

The Role of Audit Quality in Moderating Audit Tenure, Audit Fees, Auditor's Reputation and Audit Committees on The Integrity of Financial Statements

Slamet Wahyudi, Sabaruddin

Faculty of Economics and Business, University of Muhammadiyah Jakarta

Email: slamet.wahyudi@umj.ac.id, sabaruddin@umj.ac.id

Keywords

Audit Quality, Audit Tenure, Audit Fee, Auditor Reputation, Audit Committee, Integrity of Financial Statements.

ABSTRACT

This study aims to empirically prove the effect of factors such as Audit Tenure, Audit Fee, Auditor's Reputation and Audit Committee on the Integrity of Financial Statements which is moderated by Audit Quality. Companies that are the object of research are banking companies listed on the Indonesia Stock Exchange in the observation period from 2014 to 2022. The research sample used 20 banking companies listed on the Indonesia Stock Exchange which were taken based on a purposive sampling technique. Research analysis uses Logistic Regression with Moderating Regression Analysis. The findings reveal that Audit Tenure and Audit Fee do not significantly affect financial statement integrity. However, Auditor's Reputation and Audit Committee exhibit positive and significant influences on financial statement integrity. Additionally, Audit Quality moderates the relationship between Auditor's Reputation and financial statement integrity, as well as the impact of the Audit Committee on financial statement integrity. These outcomes contribute to Agency Theory. The results of this study can be used as a contribution to Agency Theory.

INTRODUCTION

Audit quality is important because high quality audits produce reliable financial information on the capital market. Audit quality is a fundamental factor for users of financial information to increase the credibility of financial reports. An audit involves performing procedures to obtain evidence about the amounts in the financial statements and the information contained in the financial statements in order to evaluate the accuracy of management's accounting estimates. The credibility of financial reporting is partly reflected in the trust of users of audited financial statements (Watkins, et al., 2004).

Auditor firms compete on the quality of their audit services. However, product differentiation is a dimension in which it is difficult to compete because auditing is a service whose quality cannot always be observed. Due to the unobservable nature of audit services, only the auditor has the opportunity to observe actual audit quality. (Fairchild, 2007) and (Coate et al. 2002) research show that audits increase the credibility of financial information by providing independent verification of the financial statements presented by management, thereby reducing information risk for investors. Perceptions of audit quality play an important role in maintaining systemic confidence in the integrity of financial reporting. The higher the

perception of audit quality, the more credible the annual financial report. This increases user confidence in the annual financial reports. The spectacular accounting scandals of large corporations such as Enron, WorldCom and others have raised concerns about audit quality. The aftermath of the scandal led to a perceived "expectations gap" in auditing, with many users of audited financial statements having different expectations of audit work than was actually intended (Beattie, et al., 1999).

METHODS

Research Design

This type of research uses quantitative methods. Companies that are the object of research are banking companies listed on the Indonesian Stock Exchange. The type of data the researchers used in this study was secondary data, namely data that had been published by the company, the Indonesia Stock Exchange. The data used comes from documentary data sources, such as annual reports and financial report summaries, as research samples. The independent variables used in this research are Audit Tenure, Audit Fee, Auditor Reputation and Audit Committee. The dependent variable used in this study is the Integrity of Financial Statements. As well as the moderating variable used in the study is Audit Quality.

Variabel Measurement

The measurement of the independent research variables is explained in detail as follows:

Audit Tenure

Audit Tenure is the number of years the audit firm (KAP) has been auditing. Doing audit work at the same company (the audited company). Prolonged involvement in an audit can result in the auditor losing his independence when expressing an audit opinion. On the other hand, going through long-term audit engagements allows accounting firms to better understand their financial situation and spot business continuity issues. This is also expressed by (Januarti, 2009), who argues that long-term audit involvement can result in the auditor losing his independence and making it difficult for the entity to continue as a going concern, or you will be able to understand the situation and recognize your going concern problems more easily. To maintain auditor independence, several countries have regulations regarding the rotation of Public Accounting Firms (KAP). The Cadbury Commission (1992) in (Arrumada & Paz-Ares, 1997), England, recommends rotating auditors who conduct audits rather than accounting firms (KAP).

Audit Fee

Audit Fee is the professional service fee of the company's independent auditors. These costs are then transformed into data using natural logarithms. The method of measuring the Audit Fee is as follows:

$$\text{Audit Fee} = \text{LN}(\text{Audit Fee})$$

Auditor's Reputation

Auditor reputation is seen from the company's independent auditors, who use the Big Four KAP. The measurement of Auditor Reputation uses a dummy variable. If the company being audited uses a KAP Big Four Auditor, it is given a dummy score of 1. Furthermore, if the company being audited does not use a Big Four KAP Auditor, it is given a dummy score of 0.

Audit Committee

The Audit Committee is one of the committees that plays an important role in corporate governance. The audit committee should be independent, not involved in day-to-day administrative tasks to direct the company, and consist of individuals experienced in carrying out the oversight function effectively. One of the main reasons for this independence is to maintain integrity and an objective perspective in the preparation of reports and recommendations made by the Audit Committee. consistent with the functions and objectives of the Audit Committee, one of which is to ensure that the financial reports prepared are not

misleading and in accordance with generally accepted accounting practices; The presence and effectiveness of the audit committee in a company affect the quality and quality of the financial statements prepared. The audit committee is a body of good corporate governance and its role is to help executives improve the quality of financial reporting and increase the effectiveness of internal and external audits. In this study, audit committee measurement was carried out by determining the number of audit committee members in the organization (Honggo & Marlinah, 2019). The measurement of the research moderating variable is described in detail as follows:

Audit Quality

Audit quality in research uses going concern opinion proxies (Effendi & Ulhaq, 2021). Going concern is an auditor's opinion stating the going concern of an entity. In going-concern accounting, it is explained as a company's ability to maintain its business activities and continue to function as a business entity. The audit quality variable in this study was measured by a dummy variable with a value of 1 if a going-concern opinion was given and 0 if not a going-concern opinion. The measurement of the dependent variable of the study is explained in detail as follows:

Integrity of Financial Statements

The integrity of financial statements in this study uses a Market to Book Value proxy (Priharta, 2019). Market to Book Value can be measured by the following formula:

$$\text{Market to Book Value} = \frac{\text{Stock Price Market}}{\text{Book Value Per Share}}$$

Sample Determination

The research population includes 47 banking companies listed on the Indonesia Stock Exchange in 2014-2022. Samples were taken from a population of 20 companies. The sampling process is based on the purposive sampling technique. The purposive sampling criteria used are companies that have been IPO before 2014, have never been delisted, and have financial reports and financial data for the period from 2014 to 2022.

Method of Analysis

Data analysis uses Logistic Regression with Moderating Regression Analysis (MRA) through Eviews 9 software. This regression is to test the effect of Audit Tenure, Audit Fee, Auditor Reputation and Audit Committee on the Integrity of Financial Statements moderated by Audit Quality.

As for the Logistic Regression Model with Moderating Regression Analysis (MRA) research, namely:

$$\text{ILK} = C + C(1)*\text{ATEN} + C(2)*\text{AFE} + C(3)*\text{REP} + C(4)*\text{KOM} + C(5)*\text{M1} + C(6)*\text{M2} + C(7)*\text{M3} + C(8)*\text{M4}$$

Where ILK = Financial Report Integrity, ATEN = Audit Tenure, AFE = Audit Fee, REP = Auditor Reputation, KOM = Audit Committee, M1 = Moderation 1, M2 = Moderation 2, M3 = Moderation 3, M4 = Moderation 4, C = Coefficient Intercept Model.

RESULTS AND DISCUSSION

Result

Table 1
Descriptive statistics

	ATEN?	AFE?	REP?	KOM?	KUA?	ILK?
Mean	2.450000	10.55165	0.688889	4.655556	0.833333	1.410886
Median	2.000000	11.17357	1.000000	5.000000	1.000000	1.019721

	ATEN?	AFE?	REP?	KOM?	KUA?	ILK?
Maximum	9.000000	13.63420	1.000000	8.000000	1.000000	9.685009
Minimum	1.000000	6.313548	0.000000	2.000000	0.000000	0.133000
Std. Dev.	1.648683	1.647809	0.464239	1.215920	0.373718	1.157179
Skewness	1.599823	-0.459284	-0.816026	0.027491	-1.788854	2.776559
Kurtosis	5.928429	2.091373	1.665899	2.218580	4.200000	16.88096
Jarque-Bera	141.1007	12.52026	33.32566	4.602307	106.8000	1676.386
Probability	0.000000	0.001911	0.000000	0.100143	0.000000	0.000000
Sum	441.0000	1899.296	124.0000	838.0000	150.0000	253.9594
Sum Sq. Dev.	486.5500	486.0340	38.57778	264.6444	25.00000	239.6922
Observations	180	180	180	180	180	180
Cross sections	20	20	20	20	20	20

Based on the descriptive statistics of the research, we can see that the number of companies studied was 20 companies with a research period of 9 years, so 180 observations were obtained.

Logistic Regression Model with Moderating Regression Analysis

Based on the results of data processing using Eviews 9 Regression panel data regarding the effect of Audit Tenure, Audit Fee, Auditor Reputation and Audit Committee on the Integrity of Financial Statements which is moderated by Audit Quality can be seen in table 1.

Table 2
Logistic Regression Model with Moderating Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.573862	0.272894	2.102879	0.0369
ATEN	0.103108	0.073835	1.396476	0.1644
AFE	0.135025	0.090712	1.488497	0.1385
REP	0.980319	0.207611	2.472223	0.0000
KOM	0.775121	0.259189	2.486979	0.0000
M1	-0.018261	0.078940	-0.231326	0.8173
M2	0.088757	0.088052	1.008010	0.3149
M3	0.967121	0.231628	2.417572	0.0000
M4	0.758728	0.265588	2.458234	0.0000

Table 3
The R-squared model value is 0.521514, and the Prob (F-statistic) value is 0.000000.

R-squared	0.521514	Mean dependent var	2.018202
Adjusted R-squared	0.489772	S.D. dependent var	1.477233
S.E. of regression	0.965663	Sum squared resid	159.4583
F-statistic	10.12895	Durbin-Watson stat	1.716268
Prob(F-statistic)	0.000000		

Discussion

The Influence of Audit Tenure on the Integrity of Financial Statements

Audit tenure is a contractual engagement period between a company and an independent auditor. Based on the research results, we can see that tenure audits do not have a significant effect on the integrity of financial statements. We can see that the probability is more than 0.05. This means that the increase or decrease in audit tenure has not been able to significantly increase or decrease the integrity of the financial statements. This is in line with the research of (Mahendra and Syofyan, 2023) which states that Audit Tenure has no influence on the integrity of financial reports. As well as the results of the study are not in line with (Arista et al. 2018), in which his research explained that Tenure Audits had a significant negative effect on the integrity of financial statements in manufacturing companies on the Indonesian stock exchange in 2015-2017.

The Influence of Audit Fees on the Integrity of Financial Statements

The Audit Fee is a fee received by the auditor after providing audit services. Audit fees are based on contract fees between the auditor and the client. Based on the research results, we can see that audit fees do not have a significant effect on the integrity of financial statements. We can see this from the probability value, which is more than 0.05. So that the size of the audit fee from the independent auditor has no significant effect on the integrity of the financial statements. The results of this research are in line with the research of (Puspita & Utama, 2016) where it was found that audit fees did not have a significant effect on the integrity of financial statements. However, this contradicts the results of the research by (Setyawati et al. 2023) which show that audit fees have a significant effect on the integrity of financial statements.

The Influence of Auditor's Reputation on the Integrity of Financial Statements

The auditor's reputation is the achievement of the auditor and the public trust held by the auditor in the big name owned by the auditor (Rudyawan & Badera, 2009). Reputable auditors tend to maintain audit quality to maintain their reputation and avoid losing clients (Januarti, 2009). Based on the research results, we can see that the reputation of the auditor has a significant positive effect on the integrity of financial statements. We can see this from the probability value, which is below 0.05. A significant positive effect means that if a company uses the services of a reputable auditor, in this case the Big Four KAPs, then the integrity of the financial statements will also increase significantly. The research results are not in line with previous research by (Machdar & Nurdiniah, 2017) and (Purba et al. (2018).

The Influence of the Audit Committee on the Integrity of Financial Statements

The Audit Committee is a supporting body that reports to the Board of Commissioners, is formed and is responsible to the Board of Commissioners to assist and support the effectiveness of performance and control of financial matters. Reports, internal and external control systems. Based on the research results, we can see that the audit committee has a significant positive influence on the integrity of financial statements. This is indicated by the probability value which is below 0.05. The significant positive influence of the audit committee means that increasing the number of audit committees will lead to a significant increase in the integrity of financial statements. Vice versa if there is a decrease in the number of audit committees, the integrity of the financial statements will decrease significantly. The results of the research are in line with previous research by (Sofia, 2018) which explains that the Audit Committee has a significant positive influence on the Integrity of Financial Statements. However, this is not in line with the results of (Christiana's research, 2021) which states that the Audit Committee has no influence on the Integrity of Financial Statements.

The role of Audit Quality in moderating the Audit Tenure on the Integrity of Financial Statements

Moderating variable 1 is the interaction of audit quality variables with audit tenure variables. Based on the research results, we can see that the moderating variable 1 has a probability value of more than 0.05. This indicates that audit quality has not been able to moderate tenure audits on the integrity of financial statements. Or in other words, audit quality has not been able to strengthen or weaken the relationship between tenure audits and the integrity of financial statements.

The role of Audit Quality in moderating the Audit Fee on the Integrity of Financial Statements

Moderating variable 2 is the interaction of the audit quality variable with the audit fee variable. Based on the research results, we can see that the moderating variable 2 has a probability value of more than 0.05. This shows that audit quality has not been able to moderate audit fees on the integrity of financial statements. Or in other words, audit quality has not been able to strengthen or weaken the relationship between audit fees and the integrity of financial statements.

The role of Audit Quality in moderating the Auditor's Reputation for the Integrity of Financial Statements

Moderating variable 3 is the interaction of the audit quality variable with the auditor's reputation variable. Based on the research results, we can see that the moderating variable 3 has a probability value below 0.05. This shows that audit quality is able to significantly moderate the auditor's reputation for the integrity of financial statements. Or in other words that audit quality is able to strengthen the relationship between auditor reputation and the integrity of financial statements significantly.

The role of Audit Quality in moderating the Audit Committee on the Integrity of Financial Statements

Moderating variable 4 is the interaction of the audit quality variable with the audit committee variable. Based on the research results, we can see that the moderating variable 4 has a probability value below 0.05. This shows that audit quality is able to significantly moderate the audit committee's integrity of financial statements. Or in other words that audit quality is able to significantly strengthen the relationship between the audit committee and the integrity of financial statements.

CONCLUSION

Based on the analysis of research results using Logistic Regression with Moderating Regression Analysis (MRA) it can be concluded that Audit Tenure does not have a significant influence on the integrity of financial statements. Audit Fees have no significant influence on the integrity of financial statements. Auditor's reputation has a significant positive effect on the integrity of financial statements. The audit committee has a significant positive influence on the integrity of financial statements. Audit quality has not been able to moderate the influence of audit tenure on the integrity of financial statements. Audit quality has not been able to moderate audit fees on the integrity of financial statements. Audit quality is positively and significantly able to moderate the effect of auditor's reputation on the integrity of financial statements. Audit quality is positively and significantly able to moderate the influence of the audit committee on the integrity of financial statements

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