

## Audit Fee, Audit Tenure, and Audit Rotation on Audit Quality in Manufacturing Companies

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### ABSTRACT

Each company tries to compete to improve its performance by presenting qualify financial reports. Audit quality. Audit quality is influenced by audit fee, audit tenure and audit rotation which will be presented in the 2018 – 2022 period, for industrial companies on the Indonesian Stock Exchange. Dummy variable to test audit quality with the Big Four KAP and Non-Big Four KAP Auditor groups as a comparison. The natural logarithm (ln) of professional fees is used to measure audit fees. A dummy variable is also used to measure audit tenure, where 1 is for companies that have audit tenure of less than 3 years and 0 for companies that have audit tenure of more than 3 years, and audit rotation is tested using a dummy variable with 1 for rotation, 0 for companies which does not rotate. Purposive sampling was used to select samples with a sample size of 160 data. Logistic regression analysis as a method for testing hypotheses. From the test, the results showed that audit fees had a partial influence on audit quality, while audit frequency and audit rotation had no effect to audit quality.

**Keywords:** Audit fee, audit tenure, audit rotation, quality audit

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## INTRODUCTION

Tight competition between manufacturing companies is increasing due to current economic conditions which are starting to grow and many new companies are emerging. In order to achieve goals, the company tries to improve its performance as best as possible. Financial reporting is used for internal accountability, as well as for external purposes such as attracting investors or increasing creditor confidence. According to Linda Simatupang (2019), so that financial reporting does not contain elements of error, a process of checking information is needed using the services of an auditor.

According to Yogi Ginanjar and E.M. Syamsul (2020), auditors have an important role in detecting and preventing fraud. An external auditor or Public Accountant can be a neutral third party. It is very important for an auditor to maintain his independence, he must always be neutral and impartial. Company decision making is based on the results of the audit made by the auditor. According to Sitta Darmaningtyas (2018), audit quality results are used to increase the credibility of financial reports for users of accounting information so as to reduce the risk of non-credible financial information in financial reports for users of financial reports, especially investors.

Tasya Erinos (2022), providing good quality audit services must be paid attention to by Public Accounting Firms (KAP), effective and efficient audits provide high quality results. Audit fraud often occurs, causing public trust to decline. PT Garuda Indonesia in 2019, citing news from <https://pppk.kemenkeu.go.id/>, recognized income from transactions from PT, Mahatta Aero Teknologi that had not been paid. There was also fraud by SNP Finance and PT Tirta Amarta Bottling who marked up their assets to obtain credit

Learning from the phenomenon above, full responsibility for audit results lies with the auditor and KAP. Auditors and KAPs must be able to minimize information asymmetry as a reference in decision making between managers and report users.

Audit fees are the first factor that influences audit quality. Audit fees are the fees AP gets when the audit is completed. APs with a good reputation and competence will charge high fees because they are able to provide quality information. Research results from (Zahra & Praptiningsih, 2020) state that audit fees have an influence on the quality of positive audit results. On the other hand, the results studied (Wulan & Eka, 2022), show that audit fees have no effect.

The second audit quality factor is influenced by audit tenure. The period an AP performs an audit on a client is defined as audit tenure. Research (Luvena, et al, 2022), shows that there is a good influence of audit tenure on audit quality. Wita et al (2022), stated that the tenure audit had no effect.

The third factor is audit rotation. According to Rahmadini and Fauzihardani (2022), AP rotation is a change of auditor by the client company. Research (Luvena et al, 2022), audit rotation has no effect on audit quality. Meanwhile, research (Ulfa & Merlyana, 2021) is influential.

This phenomenon moved the author to take the title: "The Influence of Audit Fee, Audit Tenure and Audit Rotation on Audit Quality in Manufacturing Companies listed on the Indonesia Stock Exchange (BEI) for the 2018-2022 Period."

## LITERATURE REVIEW, FRAMEWORK AND HYPOTHESIS

### Agency theory

Companies are required to continue to improve their financial performance in order to increase the company's ranking and win the competition. In agency theory, stockholders have the position of principal while management has the position of agent. What is emphasized is delegation from stockholders to agents to manage the business. Agents are required to publish detailed and detailed reports within a certain period.

Independent AP has a neutral position. The main function is to monitor the manager's movements so that they move according to stockholder expectations.

### **Audit Quality**

According to Sitta Darmaningtyas (2018), financial reporting is very important for decision making. Therefore, quality audit results are needed. Anything can happen while the Auditor is working. If there are violations or other odd findings, they must be reported in accordance with the provisions.

### **Audit Fee**

Compensation in the form of money or goods or other forms is defined as an audit commission. The amount of audit fees is thought to have an influence on audit quality. Determining the audit fee is very important. Agoes Sukrisno (2016:46), also said that the fee for expert staff members must consider the overall costs in detail.

The aim of agency theory is to avoid asymmetric information between managers and stockholders. The high audit fees paid are expected to increase audit quality so that it can satisfy customers.

User involvement is the mental and emotional involvement of people in group situations that encourages them to contribute to group goals. The dimension or indicator of user involvement is the opinion that user involvement in system development provides direct assurance of both user satisfaction and system use (Kuntadi & Pramukty, 2023).

### **Audit Tenure**

According to Sitta Darmaningtyas (2022), auditor independence, audit quality will potentially also be influenced by the AP's work period with the client. Short tenure can also have a negative effect on auditors. The maximum AP time is 3 years and KAP 5 financial years.

The length of time that an auditor spends with the company being audited is defined as Audit Tenure. If the engagement period is long, it will result in the emergence of a special relationship. This can affect the quality and independence of Public Accountants.

### **Audit Rotation**

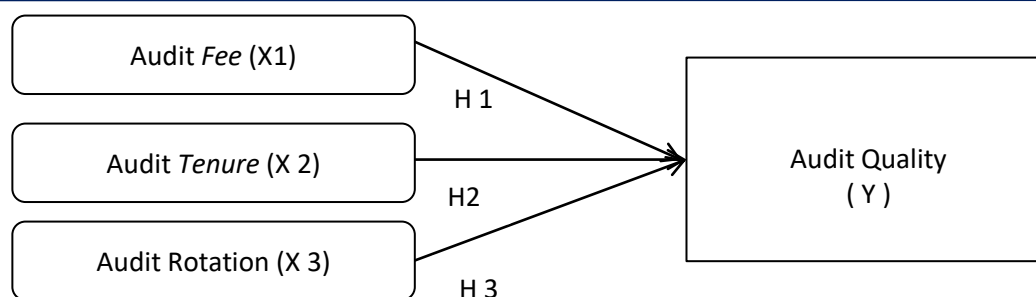
Alvin Arens (2017: 105), defines the rules for maintaining independence, namely the obligation for leaders and audit partners to rotate audit tasks after a specified time limit. And client companies are required to change auditors regularly to increase auditor independence.

According to Linda Simatupang (2019:1), audit rotation can be divided into 2, namely mandatory, which occurs due to government regulations which have permanent legal force and voluntary, which occurs for reasons other than government regulations.

The mandatory audit rotation provisions require auditor rotation to occur due to the Regulation of the Minister of Finance of the Republic of Indonesia. Voluntarily, companies are faced with possibilities such as dismissing auditors due to management failure, financial difficulties and changes in ownership, an Initial Public Offering (IPO) or the auditor himself resigning due to audit fees, independence and audit quality.

The closeness of the auditor to the client due to the audit taking too long can reduce the quality of the audit. Therefore, audit rotation will improve quality. This research by Luvena et al (2018), shows that auditor rotation has an influence on the quality of an audit.

Based on the study above, the conceptual framework in this research can be described as a research paradigm as follows:



**Figure 1. Research Paradigm**

### Research Hypothesis

Based on the framework above, the research hypothesis can be formulated as follows:

H1: Audit fees influence audit quality.

H2: Audit tenure influences audit quality.

H3: Audit rotation has an influence on audit quality.

### METHODS

Researchers used descriptive analysis and verification analysis techniques. The type of data is secondary using purposive sampling to determine the sample so that 160 data are obtained from industrial companies on the Indonesian Stock Exchange for the 2018-2022 period.

### RESULTS AND DISCUSSION

#### Result

#### Descriptive Analysis

The author used SPSS version 25 to obtain descriptive data from the company samples.

**Table 1. Result of Normality Test**

	n	M i n	M a x	M e a n	Std. Dev
Audit Quality	160	0	1	,31	,465
Audit Fee	160	18,133	21,738	20,03447	,917858
Audit Tenure	160	0	1	,55	,499
Rotation Audit	160	0	1	,53	,501

Source: SPSS 25, 2024

The author used 160 company report data. From table 1, we get an average value of 31% of companies using Big Four public accounting firms and a standard deviation of 0.465. Audit fees have an average of 20.034 with the lowest value being 18.133 and the highest value being 21.738 and std. deviation 0.917. Audit tenure has an average of 0.55 with the lowest number being 0 and the highest number being 1 and the std value. deviation 0.499. Audit rotation has a mean of 0.53 and standard dev. 0.501.

#### Verification Analysis

According to Ghazali (2016:321), logistic regression is used if the independent variables are a combination of matrices and non-matrices. The author uses logistic reflection. to find out the possibility that the dependent variable can be predicted by the independent variable.

### Goodness of Fit

**Table 2. Result of Goodness of Fit**  
**Hosmer and Lemeshow Test**

Step	Chi - Square	D f	Sig.
1	9,913	8	,271

Source: SPSS 25, 2024

The SPSS output results have 0.271. This result is more than 0.05, the hypothesis is accepted. So the model fits the observation data so it is suitable for analysis

### Overall Test

**Table 3. Iteration Histoy Block 0**  
**Iteration History<sup>a,b,c</sup>**

Iteration	-2 Log like lihood	Coeficients Constant
Step0 1	198,799	-,750
2	198,748	-,788
3	198,748	-,788
a. Constant is included in the model. b. Inisial -2 LogLikelihood: 198,748 c. Estimation terminated at iteration number 3 because parameter estimates changed by less than ,001		

Source: SPSS 25, 2024

**Table 4. Iteration Histoy Blok 1**  
**Iteration History<sup>a, b, c, d</sup>**

Iteration	Coef ficients				
	-2 Loglikelihood	Constant	Audit Fee	Audit Tenure	Auditor Rotation
Step 1 1	134,214	-25,815	1,243	,214	,093
2	118,591	-41,971	2,019	,338	,151
3	114,831	-54,165	2,605	,401	,182
4	114,456	-59,490	2,861	,424	,189
5	114,451	-60,205	2,895	,427	,190
6	114,451	-60,216	2,895	,427	,190
7	114,451	-60,216	2,895	,427	,190
a. Methode:Enter b. Constant is included in the model. c. Initial -2 Loglikelihood: 198,748 d. Estimation terminated at iteration number 7 because parameter estimates changed by less than , 001.					

Source: SPSS 25, 2024

Based on the table above, the original result was 198,748, then the three independent variables were added to become 114,451, resulting in a decrease of 84,297. This condition indicates that the regression model is getting better.

## Logistic Regression Test

**Table 5. Result of Logistic Regression Test**

*Variabels in the Equation*

		B	S. E.	Wald	Df	Sig.	Exp(B)
Step 1 <sup>a</sup>	Audit_Fee	2,895	,512	32,003	1	,000	18,092
	Audit Tenure	,427	,507	,708	1	,400	1,532
	Audit Rotation	,190	,500	,143	1	,705	1,209
	Constant	-60,216	10,579	32,402	1	,000	,000

Source: SPSS 25, 2024

The results of the logistic regression equation are as follows:

$$Y = -60.216 + 2.895X_1 + 0.427X_2 + 0.190X_3$$

## Coefficient of Determination Analysis

**Table 3. Coefficient of Determination Analysis Result**

Model		Correlations		
		Zero-order	Partial	Part
1	Audit Fee	,621	,615	,610
	Audit Tenure	,122	,069	,054
	Audit Rotation	,101	,030	,023

a. Variabel Terikat: Kualitas Audit

Source: SPSS 26 output, 2024

The coefficient of determination obtained is like this:

1. Coefficient of determination of audit fee (X1)

$$\begin{aligned} KD &= r^2 \times 100\% \\ &= 0.621^2 \times 100 \\ &= 38.56\% \end{aligned}$$

The contribution of audit fees to audit quality is 38.56%.

2. Coefficient of determination of audit tenure (X2)

$$\begin{aligned} KD &= r^2 \times 100\% \\ &= 0.122^2 \times 100\% \\ &= 1.48\% \end{aligned}$$

The contribution of audit tenure to audit quality is 1.48%.

3. Coefficient of determination of audit rotation (X3)

$$\begin{aligned} KD &= r^2 \times 100\% \\ &= 0.101^2 \times 100\% \\ &= 1.02\% \end{aligned}$$

The contribution of audit rotation to audit quality is 1.02%.

From the calculation above, it can be interpreted that the audit fee variable has a contribution of 38.56% in explaining the audit quality variable. The audit tenure variable has a contribution of 1.48% and the audit rotation variable has a contribution of 1.02% in explaining the components of audit quality and the rest is explained apart from the description at 58.94%. So audit fees, audit tenure and audit rotation are still limited in describing the components of audit quality.

### Hypothesis Test (Wald test)

**Table 7. Hypothesis Test (Uji Wald)**

*Variabels in the Equation*

		B	S. E.	W a l d	df	S ig.	E x p (B)
Step 1 <sup>a</sup>	Audit_Fee	2,895	,512	32,003	1	,000	18,092
	Audit_Tenure	,427	,507	,708	1	,400	1,532
	Audit Rotation	,190	,500	,143	1	,705	1,209
	Constant	-60,216	10,579	32,402	1	,000	,000

a. Variable(s) entered on step 1: Audit\_Fee, Audit\_Tenure, Rotasi\_Audit

Source: SPSS 26 output, 2024

### The Effect of Audit Fees on Audit Quality

Based on table 5, the audit fee variable is 0.000. The significance value is lower than the coefficient value of 5% (0.05). So the first hypothesis is accepted, meaning the independent variable has an effect on the dependent variable.

Based on test data, it shows that audit fees have an effect on audit quality. Higher fees will increase audit quality. Determining the fee allows the AP to determine the audit risk, the variety of services offered, the level of expertise in processing the data required.

Based on Table 1, the average audit fee value is 20.03 and the lowest value is 18.13 and the highest is 21.73. A lower deviation from the average means that the amount of the audit fee is relatively uniform with the range of data variations not being too wide so the data is reliable.

The test is supported by Zahra and Praptiningsih (2020) and Luvena et al (2022) who explain evidence that audit fees have a significant influence on audit quality. But not Wulan, Eka Fauzihardani (2022) and N. Wita Yustari et al (2022) who state that audit fees have no effect.

### The Effect of Audit Tenure on Audit Quality

The significance score for the audit tenure variable is 0.400. This value is greater than the coefficient of 5% (0.05). The description of this data is that the second hypothesis must be rejected, which means the independent variable has no effect on the dependent variable.

Tests in this research explain that there is no effect of audit tenure on audit quality. There is no guarantee that the audit results will be of quality whether the auditor's engagement is long or not.

The value of the average Descriptive Statistics Test for audit tenure is 0.55. The value is closer to 1, meaning that the average company's engagement period with an auditor is less than 3 years. A relationship that is too long between the auditor on the one hand and the company on the other hand can result in unreasonable collaboration thereby reducing the auditor's neutrality.

This explanation is supported by research by Zahra and Praptiningsih (2020) and N. Wita Yustari et al (2022), audit quality is not influenced by audit tenure. However, Tasya Erinos NR (2022) and Luvena et al (2022) explain that audit tenure has an effect on audit quality.

### The Effect of Audit Rotation on Audit Quality

The significance score for the audit rotation variable is 0.705. The value is greater than the coefficient value of 5% (0.05). The picture from this data is that the third hypothesis must be ignored so that the independent variable has no effect on the dependent variable.

Test data shows that audit rotation does not affect audit quality. In table 1 of the Descriptive Statistics Test, it was found that the average company carrying out audit rotation was 0.53. This value is closer to 1, meaning more companies are rotating. Companies that rotate aim to increase the auditor's neutral attitude, while companies that do not do so because the costs of audit rotation are high.



The findings of this data are supported by previous researchers, namely Ulfa Lailatul and Merlyana (2021) and Wulan and Eka Fauzihardani (2022) who stated that audit rotation has no effect on audit quality. However, these results contradict researchers Tasya and Erinos NR (2022) and Luvena et al (2022) who state that there is an influence of audit rotation on audit quality.

## CONCLUSION

From the results of data testing and the explanation of the discussion above, several conclusion points were obtained, namely, there is an influence of audit fees on audit quality. In determining the fee, the auditor must consider several things, including the needs of the customer, the duties and responsibilities that will be carried out, the level of expertise of the auditor and the complexity and complexity of the work. Meanwhile, there is no influence of audit tenure on audit quality. The auditor's collaboration period does not guarantee that the results obtained from the audit will be of higher quality because a long engagement period can create a special relationship, thereby reducing the auditor's independence, but a working time that is too short will give the auditor less time to obtain audit evidence. Apart from that, there is no effect of audit rotation on audit quality. Companies rotate audits to achieve greater auditor neutrality, while those that do not rotate their auditors are due to high audit rotation costs.

Of the three independent variables in the research discussion above, only the audit fee variable has an influence on audit quality. Meanwhile, the auditor tenure and audit rotation variables have no influence on audit quality.

Based on this discussion, the company pays attention to the amount of the audit fee given because a high audit fee will affect the quality of the audit. Even though audit tenure and audit rotation have no influence on audit quality, companies should also pay attention to these two things. By considering sufficient engagement periods and rotation for auditors, it is hoped that quality audits will be obtained. Next, you can expand the sample, such as banking, mining, telecommunications and others. Then you can add other variables such as experience, auditor reputation and GCG mechanisms.

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