term board of commissioners in independent audit committees, consistent with the notion that long-term long board tenure of audit committee members results in lower audit effort.

The existence of an appropriate tenure audit will be one of the company's readiness to report finances correctly and correctly, so that the company can describe the company's sustainability in the future, this was also revealed by Qawqzeh, et, al (2018) if the relationship between the auditor and the client lasts a long time, then the relationship will affect the independence and quality of an audit. If associated with a clearer existence, tenure audits become one of the important things in disclosing the quality of financial reports.

It is interesting that even though it only reveals the existence of tenure audits, this study contributes to the fact that the results of previous studies have revealed costs, the length of time companies have worked with public accountants or the relationship between the two. Research reveals what are the tenure audit factors that are experienced after the new normal period or return to normal financial processes. Normative Accounting which emphasizes the condition of the company in good or bad condition, so that the financial statements become one of the strengths of the company's existence and the company must determine the audit tenure objectively and openly,

5. CONCLUSION

Factor 1 includes the length of relationship between the banking sector companies and the number of years of inspection, the number of years since the audit partner was audited, the period during which the audit firm changed the auditor and the duration of the auditor's engagement, the first factor is given the name of the audit partner turnover with the Banking Company and factor 2 only includes the number of partner offices auditor given the name of the number of auditor partner offices.

From the scatterplot graph it is also emphasized that the plot element shows factor 1 which is named as audit partner turnover with banking companies, including the length of relationship between banking sector companies and the number of years of inspection, the number of years since the audit partner was audited, the period during which the audit firm changed the auditor and the duration of the auditor's engagement and factor 2 which is given the name number of auditor partner offices includes only the number of auditor partner offices.

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