ANALYSIS OF INTERNAL FACTORS AFFECTING EXTERNAL AUDIT QUALITY EMPIRICAL STUDY ON LQ 45 COMPANIES ON THE INDONESIA STOCK EXCHANGE

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ARTICLE INFO	ABSTRACT
Keywords: Auditor Specialization, Audit Tenure, Audit Rotation, Time & Budget Pressure, KAP Size, Audit Fee, Audit Quality, Audit Opinion.	The development of audit services in Indonesia is considered to be getting better, accompanied by a positive increase in demand-supply making audit services more attractive to entities as users. This study aims to determine the effect of auditor specialization, tenure, KAP size, time and budget pressure, rotation, and audit fees on audit quality. Data were taken from LQ 45 companies listed on the Indonesia Stock Exchange for the period 2012-2018 which were analyzed by logistic regression. This study found that KAP size significantly affects audit quality, while other variables are not proven, and overall all variables simultaneously affect audit quality
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1. INTRODUCTION

Company operations and company financial reports must be communicated by top management through the preparation of financial statements [1][2]. Differences in the interests of management and users of financial statements, on the other hand, may arise as a result of differences in the information available when presenting financial results. Therefore, there is a need for the role of other independent and competent parties in the appointment of auditors to determine the reliability of information on financial performance[3]. External auditors must demonstrate their independence and competence in carrying out their duties as an independent party. Auditor independence affects the quality of audit results. High audit quality refers to high auditor independence[4].

Accountants, on the other hand, as members of the accounting profession, are often asked to choose between competing values. This occurs when the auditor and auditee disagree on the role and objectives of the audit. Furthermore, when the auditor and the auditee have a strong business relationship, the auditor tends to serve the interests of the auditee by ignoring the interests of other parties[5]. As a result, auditors lose their independence and audit quality is questioned.

Based on observations in 2019, there were many key positions involving Big·4 and non-Big·4 auditors. One of the most notable cases was the audit of the annual accounts of SNP Finance (Colombia), in which the auditor issued a non-economic audit result (opinion), which resulted in an estimated loss of $14.4 billion. OJK gives sanctions to auditors who work on reports by revocation of licenses and revocation of audit results of their clients, namely the prohibition of SNP Finance and audits of the banking sector, capital market (ICNB). Meanwhile, another significant case involving auditors is the annual financial report of PT Garuda Indonesia. An unqualified audit opinion was given to Garuda Indonesia Tbk, which stated that the financial statements showed a profit, even though the company actually recorded a loss. This resulted in a one-year suspension of his audit license by the Ministry of Finance. The occurrence of the two cases above has reduced public confidence in the quality of audit services in Indonesia.

According to Tandiotong[6], the probability that the auditor will find and report errors or fraud in the client's accounting system is referred to as audit quality. There are several reasons to properly understand the client's industry. To begin with, many industries have their own accounting standards

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that auditors must understand in order to determine whether a client's financial statements conform to Financial Accounting Standards (IFRS). Second, the auditor must be able to identify and justify the risks that affect the determination of industry-acceptable audit risk. Third, there are inherent risks that are common to all clients in the industry. Understanding risk assists the auditor in determining the client's inherent risk[7].

According to Theodorus[8] audit duration is the time during which a public accountant (PA) performs an audit mission on a client or a CPA works on a client (performs an audit). Commitment). The audit period is the period during which a public audit firm provides audit services to a particular client. The longer the relationship between the accountant and the client, the closer the relationship, which can damage the independence of the accountant. According to Messier et al[9], KAP sizes range from sole proprietorships to thousands of owners (or "partners") and tens of thousands of professional and administrative staff. The size of the KAP reflects the independence and professionalism of the auditor in carrying out the audit process. This is due to the fact that large KAPs (Big Four) are less financially dependent on clients and do not compromise on audit quality, enabling them to provide better audit quality than smaller Non-KAPs (Big Four)[10].

According to Regulation no. 2 of 2016 Indonesian Association of Public Auditors (IAPI), regarding audit fees on financial statements, the notion of imbalance is an imbalance received by auditors from client organizations in relation to the provision of audit services. Meanwhile, according to Mulyadi[11], audit fee is the payment received by the auditor after providing audit services. An accountant works to receive a salary in the form of an imbalance or audit fee. Payment can be expressed as a fee for expert services or as a fee for services rendered[12]. Audit rotation is the transfer of auditors to KAP that provide audit services to client companies[13]. Audit rotation refers to changes in auditors and KAP after client contact at a certain point in time. Audit rotation is closely related to tenure audit[14]. Regulation of the Government of the Republic of Indonesia no. 300 implement the PA rotation policy by issuing Government Regulations. 20/2015 concerning Auditor Practice Article 11. Auditors can return to providing services to clients for 2 financial years without auditing the company. The existence of rotation opens new opportunities for KAP to evaluate company performance and can provide better standards and quality for evaluating customer performance compared to previous KAP.

According to Tandiontong[6] time budget is the amount of time available to "allocate the time" required for each stage of the audit program implementation. Time budget pressure is the pressure of having a limited amount of time to complete a task. Budget constraints often cause auditors to neglect important aspects of the audit program, resulting in lower audit quality. Even if time limits are strictly enforced, auditors who fully comply with auditor ethics will be tempted to perform significant audit procedures to meet audit deadlines.

2. METHOD

The research method used is correlational with a quantitative approach [15]. Data collection techniques are documentation in the form of financial reports and annual reports that have been audited by LQ 45 companies that have been audited from the IDX website in 2013-2018. Logistic regression model was used in this study. The sampling technique was carried out by purposive sampling method, and obtained a sample of 11 companies.

3. RESULT AND DISCUSSION

a. Descriptive statistics

Table 1. Results Test Statistics Descriptive

N		Min	Max	Mean	Std. Deviation
KA	66	.00	1.00	.9242	.26664
SA	66	.00	1.00	.3939	.49237
TA	66	1.00	6.00	3.0455	1.65884
UKAP	66	.00	1.00	.8939	.31027
FA	66	1080	54555	6312.82	7954.826
RA	66	.00	1.00	.0606	.24043

TBP	66	15.00	119.00	54.3636	23.53304
Valid N (listwise)	66				

Source: Data processing results SPSS 25.0

b. Multicollinearity Test

Table 2. Results Multicollinearity Test

Correlation Matrix

		Const	SA	TA	UKAP	FA	RA	TBP
Step 1	Const	1,000	-,168	-,486	-,381	,365	,000	-,684
	SA	-,168	1,000	,108	-,466	,344	,000	-,038
	TA	-,486	,108	1,000	,027	-,248	,000	-,080
	UKAP	-,381	-,466	,027	1,000	-,510	,000	,192
	FA	,365	,344	-,248	-,510	1,000	,000	-,424
	RA	,000	,000	,000	,000	,000	1,000	,000
	TBP	-,684	-,038	-,080	,192	-,424	,000	1,000

Source: Data processing results SPSS 25.0

Based on the table above, there is no value > 0.10 indicating that there is no multicollinearity.

c. Test Model Fit Assessment

Table 3. Overall Test Results Model Fit

Iteration History pertama

Iteration		-2 Log likelihood	Constant
Step 0	1	39,179	1,697
	2	35,609	2,301
	3	35,415	2,486
	4	35,413	2,501
	5	35,413	2,501

Source: Data processing results SPSS 25.0

Table 4. Test Results Overall Model Fit

Iteration History kedua

Iteration		-2 Log likelihood	Coefficients						
			Const	SA	TA	UKAP	FA	RA	TBP
Step 1	1	35,522	1,043	-,191	,035	1,144	,000	,243	-,004
	2	29,625	1,177	-,480	,073	2,059	,000	,657	-,006
	3	28,617	1,175	-,803	,100	2,638	,000	1,374	-,005
	4	28,488	1,152	-,953	,106	2,834	,000	2,322	-,005
	5	28,459	1,147	-,971	,106	2,853	,000	3,325	-,005
	6	28,448	1,147	-,971	,106	2,854	,000	4,327	-,005
	7	28,444	1,147	-,971	,106	2,854	,000	5,328	-,005
	8	28,443	1,147	-,971	,106	2,854	,000	6,328	-,005
	9	28,442	1,147	-,971	,106	2,854	,000	7,329	-,005
	10	28,442	1,147	-,971	,106	2,854	,000	8,329	-,005
	11	28,442	1,147	-,971	,106	2,854	,000	9,329	-,005
	12	28,442	1,147	-,971	,106	2,854	,000	10,329	-,005
	13	28,442	1,147	-,971	,106	2,854	,000	11,329	-,005
	14	28,442	1,147	-,971	,106	2,854	,000	12,329	-,005
	15	28,442	1,147	-,971	,106	2,854	,000	13,329	-,005

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Iteration		-2 Log likelihood	Coefficients						
			Const	SA	TA	UKAP	FA	RA	TBP
	16	28,442	1,147	-,971	,106	2,854	,000	14,329	-,005
	17	28,442	1,147	-,971	,106	2,854	,000	15,329	-,005
	18	28,442	1,147	-,971	,106	2,854	,000	16,329	-,005
	19	28,442	1,147	-,971	,106	2,854	,000	17,329	-,005
	20	28,442	1,147	-,971	,106	2,854	,000	18,329	-,005

Source: Data processing results SPSS 25.0

The table shows the first -2 Likelihood Logs of 39,179. The second -2 Log Likelihood of 35.522 shows that the value of -2 Log Likelihood has decreased, this indicates that the model fits the data.

d. Coefficient Test Determination

Table 5. Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	28,442	,100	,241

Source: Data processing results SPSS 25.0

The Nagelkerke R Square value is 0.241 (24.1 percent) and the Cox & Snell R Square value is 0.100. This means that the independent variable can explain 24.1 percent of the variation in the dependent variable, while the remaining 75.9 percent is explained by factors outside this study.

e. Test Feasibility of Regression Model

Table 6. Test Results Hosmer and Lower

Step	Chi-square	df	Sig.
1	11,691	7	,111

Source: Data processing results SPSS 25.0

The test results show a sig value > 0.05 which indicates the logistic regression model used is fit with the data.

f. Test Matrix Classification

Table 7. Results Matrix Test Classification

Classification Table[a]					
			Predicted		
	Observed		Kualitas Audit		Percentage Correct
			Non Unqualified Opinion	Unqualified Opinion	
Step 1	Kualitas Audit	Non Unqualified Opinion	1	4	20.0
		Unqualified Opinion	1	60	98.4
	Overall Percentage				92.4

Source: Data processing results SPSS 25.0

Based on the table, the accuracy of the regression model in predicting the probability of a company obtaining an unqualified opinion is 98.4 percent. The predictive power of the Unqualified Opinion firm model is 20%. This research model has an accuracy rate of 92.4 percent.

g. T test

Table 8. Result T Test

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1	SA	-,971	1,210	,644	1	,422	,379
	TA	,106	,331	,103	1	,749	1,112
	UKAP	2,854	1,329	4,609	1	,032	17,353
	FA	,000	,000	2,464	1	,117	1,000
	RA	18,329	19806,928	,000	1	,999	91207461,798
	TBP	-,005	,023	,038	1	,844	,995
	Constant	1,147	1,851	,384	1	,535	3,148

Source: Data processing results SPSS 25.0

Based on the results of the logistic regression, it can be concluded as follows:
a. The Audit Specialization variable shows a regression coefficient of -0.971, sig of 0.422 > 0.05, then H1 is rejected. So that the auditor's specialization variable has no effect on audit opinion.
b. Tenure Audit variable shows a regression coefficient of 0.106, sig of 0.749 > 0.05, then H2 is rejected. So that the Tenuer Audit variable does not affect the audit opinion.
c. The KAP size variable shows a regression coefficient of 2.854, sig of 0.032 < 0.05, then H3 is accepted. So that the variable size KAP has an effect on Opinion audit
d. Fee audit variable shows a regression coefficient of 0.000, sig is 0.117 > 0.05, then H4 is rejected. So that the audit fee variable does not affect audit opinion.
e. Rotation Variabelaudit variable shows a regression coefficient of 18.329, sig of 0.999 > 0.05, then H5 is accepted. So that the variable rotation auditor has no effect on audit opinion.
f. Time Budget Pressure variable shows a regression coefficient of 0.005, sig of 0.844 > 0.05, then H6 is rejected. So that the Time Budget Pressure variable has no effect on the audit opinion.

Effect Of Auditor Specialization On Audit Quality
The first hypothesis is rejected, which implies that auditor specialization has no significant effect on audit quality. This study supports the findings of Nicolin and Sabeni[16]. Clients who use the services of a specialist auditor and a non-specialist can get the same quality of audit services, because audit services require the same standard of competence and professionalism from every professional auditor, both in large KAPs such as the big four and non big four. These results indicate that audit quality does not differ between companies audited by specialist KAPs and non-specialist KAPs.

Effect of Tenure Audit on Quality Audit
Because the second hypothesis is rejected, the audit tenure has no significant positive effect on audit quality. Research this supports Mayasaris findings[17] and Fitriany et al[18]. The term of office of the KAP and the term of office of the auditor for the same client have been regulated in accordance with the Decree of the Minister of Finance of the Republic of Indonesia Number 359/KMK.06/2003. As a result, the duration of the audit service engagement should not affect the quality of the audit services provided to the client by the auditor or public accounting firm.

Effect of Size KAP on Quality Audit
The third hypothesis, that the size of KAP has a significant positive effect on audit quality, is accepted. This research supports Fauziyah's findings[19]. Compared to small KAP, KAP affiliated with the Big Four are considered to have high independence and audit quality. Misstatements found by the

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Big Four KAP have a tendency to be reported. Auditors from highly reputable KAP have high audit quality and reliable opinions based on the results of audits of financial statements. Large KAP always train and evaluate their auditors on an ongoing basis, and tend to apply audit standards that are applied more than small auditors.

Effect of Fee Audit on Quality audit

The fourth hypothesis is rejected, which indicates that audit fees do not have a significant effect on audit quality. This study supports Biri .'s findings[20] and Ardiani et al[21]. Fee is a fee for audit work and is determined at the beginning of the work, while audit quality is a reflection of the audit program and audit procedures that are prepared effectively and efficiently based on the professional skills and accuracy of the auditors to meet the provisions of auditing standards in providing audit services. Excessive audit fees will undermine the independence of the auditor, causing the auditor to tolerate violations committed by the company.

The Effect of Auditor Rotation on Quality audit

The fifth hypothesis is rejected, which implies that auditor rotation has no significant effect on audit quality. This study supports the findings of Nurhayati and Dwi[5]. Every auditor and KAP that provides audit services must have professional competence and expertise, and audit services must be established in accordance with auditing standards. Auditor rotation also requires the same thing so that the quality of audit services provided to clients is not compromised. The existence of mandatory audit rotation regulations that allow each KAP to audit various companies in various industries, allows KAP to gain experience in various industries.

Effect of Time budget pressure on Quality audit

The sixth hypothesis is rejected, which means that time budget pressure has no effect on audit quality. Time constraints and budget constraints in completing audit services are the risks of the auditor's work, the auditor is required to have sufficient professional competence and expertise to ensure that audit services are completed even though they face the risk of the work. The auditor's Time Budget Pressure level is not the basis for the size of the audit quality level produced, because auditors with high and low Time Budget Pressure will both produce the same audit quality. Since the time budget is the amount of time allocated to complete the audit task, even though the auditor is under time constraint, they must maintain audit quality because time constraint is unavoidable and becomes an obligation in the assignment. With skill and accuracy, auditors are required to be able to develop effective and efficient audit programs and procedures in completing work.

4. CONLUSION

The development of audit services in Indonesia is considered to be getting better, accompanied by a positive increase in demand-supply making audit services more attractive to entities as users. Supported by the increasing number of issuers who continue to grow consistently, as well as the increase in the number of auditors, the prices for audit services are quite competitive in the 2012-2018 period. The results of this study support empirical findings where it was found that the size of the KAP with the big four and non big four proxies showed a positive and significant effect on audit quality. However, for other variables, namely, auditor specialization, audit tenure, audit rotation, time budget pressure, and audit fees, the results show that it has no effect on auditor performance. Thus, every choice of a large (big four) KAP by the client in fulfilling the audit services it needs, has a positive correlation with the audit quality that can be obtained. This is considered reasonable because large KAP tend to have more advantages than small KAPs. Large KAPs have experience, competence and adequate resources in dealing with complex and complex audit assignments in public companies. The possibility of getting an unqualified opinion for a public company will be even greater if you employ KAP Bigfour considering its capability to calculate and bear the magnitude of the risk of "misstatement" in the financial statements of a public company. This can be a consideration for entities that will choose audit services regarding their choice.

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